



HIGHLY CONFIDENTIAL

April 9, 2009

Good Morning

For the sake of good order we wish to relay that we will be taking Good Friday off consistent with closed markets with no reports issued tomorrow. We wish everyone a happy and safe holiday weekend.

Overview

- Hydrocarbon prices firmed overnight. **Crude oil up \$1.67 to \$51.05 per barrel; natural gas up \$0.013 to \$3.643 per mmBtu.**

News/Views

- Yesterday's trading activity provided a bit of a "goat rope" for both bulls and bears. Oil markets were weaker initially, reacting to the large API-reported crude oil stock build and discounting the possibility that the DOE data would reveal a similar rate of change. Since the API has in many cases been playing "catch up" with the DOE, the smaller-than-expected DOE-reported build led to some short covering, aided by a weaker dollar and stronger equity markets. Later in the day, however, crude oil retraced most of its gains for the day in response to FOMC minutes that expressed concern that things from an economic standpoint were still quite bad and that a more gradual recovery through 2010 now carried higher odds.
- The neopress suggested that oil's net strength yesterday and follow through today in large part reflects a trader response to the larger-than-expected distillate draw, which we anticipated assuming a recovery in implied demand back to the underlying mean. The consensus seemed to miss the fact that implied demand was inordinately depressed the previous week. The decline clearly reflected secondary de-stocking, since almost irrespective of the state of the economy and weather implied demand does not fall off a cliff like that in one week. A rebound was therefore inevitable, leading to a draw the magnitude of which is not unusual for this time of year. Nonetheless, the non-commercial component of oil trading these days liked what it saw, as long as equity markets were stable to rising and the dollar did not skyrocket.
- Otherwise, we wanted to point out some early 2009 trends on the gasoline demand front. As previously discussed, the consensus and neopress had been pointing out that implied gasoline demand in January, but particularly February, was less negative than the previous months when viewed on a preliminary basis as reported in the Weekly Petroleum Status Report (WPSR), and therefore assumed that weaker pump prices were leading to a recovery in discretionary driving. While this was probably true to a slight degree, the latest traffic data would dispute the more robust consensus conclusions. The DOT reports that total vehicle miles traveled in January dropped by 3.1% versus January of 2008, therefore more in line with the revised January gasoline demand data.
- Once again, the preliminaries that analysts were responding to in the WPSR are compared to the "near finals" for the previous year, and are thus on an apples to oranges basis. Therefore, when February "near

final” data are available we would suspect they will reflect a driving populace that remains quite cautious irrespective of pump prices. Also, we note the DOT revised up 2008 miles traveled for each month, and all else equal, i.e. retaining the DOE “near final” demand data as reported in the Petroleum Supply Monthly (PSM), this would imply a slightly larger improvement in average fleet fuel efficiency than our models had calculated. We would emphasize, however, that while the DOE has consistently cut demand in the PSM from the preliminaries as reported in the WPSR, there has been some tendency to revise up the “final final” numbers as eventually reported in the Petroleum Supply Annual.

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