



HIGHLY CONFIDENTIAL

January 28, 2009

Good Morning

Overview

- Hydrocarbon prices were stable overnight. **Crude oil down \$0.02 to \$41.56 per barrel; natural gas up \$0.016 to \$4.519 per mmBtu.**

News/Views

- Yesterday oil prices ultimately yielded to more bad economic news, including January consumer confidence and November home prices. We would suggest, however, that we may have also witnessed the rebirth of the “contango trade” as we previously anticipated and discussed. That is, once Feb NYMEX crude expired, traders took pause and profits, but were likely to come back in and demonstrate the same disrespect for March, selling it aggressively and buying the outer months. In our previous discussion of this expectation, we also suggested that if it came to pass, it could endure up to contract expiration in February, and if our more constructive global balances were even remotely close to the mark, would represent the last “heave” before prices stabilize in preparation for a progressive and more sustainable recovery.
- Otherwise, we wish to provide the historical monthly detail of crude oil price seasonality as a follow-up to yesterday’s discussion, which is laid out below for 2004-2008. Once again, our index is represented as “annual price average=1.00”.

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2004-2008 |
|-----------|-------------|-------------|-------------|-------------|-------------|-------------|
| January | 0.83 | 0.83 | 0.99 | 0.75 | 0.93 | 0.87 |
| February | 0.84 | 0.85 | 0.93 | 0.83 | 0.95 | 0.88 |
| March | 0.88 | 0.97 | 0.95 | 0.84 | 1.05 | 0.94 |
| April | 0.89 | 0.94 | 1.06 | 0.88 | 1.13 | 0.98 |
| May | 0.97 | 0.88 | 1.07 | 0.88 | 1.25 | 1.01 |
| June | 0.91 | 1.00 | 1.07 | 0.94 | 1.34 | 1.05 |
| July | 1.00 | 1.04 | 1.12 | 1.03 | 1.34 | 1.11 |
| August | 1.08 | 1.15 | 1.10 | 1.00 | 1.17 | 1.10 |
| September | 1.12 | 1.15 | 0.96 | 1.10 | 0.98 | 1.06 |
| October | 1.27 | 1.10 | 0.89 | 1.19 | 0.78 | 1.05 |
| November | 1.15 | 1.03 | 0.90 | 1.31 | 0.58 | 0.99 |
| December | 1.04 | 1.05 | 0.94 | 1.27 | 0.42 | 0.94 |

- We bolded the trough and peak index value for each year and the mean monthly index values for the entire period 2004-2008. With regard to the trough, in four out of the last five years the price bottom occurred in January, but even in the exception year of 2006 the trough occurred in February, and thus overall we can conclude that the price trough, whatever absolute value it may have been, came early in the first quarter. In terms of the peak for the year, it tended to come in the summer/fall period, but was not as consistent as the trough timing. This may have varied due to the impact of such factors as supply disruptions, storm activity, the gasoline balance, and of course the absolute level of WTI. This latter influence was borne out by the 2008 peak coming earlier than the other years, in June and extending into

July, when the highest absolute level of price was reached for the entire four-year time frame, followed by the collapse in a relatively short time period.

This exercise, of course, has no intrinsic predictive value in isolation, but it *does* have value as an underlying, reasonably consistent phenomenon that is one part of the puzzle. We remain in the process of updating and finalizing not only our global balances but also our critical U.S. refinery balances to decide once and for all whether seasonality will be a factor this year or not. At this point, however, as one might suspect from our comments in the first paragraph, if there *is* seasonality we believe 2009 will be somewhat akin to 2004 or, possibly a more moderate version of 2006, whereby February is characterized by a slightly weaker average compared to January before the recovery begins. Tomorrow we will discuss the specific factors that account for all this seasonality, and our assessment as to their relative influence this year.

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