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Energy Risk
Management Services

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Good Morning

Overview

- Hydrocarbon prices were mixed over the weekend. **Crude oil up \$0.23 to \$46.70 per barrel; natural gas down \$0.114 to \$4.404 per mmBtu.**

News/Views

- We have returned from the Adirondack wilderness unscathed and in a bit better shape, prepared to spend this week finalizing our Base Case crude oil price outlook for 2009 as we have previously discussed, sifting through our assessment of the non-commercial asset allocation to commodities in general and oil in particular. In our absence, the net gain in March crude oil was first aided by the partial reversal of the "contango trade" upon Feb expiration that had severely depressed Feb relative to the outer months. Perhaps some traders and funds, seeing this phenomenon reverse a bit, were encouraged by the evidence, as we discussed prior to our departure, that the weakness in Feb crude oil was not due purely to weak prompt fundamentals after all.
- Crude oil was subsequently aided by a recovery in equity markets following the selloff on Inauguration Day, not uncharacteristic of recent behavior. The market then took a pause on Thursday, justifiably so in the face of a significant build in crude oil and gasoline stocks for the week ending January 16, but ultimately showed great resilience reflecting somewhat greater equity market confidence. There was little if anything constructive about the weekly data to be found, with another crude oil build at Cushing accompanied by inventory recovery on the Gulf Coast. Total refined product demand continues to fall at a hefty rate for the last four weeks, although there *has* emerged a short-term trend in the stability of the decline in implied gasoline demand. Ultimately on the week, the market came to realize, as we had anticipated and previously discussed, that OPEC meant a hit more business this time around than previously, with tanker trackers observing that January waterborne movements from the Organization had dropped significantly, leading to the gain on Friday.
- Overall, therefore, we cannot say we are surprised at any of the events or news that moved the oil market in our absence, with the OPEC news in particularly directly in line with our Base Case balances. Our only comment would be that it still may be a bit early to suggest our seasonal recovery in crude oil prices is now in full swing, and we would prefer a bit more backing and filling over the short term. Nonetheless, we would suggest that unless our perspective, assumptions, and balances are totally off the mark, we believe the odds are greater than 50% that the lows in the prompt month crude oil contract have already been established for the first half of 2009. However, as also previously discussed we would not rule out some traders deciding to sell March and buy the outer months as they had done with the previously two contracts leading up to expiration.
- For natural gas, the DOE revealed a 176 bcf decline in working storage for the week ending January 16. Embracing the latest data into our Base Case natural gas balances, they would imply a ratable decline of some 170 bcf for each seven-day period remaining in January to reach our end-month target, so little or no revision in our balances is required at this time. At the end of March, we are therefore still anticipating that working storage will total some 1.545 tcf.

- In terms of the latest CFTC data, on January 20 when the prompt NYMEX crude oil contract settled at \$38.74 per barrel, non-commercials held futures-only net length of 46,134 contracts, a decline in net length from the previous week by 7,160 contracts. Commercials held futures-only net short positions of 38,416 contracts, a decline in net shorts from the previous week by 14,089 contracts. With regard to natural gas, on January 20 when the prompt NYMEX natural contract settled at \$4.642 per mmBtu, funds held futures-only net short positions of 145,821 contracts, a rise in net shorts from the previous week by 3,918 contracts. Commercials held futures-only net length of 111,571 contracts, a rise in net length from the previous week by 6,379 contracts.

W.H. Brown, III

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