

THE MORNING ENERGY UPDATE

MICHAEL ROTHMAN

+1 908-573-5870

MIKE@THECORNERSTONE.US.COM

GLOBAL DEMAND COMING UP SHORT OF FORECAST

Apparent Demand "Math" for 1Q '10

Figures in million barrels per day

January world supply	85.83
January stock change	0.488
Apparent Demand - Global	85.35
Y/Y growth based on estimate	1.55

Working 1Q 2010 Forecast 86.10

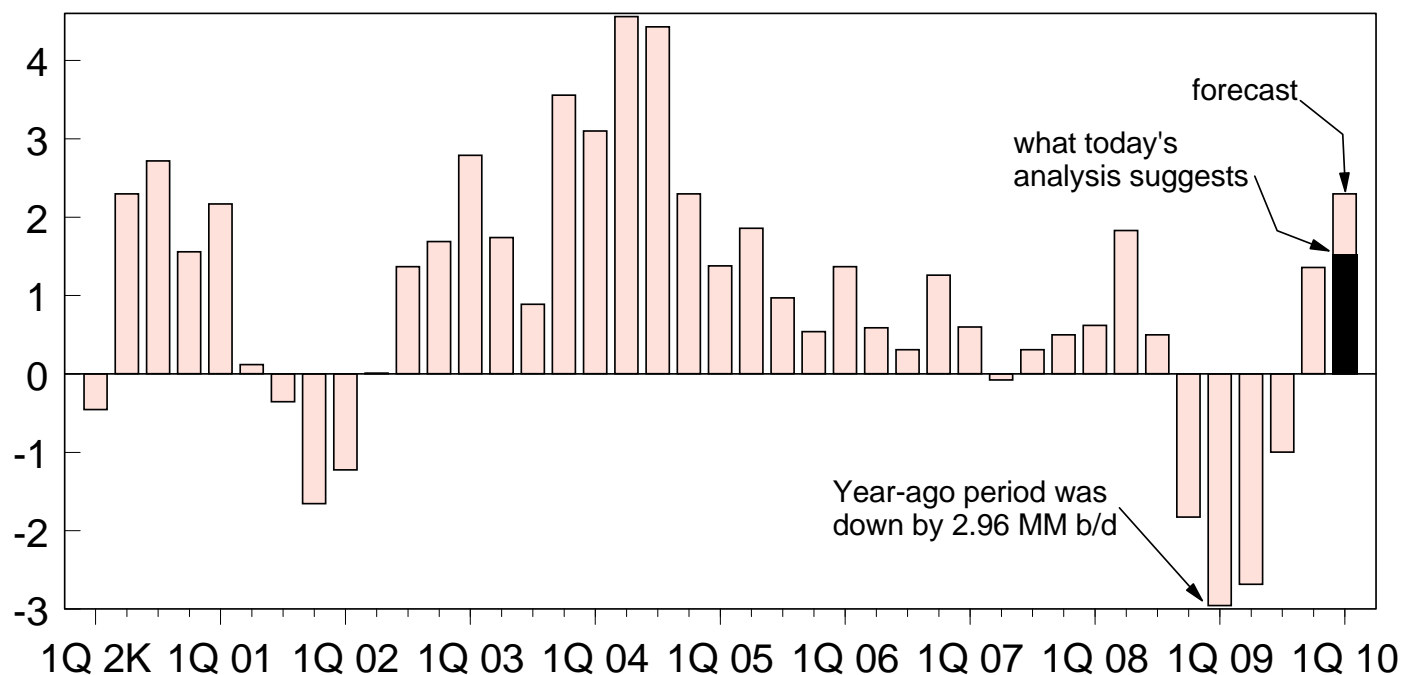
Y/Y growth based on forecast 2.30

Y/Y growth based on our analysis 1.55

Based on our OECD stock estimate published Friday (our proxy for global storage) and world oil supply figures, we estimate oil demand averaged about 85.4 MM b/d last month which came up 750,000 b/d below our working forecast for the 1Q10 period. While our figure is preliminary, this apparent demand "math" is the method we use to reconcile our oil balance model. Given how weak oil demand was in last year's 1Q period, a strong comparison is expected, however, that it's coming up short of forecast and that the absolute level of consumption is even below corresponding 1Q averages of 2008, 2007 and 2006 is a bit disconcerting (see chart on top of P2).

