



HORNSBY & COMPANY, INC.

www.hornsbyco.com

Energy Risk
Management Services

International Petroleum Analysis

February 21, 2008

World Petroleum Perspectives Monthly Review and Outlook

Summary

Over the past month the prompt NYMEX crude oil contract has risen by about \$10.00 per barrel on a point-to-point basis, with the contract finally settling marginally above \$100.00 per barrel. However, within the period the contract fell to a low approaching \$86.00 per barrel in response to concerns regarding U.S. economic growth and rising crude oil inventories. Technical support was found, and since the low of early February prices recovered substantially. The largest price influence was word that ExxonMobil had succeeded through court orders in freezing some \$12 billion of PDVSA assets, catalyzing fears of an inability or unwillingness of Venezuela to export oil due either to credit and cash concerns or a proactive move by President Chavez to cut off the United States. Although there has yet to be any material net disruption in supply, nor do we believe there will be, prices remain underpinned, assuming another “shoe” will drop. Also supporting prices has been some recovery in equity markets along with less bearish economic news than the consensus of economists expected.

Overall, however, we believe that the previous lows thus far for 2008 will be retested, but not due to an official recession, which we have believed carried low odds under our Base Case. Rather, crude oil stocks are expected to continue to rise over the next few months and, barring any actual disruption in supply, history suggests crude oil prices will weaken in response before recovering in the second quarter. At this point, we have revised up our Base WTI average for 2008 by only \$1.25 per barrel from \$87.75 per barrel to \$89.00 per barrel, simply due to the higher price average in February.

Integral to our price forecast has been the observation of financial funds flow into oil in January to help set the stage for the rest of the year. As we have previously discussed, the influence was sufficiently significant to lead to our higher price outlook for this year. Despite all the concerns about OECD oil demand growth, which we have anticipated and believe are fully justified, we believe that if our crude oil price outlook is off the mark, the odds favor the actual average coming in higher and not lower. This is despite our long-standing belief that U.S. gasoline demand in 2008 will disappoint the consensus. As a result of both higher prices and anecdotal evidence, we have marginally trimmed our world oil demand outlook for this year.

-
- + World oil demand is forecast to rise by 1.0%, or some 805 MB/D in 2008.
 - + Non-OPEC supply is expected to rise by only 435 MB/D this year, also a cut from our last forecast.
 - + Global stocks should replenish marginally in 2008.
-

Viewpoint

Over the past month the prompt NYMEX crude oil contract has risen by about \$10.00 per barrel on a point-to-point basis, with the prompt NYMEX crude oil contract finally settling marginally above \$100.00 per barrel following such expectations by the bulls over the past six months.

However, within the period of the past four weeks the contract fell to an intraday low approaching \$86.00 per barrel in response to concerns regarding U.S. economic growth in the context of seasonally rising crude oil inventories.

Technical support was found in this range, however, and since the settlement low on February 6 at \$87.14 per barrel prices have obviously recovered significantly.

The greatest price influence “snapping” crude oil off the lows was word that ExxonMobil had succeeded through court orders in freezing some \$12 billion of PDVSA assets. This act catalyzed fears of an inability or unwillingness of Venezuela to export oil due either to credit and cash concerns or a proactive move by President Chavez to cut off the United States in retaliation.

There has yet to be any material net disruption in supply to the United States as a whole, nor do we believe there will be. In addition, both the IEA and the Bush Administration have indicated that supplies from emergency stockpiles will be used if needed, and Saudi Arabia has indicated it can and will supply any incremental barrels. Nonetheless, prices remain underpinned, assuming another “shoe” will drop.

Also supporting prices has been some recovery in equity markets along with less bearish economic news than the consensus of economists had expected.

Overall, however, we believe that the previous lows thus far in 2008 will be retested, but not due to an official recession, which we have believed carried low odds under our Base Case in any event.

U.S. crude oil stocks should continue to recover over the next few months in line with normal seasonal behavior and, barring

any actual disruption in supply, history suggests crude oil prices will weaken in response with the term structure moving into modest contango before recovering in the second quarter as U.S. refinery runs rise to meet summer gasoline demand.

At this point, we have revised up our Base WTI average for 2008 by only \$1.25 per barrel from \$87.75 per barrel to \$89.00 per barrel, simply due to the higher price average in February.

Integral to our higher price forecast was the observation of financial funds flow into oil in January, helping set the stage for the rest of the year from this sector which has played a progressively larger role since 2004.

