



**HIGHLY CONFIDENTIAL**

March 18, 2009

**Good Morning**

**We wish to relay that we will be out of the office for most of today attending meetings where unavoidable scheduling will likely preclude us from issuing the Weekly Inventory Review later this morning. If so, we will provide our comments tomorrow morning and we sincerely apologize for the inconvenience.**

**Overview**

- Hydrocarbon prices were mixed overnight. **Crude oil down \$0.46 to \$48.70 per barrel; natural gas up \$0.016 to \$3.828 per mmBtu.**

**News/Views**

- Once again we do not wish to read too much into yesterday's crude oil trading activity since it marked the expiration of April options. There was a fair volume of open interest at the \$50 strike, and no doubt those who were short the calls bought some crude just in case their short position ended up in the money. In the final analysis, close, but no cigar. Having said this, however, we also believe that looking at the outer months and heating oil's rise it confirms our long-standing belief that financial factors have not left the building in terms of their impact on oil prices. Better than expected housing data once again encouraged equity buying, reflecting evidence of economic stability, with crude oil rising in sympathy.
- Heating oil gained as well, and absent any yet unreported refinery problem, may reflect the anticipation of a recovery in global mid-barrel demand, since this has been the product that has shown more resilience on a global basis in contrast to declining U.S. and European gasoline consumption. Thus, non-commercials continue to be active and anticipate a recovery by buying "paper". With respect, those analysts who claim that a precondition for a "speculator" influence on crude oil prices is their ability to buy and hold physical inventory are clinging to antiquated theories that have no relevance in this day and age.
- Overall, we are encouraged by recent price behavior and how it may fit into our Base Case outlook for WTI. While all of us can question the validity of crude oil rising on periodic economic news since price *should* be a function of the complete balance and not just demand, anecdotal evidence is beginning to support our anticipation of a net global stock draw in the second quarter. We are far from out of the woods yet and a "relapse" back into even more dire economic conditions could negate our thesis, but thus far we are moving in the anticipated direction. The next step in all this will be the weekly DOE data out later this morning and, more importantly, how the market responds to the data amidst Bernanke speak and all the other influences that face us these days.
- The API released their numbers late yesterday, reporting a 4.655 million barrel build in crude oil stocks. However, the move brought the API data closer to the DOE stats reported for the week ending March 6, and therefore do not necessarily suggest a hefty build to be reported by the DOE later this morning. Gasoline stocks rose by 383,000 barrels, while distillate supplies gained by 327,000 barrels. The API reported a sizeable rise in implied gasoline demand, but we believe much of that reflects lower RVP

movements from primary to secondary inventory. Our best guess when the DOE numbers are released is that crude stocks will rise less than market expectations, with products somewhat less constructive. Thus, we will likely see fairly soon whether prompt WTI is destined to remain in a \$40.00-\$50.00 per barrel range, or continue a progressive uptrend into and through the second quarter.

W.H. Brown, III

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