



HIGHLY CONFIDENTIAL

January 30, 2009

Good Morning

Overview

- Hydrocarbon prices were mixed overnight. **Crude oil up \$0.31 to \$41.75 per barrel; natural gas down \$0.013 to \$4.563 per mmBtu.**

News/Views

- We have reviewed and amended where we felt appropriate our 2009 global balances which will be discussed in detail in our regular monthly report to be issued next week. In addition, we have also updated and reviewed our U.S. refinery balances which forecast a monthly path of refinery crude oil runs, product yields, imports of both crude and products, all in the context of our outlook for major refined product demand in the largest single market in the world based on a variety of inputs including income, efficiency, and weather. Also, we have taken our discussion of the last two days and applied our best estimate as to the likely magnitude of seasonality that we believe will be embedded in crude oil prices through the entirety of 2009, with particular emphasis on the first and second quarter. As a final “layer” we have integrated our quantified price impact from financial variables and non-commercial participation in commodities for this year which we believe will be somewhat less than the previous two years, but nonetheless present and influential. We will go farther out on a limb this year and commit analytical suicide by providing below the monthly output of our 2009 WTI price model. The annual average comes out to \$55.80 per barrel, with each quarterly average coming at Q1, \$43.99; Q2, \$55.07; Q3, \$67.86; Q4, \$56.28.

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|------------------|---------|
| January | \$41.95 |
| February | \$42.22 |
| March | \$47.80 |
| April | \$51.18 |
| May | \$54.71 |
| June | \$59.34 |
| July | \$66.25 |
| August | \$71.68 |
| September | \$65.65 |
| October | \$60.97 |
| November | \$55.33 |
| December | \$52.54 |

- A few points are worth noting. The first is that our forecast *does* assume seasonality, although as discussed yesterday more restrained than recent history due to the impact of weaker U.S. gasoline demand and lower crude oil runs, limiting the seasonal rise in U.S. crude oil demand. The January-February pattern is consistent with our view that March crude may continue to be weak relative to the outer months and other global benchmarks up to contract expiration. Our recovery through the second quarter is premised on the impact of lower seasonal North Sea production and, as we also emphasized, greater OPEC compliance than we have seen throughout most of the Organization’s history. **This latter assumption requires a larger leap of faith on our part than we have been willing to do since Hugo Chavez came to power, the last time OPEC actually sold crude oil volumes below desired levels.**

In the second half of the year, our forecast achieves values that will strike many as patently absurd from today's perspective, i.e. +\$70.00 per barrel by August. In the context of Ali Naimi's statements that strict quota compliance will reduce global stocks such that fundamentally prompt WTI can reach \$75.00 per barrel, we have disagreed stating that such a number requires a *combination* of fundamental and financial variables working in the same direction. Fundamentals alone this year will not do it. However, if prices begin to recover in the first half of 2009 along the lines we forecast and the global balance is not as onerous as consensus expectations, in the second half of the year financial entities will begin to "pile on" en masse, *providing a multiplier impact on crude oil price strength*. After our summer peak, however, prices will begin to decline once again under the assumption that a progressive tightening of the global balance and an achievement of the price target will elicit incremental barrels from OPEC, rebalancing the market and leading in turn to a partial exit of passive length.

W.H. Brown, III

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