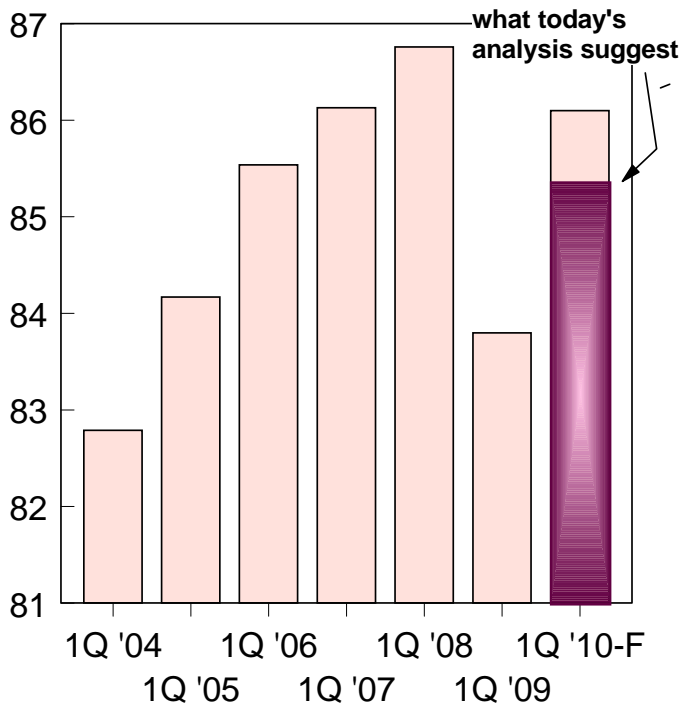
Global Oil Demand

year-over-year change by quarter, MM b/d



Global Demand in the 1Q Period

Million barrels/day

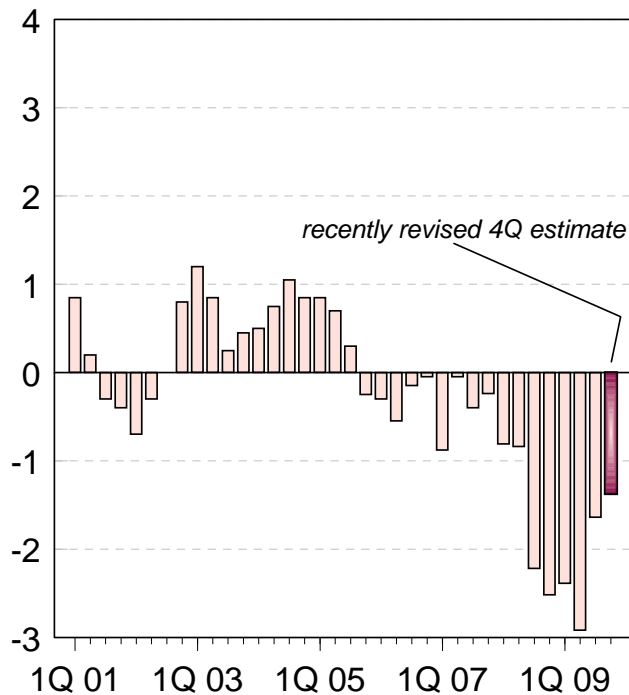


The weakness is last year's first quarter is evident on the chart on the bottom of the preceding page, but to the left we laid out the 1Q averages only back to 2004. Our working forecast for the current quarter is detailed along with the estimate generated from the table on P1. While one month does not a quarterly average make, the January estimate averaged below the 1Q averages back to 2006 and is well below the figure in 1Q 2008 which is just before the evident manifestation of various factors that produced the global recession.

As seen below, we're also continuing to see a chasm between demand readings for OECD versus non-OECD countries. Though absolute changes in demand have been higher in developing economies for the past 15 years, the changes are historically correlated raising a question about how a global recovery can move forward while the industrialized countries continue to struggle.

