



HORNSBY & COMPANY, INC.

www.hornsbyco.com

Energy Risk
Management Services

April 2, 2009

Monthly Energy Equity Review and Outlook

Summary

In our last report issued on March 5 we noted that the month had started on a weak note, but went on state that “if our Base Case has any merit whatsoever, then by the end of the month energy equities in general should be trading at higher values than prices prevailing as we issue this report”. On March 5 the OIX and OSX closed at 465.55 and 109.58, respectively. On March 31 the OIX closed at 526.11 while the OSX closed at 123.97, representing gains of 13.0% and 13.1%, respectively. For March as a whole, the S&P 500 rose by 8.5%, the OIX increased by 5.3%, while the OSX gained by 3.6%. Energy equities were therefore aided by overall improving equity market sentiment in combination with the 10.9% rise in WTI during the month. Energy stocks would have gained more were it not for the fact that the prompt NYMEX natural gas contract *fell* by 10.9% in March.

Relative to our Base Case crude oil forecast for 2009 laid out in January, calendar March WTI came in close to the mark. As discussed in other reports our outlook calls for April averaging about \$51.15 per barrel. Recently the drop back below \$50.00 per barrel raised the possibility that we could end up too high for this month, with prompt crude burdened by ever-rising U.S. crude oil stocks, despite the recent declines at Cushing. As we issue this report, however, equity markets are recovering further, aided by G-20 verbiage and signs that the manufacturing sector in the United States is weakening less than in the previous months. Crude oil is surging in response, once again without doubt confirming our belief that financial entities will continue to play a significant role in crude oil price determination this year and beyond. As we have previously discussed, to achieve our outlier Base Case of WTI temporarily trading around \$70.00 per barrel in August, the market needs both fundamental and financial factors working in the same direction.

For *all* energy stocks to participate in the magnitude we expect, however, natural gas needs to make a major comeback. NYMEX natural has had a few false starts over the last month or so, rising above \$4.00 per mmBtu only to fall back once again. However, if our crude oil price outlook is reasonable, we do not believe natural will be left behind indefinitely. In addition, if in fact manufacturing activity stabilizes sooner than consensus expectations as we believe, plus domestic gas production tapers off to the degree later this year that we anticipate, then prompt NYMEX natural/Henry Hub should be able to temporarily recover to around \$7.00 per mmBtu or so in August as well.

**Select Energy Equity Performance,
March 2009
(Percentage Gain/Loss)**

Major International Oils		Select Independent Producers	
BP	+4.5	Anadarko	+11.3
Chevron	+10.8	Apache	+8.5
ConocoPhillips	+4.8	Chesapeake	+10.3
ENI	-4.2	Devon	+2.3
ExxonMobil	+0.3	Noble Energy	+18.3
Hess	- 0.9	Pioneer	+12.9
Marathon	+13.0	Plains	-10.0
Royal Dutch	+0.8		
Total	+3.9		
Select Refining Equities		Select Service/Drilling Equities	
Frontier	-6.3	Baker Hughes	-2.6
Sun	-20.8	Diamond Offshore	+0.4
Tesoro	-8.7	Ensco	+7.4
Valero	-7.6	Halliburton	-5.2
		Rowan	-1.2
		Schlumberger	+6.7
		Smith	0.0
		Tidewater	+5.1
		Transocean	-1.6

Looking over the near term, we believe that if our price forecasts for April turn out to be reasonable, then energy equities in general should be able to hold their own this month. As we have discussed in previous reports, April will begin to reveal whether our argument that moderate seasonality will be embedded in WTI this year despite the recession, although greater evidence of our assumption should manifest itself in May and June.

Information contained herein is believed to be reliable but its accuracy cannot be guaranteed. Past performance is not indicative of future results and the risk of loss is substantial in futures trading. Hornsby & Company, Inc. and W.H. Brown may, from time to time, have positions in the futures market relative to these recommendations.