



HIGHLY CONFIDENTIAL

January 19, 2009

Good Morning

Overview

- Hydrocarbon prices fell over the weekend. **Crude oil down \$1.14 to \$35.37 per barrel; natural gas down \$0.107 to \$4.694 per mmBtu.**

News/Views

- With the stock market closed today and many taking the day off, this morning's notes will be brief, with the bulk of our detailed commentary reserved for tomorrow, including a review of the latest IEA report in the context of our own balances. In a nutshell, however, as we suspected ultimately would be the case, two "legs" of recent price support have been removed given what is likely to be a highly tenuous ceasefire in the Gaza combined with a intention, at least, on the part of Russia and the Ukraine to sign a new agreement today that would restart natural gas flows. The new accord calls for Russia giving the Ukraine a 20% discount to the price paid by European consumers, providing the Ukraine freezes 2009 tariffs for Russian gas transit at last year's levels.
- Given the severe discount of February crude oil to March, traders and funds will be watching with interest tomorrow's expiration of the February contract. Although once again we remain relatively constructive for 2009 as a whole, we would not be surprised to March weaken below \$40.00 per barrel, mimicking February behavior given that Cushing inventories are unlikely to experience a major decline over the near term. Traders may thus be willing to play the contango trade once again by selling March and buying April one more time before all is said and done.
- In terms of 2009 as a whole, once we return from our brief "vacation" we will be finalizing our Base Case price outlook for this year, taking into account our estimated January non-commercial funds flow impact in the context of our anticipated fundamentals. To us, and clearly to most if not of all of you whether investing/trading in equities or commodities, the average is obviously less important than inflection points, and we will try our best employing all tools at hand to come up with a plausible, money-making path.
- Finally, we wish to relay once again that our vacation plans involve our absence from January 21 through January 23. While we had originally relayed that we would not publish Morning Notes on Wednesday morning January 21, we will do so, with no further reports through the end of Friday, January 23. There is a chance, however, that we will extend our stay until early Monday morning January 26, and if so we will publish a brief review of activity in our absence later in the day on Monday upon our return.

W.H. Brown, III