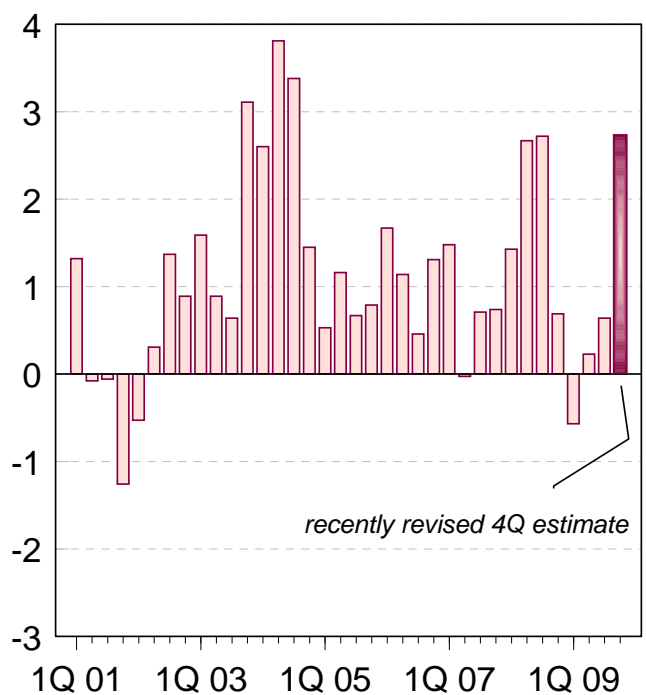
OECD Oil Demand

Year-over-year change by quarter, MM b/d



Non-OECD Oil Demand

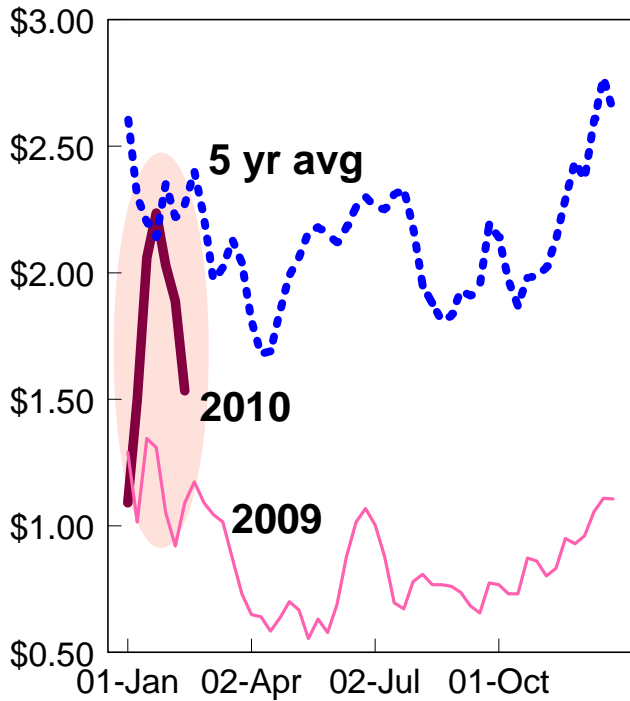
Year-over-year change by quarter, MM b/d



TANKER RATES FALL BACK TO A "WEAK" LEVEL

Oil Tanker Rates: PG to US Gulf

Weekly, Dollars per Barrel



Tanker rates for key routes to move crude from the Persian Gulf fell back further in the most recent week and are now well below normal for this time of year.

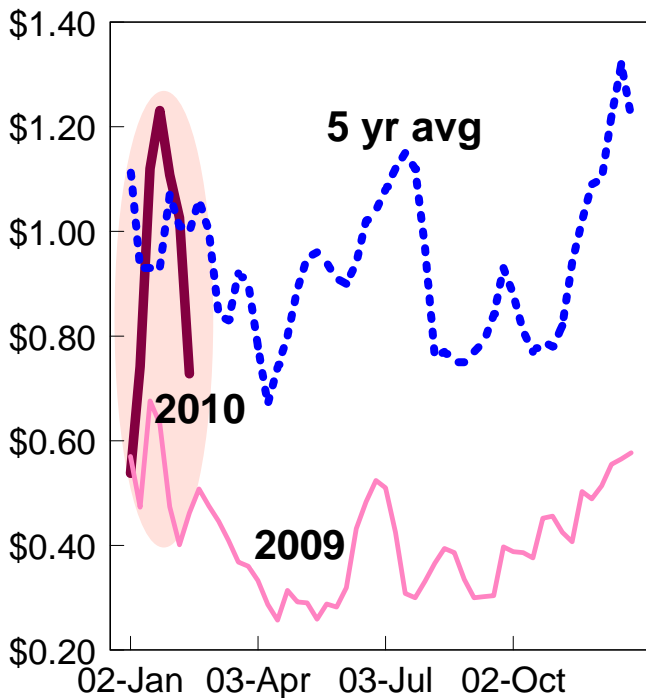
Because oil from Persian Gulf producers tends to be the barrel refiners will buy after securing supply from other regions, we assess these shipping figures to help gauge what may be happening to demand on the margin.

