HIGHLY CONFIDENTIAL

February 2, 2009

Good Morning

Overview

- Hydrocarbon prices fell over the weekend. **Crude oil down $1.29 to $40.39 per barrel; natural gas down $0.117 to $4.300 per mmBtu.**

News/Views

- Crude oil prices continue to trade in tandem with equity markets, and if the trend continues weaker equity market futures thus far this morning could portend of another sub-$40.00 per barrel test of the prompt NYMEX crude oil contract over the near term. Our Base Case has called for such a scenario as traders sell March and buy outer months as we move toward March expiration as previously discussed. Support from expiring products and a potential refinery workers strike has now faded, with the USW willing to extend the current contract on a rolling 24-hour basis until an agreement with oil companies is hammered out.

- Otherwise, for simply the sake of good order we provide some perspective on the latest "near final" monthly data from the DOE, as manifested in the latest Petroleum Supply Monthly (PSM) which provided the U.S. petroleum balance for November. While as previously discussed October numbers were actually revised up from the preliminaries as represented by the appropriate Weekly Petroleum Status Report (WPSR), more in line with "tradition" the November data were revised down when compared to the data in the WPSR for the week ending November 28. Total refined product demand was cut by some 308 MB/D. Looking at major product categories, implied gasoline demand was trimmed by 90 MB/D to 8.845 MMB/D, implying that November gasoline demand fell by 4.4% on a revised basis. Distillate demand was revised down by 120 MB/D to 3.87 MMB/D, suggesting a 7.9% decline in November versus the previous year, more consistent with the FRB data on manufacturing output. Jet fuel demand, on the other hand, was revised up by 106 MB/D to 1.439 MMB/D, now implying a 10.1% decline from November 2007. November heavy fuel oil demand was cut by 57 MB/D to 526 MB/D, a 31.4% decline from the previous year. "Other" refined product demand was revised down by 161 MB/D.

- Embracing the latest data into the context of our global balances, as we proceed with our World Petroleum Perspectives toward publication this week we wish to relay our updated Base Case global balances for 2009. We still conclude that world oil demand will manage to eke out a modest gain this year of 0.4%, or some 350 MB/D. Our numbers suggest a modest decline in world oil demand in the first quarter, but as 2009 progresses the year-over-year comparisons will begin to improve. Consistent with our long-standing conservative stance on non-OPEC supply growth, we expect such gains to average only 545 MB/D, but about one third of the gain reflects a recovery in U.S. production assuming no hurricane downtime this year plus the progressive buildup in select GOM fields. Elsewhere, production increases are expected largely in Brazil and the FSU outside of Russia. Under these assumptions, if in fact OPEC has the intestinal fortitude to hold the line through the end of June even short of 100% compliance, end second-quarter usable commercial stocks will finally stand below the previous year by about 2 days. Assuming a gradual relaxation of production restraint in the second half of the year, 2009 as a whole will still witness a net global stock draw averaging about 520 MB/D, roughly equal to our estimated net build in 2008. Thus at the end of the year usable commercial or discretionary global inventories will stand at about the same days supply as the end of 2007. Overall, our balances remain more optimistic than the consensus, the opposite of 2008 when from the beginning of the year our balances were consistently and substantially more conservative, particularly relative to the IEA.

With regard to the latest CFTC data, on January 27 when the prompt NYMEX crude oil contract settled at $41.58 per barrel, non-commercials held futures-only net length of 51,652 contracts, a rise in net length from the previous week by 5,518 contracts. Commercials held futures-only net short positions of 40,774 contracts, a rise in net shorts from the previous week by 2,358 contracts. In terms of natural gas, on January 27 when the prompt NYMEX natural contract settled at $4.503 per mmBtu, funds held futures-only net short positions of 145,473 contracts, a decline in net shorts from the previous week by 348 contracts. Commercials held futures-only net long positions of 108,120 contracts, a decline in net length from the previous week by 3,451 contracts.

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