



HORNSBY & COMPANY, INC.

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Energy Risk  
Management Services

## HIGHLY CONFIDENTIAL

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### Good Morning

#### Overview

- Hydrocarbon prices rose over the weekend. **Crude oil up \$0.21 to \$52.72 per barrel; natural gas up \$0.039 to \$3.840 per mmBtu.**

#### News/Views

- The lack of a sizeable correction on Friday or thus far this morning following last Thursday's surge in crude oil prices is no doubt encouraging the bulls, aided by such behavior in the equity markets as well, despite Friday's employment data. Although obviously we also are encouraged, once again prompt WTI is trading somewhat above our long-standing forecast average for calendar April of about \$51.15 per barrel and closer to our expectations for May of around \$54.65 per barrel. Prices with a "6 handle" under our outlook are reserved for July. We are not suggesting that we are so presumptuous as to strive for exact precision from one month to the next, something that for all practical purposes is humanly impossible. If one can get a reasonable handle on direction, magnitude and hopefully timing much money can be made. Rather, we are simply mentally preparing for the possibility short term of a repeat of the pattern witnessed from March 26 to March 30, i.e. a move briefly above \$54.00 per barrel only to be followed by a test of around \$48.00 per barrel. This time around, however, there appears to be enough belief that the worst economic news is passing, right or wrong, that any test of the trough may be a bit higher, perhaps around \$50.00 per barrel or so. In the interim, however, crude oil continues to climb its "wall of worry".
- Otherwise, thus far the weekend missile launching by North Korea is having little impact on global markets, which is also encouraging, and is not being used as an excuse to sell. Providing some support on the oil side is word that Northern Iraqi oil exports to Ceyhan, which had been averaging around 400 MB/D, are still offline, the result of a leak on the pipeline from as of yet to be determined causes. On the demand side, preliminary data for January and February reveal that refined product consumption in India was up more than 2.5% versus the first two months of 2008, about in line with our Base Case outlook. Although retail gasoline and gasoil prices were hiked in June of last year reflecting a need to increase subsidized prices in the face of surging crude oil prices, the subsequent global price decline has eased the pressure, leading to reductions in retail prices and thus encouraging incremental demand.
- The "bad news", however, is that demand for VLCCs for storage appears to be rising once again, with five ships chartered for such purpose in the last two weeks, including fixtures by Shell and Vitol. In terms of the latter, we need to watch developments closely, since it could, and we emphasize could, reflect a relaxation of "compliance" that the market has witnessed for Iran. As we previously discussed a few months ago, we were not expecting Iranian production to fall as much or as soon as sales from Saudi Arabia, for example, due to NIOC's willingness to sell cargoes to traders, as opposed to Saudi Aramco, which sells only to refiners. Such traders can clearly do what they will with the crude, including placing it in floating storage if economics so dictate. While since that time Iranian production has fallen a bit, but clearly not expected to fall to its "official" quota, if word of any "relaxation of compliance" gets into the market it will likely preclude WTI from rising beyond our Base Case expectations, irrespective of any encouraging economic news.

With regard to the latest CFTC data, on March 31 when prompt NYMEX crude oil settled at \$49.66 per barrel, non-commercials held futures-only net length of 6,546 contracts, a fall in net length from the previous week by 11,091 contracts. Commercials held futures-only net short positions of 11,451 contracts, a decline in net shorts from the previous week by 11,270 contracts. For natural gas, on March 31 when the prompt NYMEX natural contract settled at \$3.776 per mmBtu, funds held futures-only net short positions of 122,458 contracts, a rise in net shorts from the previous week by 1,440 contracts. Commercials held futures-only net long positions of 81,361 contracts, a rise in net length from the previous week by 10,217 contracts.

W.H. Brown, III

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