HIGHLY CONFIDENTIAL
September 30, 2008

Good Morning

Overview

- Hydrocarbon prices stabilized overnight. **Crude oil up $1.37 to $97.74 per barrel; natural gas up $0.089 to $7.310 per mmBtu.**

News/Views

- Unfortunately yesterday's equity market carnage was one not soon to be forgotten. Having said this, it strikes us the odds favor eventual passage of the $700+ billion bailout plan, and not necessarily in modified form. While legislators were responding to the "thumbs down" to the idea as expressed by their constituents, in many respects the voters' view was due either to a lack of understanding as to how the plan would avert an adverse impact on Main Street or viewed as a bailout for Wall Street "suits". Most of those involved, including the Administration and Treasury, did a horrendous job of explaining why this plan is necessary, and thus the average person's response was natural. In the final analysis, however, following the erosion of nest eggs that was witnessed yesterday, we would bet that the new flood of emails to be received by Congress will be in favor of the plan. It pays to keep a level head in these troubling times, and we would note the most surreal aspect of yesterday was seeing the "Money Honey" and other CNBC journalists "lose it" on national TV when expressing the need for the plan and the destruction on Main Street that would be wrought if it were not approved. Also, Government officials have been quoted using colorful language when describing the potential economic impacts of no plan. We were always taught in economics class that psychology is critical in uncertain times, with the potential to exacerbate any downturn by creating a panic environment. On balance, we have to give most of the cable media, Washington, and various pundits an "F".

- With regard to hydrocarbon prices, yesterday's crude oil price drop exceeded the impact from a stronger dollar alone, quite clearly, and reflected some fear once again that economic activity, and therefore oil demand, would be even further adversely impacted, but more the unwinding of off-exchange crude oil length given the fear of rising counterparty risk from a credit freeze up. Thus, it was somewhat similar to behavior when the market anticipated a meltdown of AIG and prompt WTI approached $90.00 per barrel. Thus far, WTI is remaining in our previously discussed range of $85.00-$110.00 per barrel and at this point we see no reason to alter that view. If in the final analysis the bailout plan is approved, no doubt WTI will test at least $100.00 per barrel once again, and probably move toward the upper end of our estimated trading range. If uncertainty remains over the next few days with no resolution in sight, a test of $90.00 per barrel would appear to be in the cards. Overall, however, at this point we do not anticipate a scenario over the near term that would "melt crude oil down" below $85.00 per barrel or so. We would also note that yesterday's crude oil drop did not translate "lock step" to natural gas, providing some encouragement to our outlook which suggests an improvement in natural's ratio to crude oil in 2009.

- Otherwise, with regard to the aftermath of hurricanes Gustav and Ike, the DOE reports that as of noon yesterday some 746 MB/D of crude oil production remained shut in along with 3.9 BCF/D of natural gas. Some 425 MB/D of refinery capacity also remains offline, composed of ExxonMobil's 348.5 MMB/D Port Arthur facility and Marathon's 76 MB/D Texas City refinery. About 1.2 MMB/D of Gulf Coast refining capacity is in restart mode, almost 2.9 MMB/D of capacity is operating under conditions of “reduced runs”, while more than 3.6 MMB/D of capacity is operating “normally”. Following last week’s reported collapse in refinery runs the weekly data due out tomorrow morning will be particularly difficult to estimate, but no doubt will have their market impact one way or another, overshadowed in our view by developments with regard to the bailout plan. In any event, we would look for a recovery in runs averaging some 700 MB/D, with U.S. crude oil production averaging around 4.2 MMB/D for the week ending September 26. Even with a recovery in imports crude stocks may have drawn once again. In terms of refined products, the rise in runs may not have precluded further declines in inventory assuming a modest recovery in implied demand, but we would expect somewhat smaller draws for the week ending September 26 than the 4.2 million barrel and the 5.9 million barrel declines of the previous week for distillate and gasoline, respectively.

W.H. Brown, III

9 Santo Domingo Circle, Santa Fe, New Mexico 87506 (505) 995 0003 fax (505) 995 0008