HIGHLY CONFIDENTIAL
February 19, 2009

Good Morning

Overview

- Hydrocarbon prices rose overnight. **Crude oil up $1.03 to $35.65 per barrel; natural gas up $0.040 to $4.254 per mmBtu.**

News/Views

- Hydrocarbon prices are trying to recover a bit so far this morning in response to what could be an up day for global equity markets as well as a weaker dollar. The inability of the S&P 500 to decline materially in a follow through from Tuesday's drop may have encouraged some "bargain hunters" as the media terms it. As we move toward March contract expiration it would not surprise us to see the market overall firm somewhat, although that may depend upon the weekly DOE stats due out later this morning. Yesterday afternoon the API reported a 1.6 million barrel build in crude stocks, less than the consensus was looking for. Gasoline supplies fell by 1.6 million barrels while distillate stocks declined by 900,000 barrels. Crude oil firmed off yesterday's lows following release of the data, but we will see whether the recent pattern continues of the DOE crude stats coming in less constructive than the API numbers.

- In terms of recent demand trends, many of you have noticed that the negative trend in the four-week rolling average of implied gasoline demand on a DOE basis has been moderating. We believe that extremely low pump prices relative to the prior four years has led to a modest uptick in discretionary driving for a month that typically has a low proportion of discretionary driving due to weather. We would also note that last year January and February implied demand on a revised basis came in somewhat depressed relative to the surrounding months for various reasons, also leading to more favorable year-over-year comparisons. The recent recovery in pump prices may deter some incremental driving once again. Our balances, which overall remain more constructive than the consensus in the global aggregate, assume a 1.5% decline in U.S. gasoline demand for 2009 as a whole which is somewhat greater than the recent four-week average, but nonetheless a moderation from the near-6.0% drop experienced in 2008 versus 2007.

- In the context of the trading behavior of crude oil, we would just note that in an 8-K filing the United States Oil Fund indicated it was switching to a 4-day roll period from a 1-day period after expiration of the March 2009 contract due to the current massive size of the ETF, some $3.5 billion, despite severely negative returns since the beginning of the year. On February 6, for example, some 80 million barrels of March crude oil were sold and rolled into April. Although the flat price impact on the NYMEX was relatively minimal, the action no doubt contributed to the widening contango between March and April on that day. For informational purposes for those of you who are active commodity traders, the USO 8-K stated "effective for contract months commencing after March 2009, the Benchmark Oil Futures Contract will be changed from the near-month contract to the next-month contract over a four-day period. Each month, the Benchmark Oil Futures Contract will change starting at the end of the day on the date two weeks prior to expiration of the near-term contract for that month". The scheduled roll period may end up close to the roll period of the GSCI, but spread over more days may help reduce the impact on the term structure to some degree.

Stepping back for a broader market perspective, the FRB reported yesterday that January manufacturing activity dropped a full 12.9% versus January of 2008. Those industries that are most natural-gas intensive all registered double-digit declines for the month compared to January 2008 with the exception of food and petroleum and coal products. Primary metals output registered the biggest decline within our sub group, collapsing by 43.7% versus the prior year. The January manufacturing performance was weaker than we had assumed in our natural gas balances, but as we have previously discussed the recent trends in working gas storage suggest the possibility of an end-first quarter storage level less onerous than we have targeted. This would confirm the anecdotal evidence that production growth has slowed materially, and we also suspect that gross import levels in January came in somewhat below our Base Case estimates.

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