

**INTERNATIONAL OIL MARKET FAX**
HIGHLY CONFIDENTIAL

September 18, 2008

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 67 bcf increase from the previous week, which had no revisions. Working storage totaled 2,972 bcf as of Friday, September 12. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,771	1,723	48	1,775
West	399	387	12	412
Producing	802	795	7	926
Total Lower 48	2,972	2,905	67	3,114

The latest build in working storage came in somewhat above consensus expectations, and as we issue this report the NYMEX natural contracts have begun to reverse direction from earlier strength. The market has been anticipating a greater impact on storage from the current hurricane-induced production shut-ins, but as we have previously emphasized the effect has been mitigated by reduced petrochemical feedstock demand in the context of overall U.S. manufacturing malaise. Embracing the latest numbers into the context of our Base Case natural gas balances, it would imply a ratable build for each seven-day period remaining in the month of about 70-72 bcf to achieve our end-September storage target of some 3.155 tcf. Since GOM production recovery has been slow, at this point we do not see a need to amend our outlook. Assuming no further production downtime from prospective hurricane activity, we would still look for end-October working storage to come in well short of an all-time record, with our current Base Case suggesting a pre-winter level of around 3.26 tcf.

With regard to short-term prices, our recent monthly natural gas report suggested a December (basis January NYMEX) target of \$7.80 per mmBtu. As we issue this report the January NYMEX natural contract is trading about 50-60 cents per mmBtu above our target, reflecting recent short-

covering activity in response to delayed GOM production recovery. At this time, however, we see no reason to modify our December price target.

W.H. Brown, III

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