



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

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Good Morning

Overview

- Hydrocarbon prices rose overnight. **Crude oil up \$2.97 to \$51.36 per barrel; natural gas up \$0.038 to \$3.733 per mmBtu.**

News/Views

- Yesterday was one of those relatively rare days when there was a major disconnect between the equity market and NYMEX crude oil. The obvious reason was the fact that the oil market was hit with another crude oil stock build while the equity market was responding to better than expected housing and ISM data. In terms of the stock build, as we commented yesterday the crude oil gains have been focused on the Gulf Coast, reflecting higher imports including landings of tanker storage heretofore held offshore. Over the last four weeks gross crude oil imports into PAD III have risen by 677 MB/D, or almost 13%, while total U.S. imports have increased by 433 MB/D or about 4.7%. Total U.S. crude stocks stand close to 360.0 million barrels, while Cushing stocks are now at the lowest level since last December. With regard to the equity market, the latest ISM index revealed a slower contraction for March, with its purchasing managers index rising by half a point to 36.3.
- This morning, however, yesterday's crude oil/equity market disparity seems like ancient history, with prompt WTI surging above \$50.00 per barrel once again in response to rising global equity markets that are encouraged, right or wrong, by the recent U.S. economic data and the possible outcome of the G-20 meeting. The euro is also a bit stronger versus the dollar despite the assumption of an ECB rate cut. We will see the extent to which the gains have any life to them, but overall they are consistent with our Base Case outlook for crude oil prices as well as our belief that economic stabilization will come earlier than the consensus believes.
- Otherwise, the DOE released the "near final" data for January as published in the Petroleum Supply Monthly (PSM) and of course once again there was a net downward revision in implied demand relative to the preliminaries as represented by the four-week rolling average for the week ending January 30 as published in the Weekly Petroleum Status Report (WPSR). Total U.S. refined product demand for January was cut by 424 MB/D to 19.125 MMB/D, implying a 4.9% year-over-year decline in oil demand, in contrast to the preliminary apples-to-oranges comparison of a 2.8% drop. For gasoline, demand was revised down by 76 MB/D, suggesting that January gasoline demand fell by 1.4%, in contrast to the preliminary assessment of a fall of only 0.5%. This confirms what we suspected and previously discussed, i.e. that most analysts were misled by the preliminaries into believing that gasoline demand was recovering a bit, but we suggested that the data were likely to be revised down. A bit later in the first quarter is when the preliminary year-over-year comparisons turned positive, but we suspect that when February PSM numbers are released at the end of the month gasoline demand will be trimmed once again.

In terms of other products, distillate demand was revised up by 21 MB/D, suggesting a year-over-year implied demand fall of 3.2% versus the preliminary 3.7% decline. Jet fuel demand was also revised up, by 13 MB/D, while heavy fuel oil demand was increased by 22 MB/D. This all implies that "other" demand composed of

petrochemical feedstocks, lubes, waxes and other products directly sensitive to manufacturing activity were revised down by 404 MB/D. With regard to inventories, end-January crude oil stocks were revised up by 6.8 million barrels to 352.9 million barrels. Gasoline supplies were revised down by 2.5 million barrels to 217.7 million barrels, while distillate inventories were revised up by less than 1.0 million barrels.

W.H. Brown, III

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