As we have previously discussed, the influence in January, in large part due to positive index returns generated in 2007, was sufficiently significant to lead to our higher price outlook for this year.

Despite all the concerns about declining OECD oil demand, which we have anticipated and reflect a lagged response to \$65.00 per barrel crude, let alone \$90+ per barrel crude, we believe that if our crude oil price outlook is off the mark, the odds favor the actual average coming in higher and not lower.

This is despite our long-standing belief that U.S. gasoline demand in 2008 will progressively disappoint the consensus. As a result of both higher prices and anecdotal evidence, we have marginally trimmed our world oil demand outlook for this year, with the IEA likely to slash their “outlier” outlook even further over the next few months.

In terms of the global balance, however, we would emphasize that we have also reduced our expectations for non-OPEC supply growth, which had already stood well below the consensus.

Global Oil Demand

We anticipate world oil demand will rise by 1.0%, or about 805 MB/D this year, a downward revision from our previous report by 130 MB/D. Fine tuning upward in select non-OECD countries has been more than offset by cuts in the United States and OECD Europe.

OECD oil demand is forecast to decline marginally this year, a downward revision of 150 MB/D from our previous assessment. Non-OECD oil demand is expected to gain by 2.2%, or some 845 MB/D, an upward revision of about 20 MB/D.

United States

U.S. refined product demand is now expected to decline by about 10 MB/D in 2008. This marks a reduction from our previous assessment by almost 100 MB/D.

The revisions were concentrated in kero-based jet fuel and heavy fuel oil demand, with our Base Case still looking for a marginal decline in gasoline consumption, reflecting both higher retail prices and a marginal improvement in average fleet fuel efficiency.

Jet fuel and heavy fuel oil demand are impacted by further fleet rationalization in the case of the former, with substitution by natural gas in the first part of 2008 impacting the latter.

In addition, however, both fuels are adversely influenced by the marginal reduction in our outlook for manufacturing growth, as discussed in our latest monthly natural gas report.

Larger cuts in demand expectations have thus far been avoided under our assumption that there will be no “official” recession this year, as defined by at least two consecutive quarters of negative real GDP growth.

We fully concede that consumer sentiment continues to weaken and the credit crunch must be monitored closely with more negative news likely to emerge, but we do not anticipate that it will deteriorate to the extent

of pulling the entire economy into negative territory.

Europe

The OECD Europe economic picture continues to weaken, and since oil demand had already begun declining due to conservation and alternative fuel substitution, any actual Europe-wide economic downturn across the group will obviously have additional negative impacts on oil consumption.

Recent data suggest that the decline in gasoline demand has accelerated modestly, and while this has been due to the dieselization of Europe, on a heating degree day basis gas oil consumption has been declining for some time.

Overall, gains in economic activity had aided LPG and naphtha demand as petrochemical feedstocks, but more recently the demand for these products has begun to contract in select countries, reflecting the moderation in growth.

The decline in heavy fuel oil demand appears far from its end, with alternative fuel substitution compounded by moderation in electricity demand growth, particularly in Italy, although December was temporarily boosted by colder weather.

Overall, we anticipate that OECD Europe oil demand will decline by 1.1%, or about 130 MB/D in 2008, marking a downward revision from our last report by 50 MB/D.

Japan and South Korea

Elsewhere in the OECD, Japan oil demand is faltering as well, despite a somewhat more encouraging economic picture relative to Europe.

Although heavy fuel oil and crude for direct burning in Japan have been relatively strong due to the ongoing nuclear problems at TEPCO plants, late 2007 demand data suggest that declines among other products led to a fall in total oil consumption.

While milder temperatures led to lower heating fuel demand in both November and December, there is some evidence to suggest that some households in Japan are converting to electricity for space heating at the expense of kerosene systems.

Gasoline as well as other products demand fell in the late fourth quarter, adversely impacting the aggregate. Consumers are opting for smaller more fuel efficient vehicles, while higher retail prices have dampened discretionary driving.

For 2008, we are looking for Japan oil demand to decline by 0.2%, or 10 MB/D, with any larger declines precluded in the first half of the year by continued relative strength in heavy fuel oil demand.

For much of 2007 rising oil demand in South Korea had offset weakness in Japan. However, late 2007 data reveal one of the rare declines in oil demand in recent months. Much of the fall may be attributed to milder temperatures as in the case of Japan.

By the same token, transport fuel demand also fell, which was not offset by underlying gains in petrochemical feedstock demand. We therefore may finally be witnessing some conservation effect among products that have heretofore been largely immune.