The spike in tanker rates that occurred in early January was, as you remember, something of an enigma to us since none of the other close to real time barometers we monitor (and publish) were giving us a confirming signals about better demand.

As a matter of comparison and perspective, Persian Gulf tanker rates last year essentially set the bottom of the 6 year band.

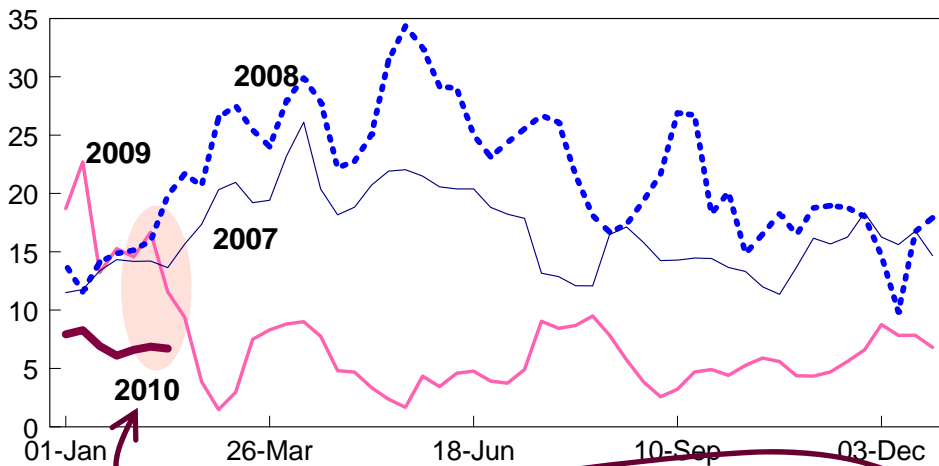
Oil Tanker Rates: PG to Singapore

Weekly, Dollars per Barrel

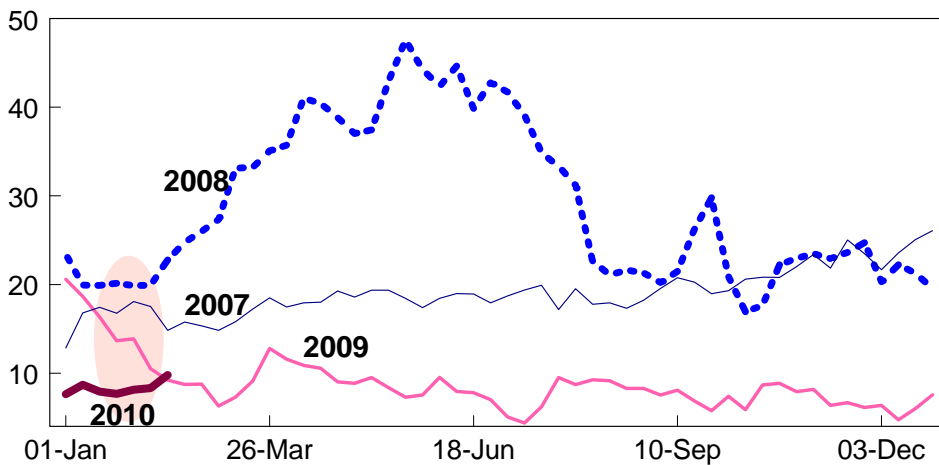


INDUSTRIAL FUEL CRACKS STILL LOOK ANEMIC

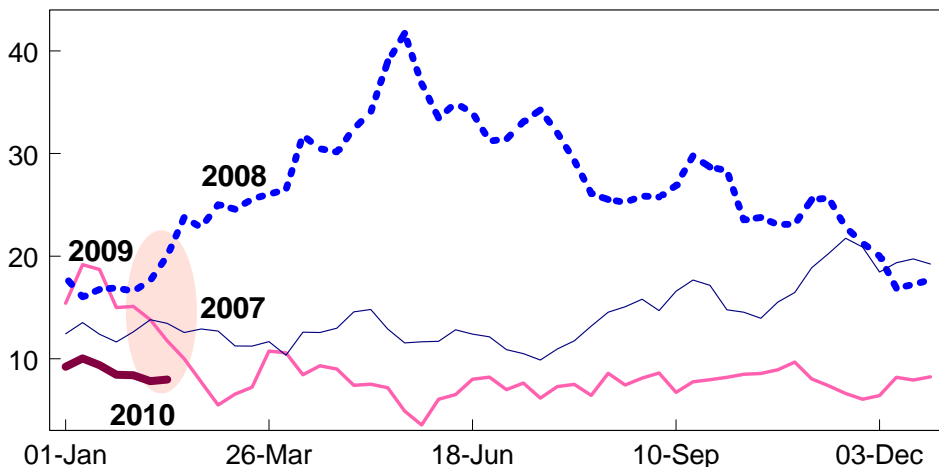
US Gulf Coast Diesel Crack
based on weekly spot prices, \$/bbl



