



HORNSBY & COMPANY, INC.

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Energy Risk Management Services

HIGHLY CONFIDENTIAL

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WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 114 bcf increase from the previous week, which had no revisions. Working storage totaled 2,557 bcf as of Friday, June 12. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,164	1,091	73	992
West	408	395	13	277
Producing	985	957	28	666
Total Lower 48	2,557	2,443	114	1,935

Quite clearly the market does not care for the latest working storage data, which for the week ending June 12 imply a massive 622 bcf “overage” compared to the same point last year. The data would confirm, as in the case of distillate, that the U.S. economy is experiencing a “stretched u” type of configuration, and that the weak manufacturing output that the FRB reported for May the other day likely continued into June. While crude oil continues relatively immune to such fundamental realities, natural has been trading, as oil used to, on “real time” demand and supply basis. Taking the latest numbers into the context of our Base Case natural gas balances, we need to concede that end-second quarter working storage will likely stand about 100 bcf higher than previously thought.

In terms of our view for the second half of the year, however, we may end up making some modest revisions, but we still believe the market will, over time, move in our direction. This requires an act of faith and reliance on our forecast, right or wrong, since quite clearly except for some less negative jobs data the green shoots seem to be wilting. Our friends who both sell and burn natural gas are in fact confirming what we have suspected, i.e. at the present time industrial demand is going absolutely nowhere. Our primary concern is the market down the road, however, and if manufacturing output begins to stabilize and crude oil prices remain lofty for the third quarter, we have to believe that gas prices will be “coiled spring”, with the consensus surprised at how much prices can move given any marginal improvement in the balance.

William H. Brown, III

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