HIGHLY CONFIDENTIAL
March 30, 2009
Good Morning

Overview

- Hydrocarbon prices fell over the weekend. **Crude oil down $1.78 to $50.60 per barrel; natural gas (May) down $0.005 to $3.732 per mmBtu.**

News/Views

- Unfortunately, we are all reminded periodically that in this environment in particular, what the markets giveth the markets taketh away. We had previously discussed that while we have been encouraged by recent trends in terms of crude oil's ability to achieve our outlier Base Case price forecast over the next few months, prices were in fact getting ahead of even our optimistic outlook and therefore we cautioned that "backing and filling" was likely over the near term. Friday's weakness was catalyzed by a retracement in equity markets as portfolio managers sought to lock in gains achieved from the bottom in the S&P 500 on March 9. The dollar also recovered in response to ECB comments, all pressuring crude oil in the process, also aided by a weak April natural gas expiration. This morning, it would appear this point that further declines in equity markets are likely, at least at the outset, with the bearish weekend news centered around the dissatisfaction by the Obama Administration's auto team of the restructuring plans submitted by GM and Chrysler and suggesting a surgical use of the bankruptcy code may be the best option at this point. The dollar continued to gain in response to investors' risk appetite "dented", as the neopress likes to say. Thus, crude oil continues to decline, while natural is trying to take a breather, with prompt WTI likely to test the waters at $50.00 per barrel or so either today or this week, depending once again on the weekly stats.

- Almost irrespective of what happens to crude oil over the next two days, for all intents and purposes calendar March WTI will average about on the mark with our forecast made in January at a shade under $48.00 per barrel. Once again, our calendar April average is pegged at about $51.15 per barrel. In laying out our analysis we have emphasized how a combination of fundamental and financial variables all working in the same direction are required to achieve our Base Case average for 2009 of around $55.50 per barrel which, as best we can determine, lies above consensus expectations by $10.00 per barrel or so. In terms of fundamentals, obviously we have yet to see the turn as represented in the visible weekly U.S. data, and thus we must continue to rely on our *forecast* U.S. refinery and global balances. In terms of the financial influence, as previously discussed and observed it is clear that funds and others will respond to these factors we have laid out. However, our financial influence has centered primarily on fund inflows once the fundamentals turn, exacerbating the price recovery. We have also suggested that a favorable equity market will aid crude as well, albeit to a somewhat lesser degree, and this clearly has been a justifiable position. However, a weaker dollar also seemed to help boost crude oil prices earlier in the month, at least periodically. From a quantifiable standpoint, how important has the dollar been to crude oil since the beginning of the year versus the equity market? If it in fact dominated trading activity, are we being too optimistic on the financial influence if the dollar continues to strengthen? Granted, there are relatively few observations since the beginning of the year, but a quick statistical look suggests that in reality neither variable has thus far this year correlated significantly on a consistent basis with prompt NYMEX crude oil. This would suggest that our primary argument in terms of financial participation, i.e. a major inflow in *response* to improving fundamentals, is the appropriate approach as opposed to forecasting crude prices based on assumed equity market or dollar moves *irrespective* of fundamentals.

With regard to the latest CFTC data, on March 24 when prompt NYMEX crude oil settled at $53.98 per barrel, non-commercials held futures-only net long positions of 17,637 contracts, a rise in net length from the previous week by 4,130 contracts. Commercials held futures-only net short positions of 22,721 contracts, a rise in net shorts from the previous week by 6,331 contracts. For natural gas, on March 24 when prompt NYMEX natural settled at $4.347 per mmBtu, funds held futures-only net short positions of 121,018 contracts, a rise in net shorts from the previous week by 5,831 contracts. Commercials held futures-only net long positions of 71,144 contracts, a decline in net length from the previous week by 5,703 contracts.

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