Far East Diesel Crack
Based on weekly spot prices, \$/bbl



Europe Diesel Crack
Based on weekly spot prices, \$/bbl



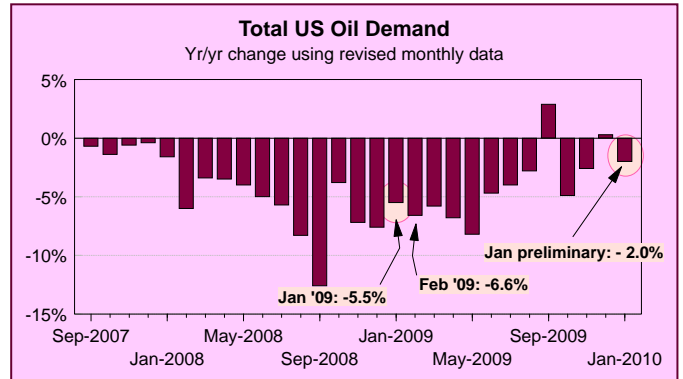
Most money managers nod their head in agreement that one of the best gauges of an economy's health is trucking activity. In the US, we have the luxury of weekly data for distillate demand which is dominated by diesel used for on-road trucking. This particular demand category is still posting large negative year-over-year deltas (on top of what were very weak 2009 levels) and we see the manifestation of this in the "diesel crack" – the per barrel price spread between diesel fuel and crude oil (think of it as a partial refining margin). As seen in the top chart to the left, the diesel crack in the US Gulf Coast cash market is still running below respective figures for 2009, 2008 and 2007. For foreign markets, we don't have anything close to timely data for demand by fuel type, but a look at the diesel cracks in Europe (basis Rotterdam) and the Far East (basis Singapore) show equally weak figures. These are not graphs that jibe with the assertions of some about industrial activity having "recovered."



QUICK RECAP OF FRIDAY'S DOEs

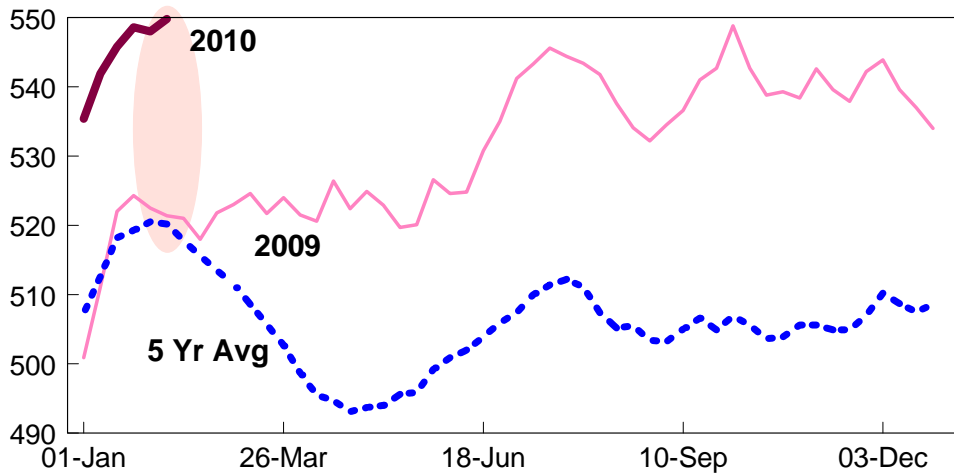
We'll be brief: demand still looks poor especially given '09 readings & inventories are ample.

US DEMAND (1,000 b/d)	Four Week Averages		% Chg
	Ending 02/05/10	02/05/09	
Gasoline	8,650	8,708	-0.7
Jet Fuel	1,372	1,355	1.3
Distillate	3,726	4,052	-8.0
Resid Fuel	543	672	19.2
Propane/Propylene	1,601	1,416	13.1
Other Oils	3,014	2,862	5.3
Total Demand	18,906	19,065	-0.8



US Refined Product Stocks

Weekly, Million bbl



US Crude Oil Stocks

Excludes the SPR, Million bbl