Overall, however, at this point we are not inclined to revise down our expectations for 2008. South Korea oil demand is expected to rise by 2.0%, or about 40 MB/D this year, unchanged from our previous assessment.

Non-OECD

Since last year China has been facing a progressive “coal crunch”, reflecting the closure of a substantial number of small coal mines due to safety and environmental concerns as well as a rising labor shortage in the coal industry.

Such developments contributed to a significant weather-influenced electric power shortage in several China provinces in the South which has since eased, but will likely

lead to incremental diesel demand this year from portable generators. Unlike 2004, however, we estimate the incremental demand to be less, perhaps only 50 MB/D or so.

Otherwise, most other products demand in China continues to gain, and preliminary implied demand data suggest marginally stronger numbers than our Base Case has assumed. As such, for 2008 we now estimate China implied oil demand to rise by 4.2%, or around 270 MB/D.

Elsewhere, growth in OPEC oil demand continues in line with expectations, and we look for demand to rise by almost 6.0% this year. Due to end-user subsidies India oil demand continues to gain, with strength in transportation fuels more than offsetting falling naphtha sales due to increasing natural gas availability.

On balance, we forecast that total non-OECD oil demand will increase by 2.2%, or about 845 MB/D, marginally higher than our previous assessment.

Global Oil Supply

Non-OPEC

After reviewing recent data and reassessing the buildup of new fields, we believe non-OPEC supply will rise by 435 MB/D in 2008. This marks a downward revision from our last outlook by a full 350 MB/D.

We do not take any revisions lightly, but we prefer to make them, if justified, in as short a time period as possible to avoid the “slow bleed” IEA approach.

We are confident that gains from such sources as Brazil and the FSU will be healthy (with Angola presented below as a member of OPEC), but we have downgraded our assessment of the FSU and delayed by a few months the buildup in Brazil to the forecast peak for 2008.

Elsewhere, we have reduced our assessment for the United States and trimmed

our growth rate for Canada. Other countries have been fine tuned either up or down.

Our outlook is therefore even more conservative than the consensus, with the IEA expecting a gain of 970 MB/D which, along with the demand side of their equation, are likely to be reduced significantly over time.

One primary area where we would differ significantly from the IEA is the FSU, with the Agency expecting a gain of about 400 MB/D this year.

In contrast we are looking for an FSU rise of some 230 MB/D. Whereas we realize that Sakhalin 1 will be expanding capacity, our timing related to the buildup from the Arkutun Darginskoye and Odoptu fields is more conservative, and we have reduced expectations from Rosneft and Lukoil below what the IEA currently assumes.

OPEC and Inventory

Recent crude oil price gains have been impacted by expectations that OPEC might consider cutting production at the upcoming March meeting, but with WTI at \$100.00 per barrel they will likely maintain the status quo on an official basis.

As we have discussed over the years, however, *actual* OPEC crude oil sales will largely, if not exclusively, be determined by refiner nominations. Our balances suggest that from the first to the second quarter OPEC “10” crude oil deliveries will rise by more than 200 MB/D. This increase is largely due to rising Atlantic Basin requirements as U.S. refiners emerge from turnarounds.

In terms of Iraq, we have increased modestly our estimate for 2008 production, but not sufficiently to impact the global balance. For Angola, production continues to rise largely on schedule, and we have assumed that crude oil output will rise by more than 100 MB/D this year, which could end up on the conservative side.

Our customary OPEC “10” table illustrated below suggest a marginal increase

in production for the month of March, largely from Saudi Arabia.

**OPEC “10”
Targeted Vienna “Quotas”
v.
Estimated March Production
(MB/D)**

	“Quota”	Production	Prod. Vs. “Quota”
Algeria	1,358	1,340	-18
Indonesia	871	850	-21
Iran	3,818	3,720	-98
Kuwait	2,487	2,475	-12
Libya	1,704	1,730	+26
Nigeria	2,173	2,190	+17
Qatar	824	800	-24
S. Arabia	8,987	9,100	+113
UAE	2,546	2,495	-51
Venezuela	2,485	2,410	-75
Total	27,253	27,110	-143

With regard to global inventories, preliminary data suggest a contra-seasonal stock build in January, but we do not believe this will characterize the first quarter as a whole, which we estimate will witness a net global stock draw averaging about 285 MB/D.

Although roughly one third of the draw in the first quarter of 2007, we would emphasize that stocks are recovering from the relatively low base prevailing at the end of 2007, with rising crude oil and gasoline inventories partially offsetting the normal first quarter decline in heating oil inventories.

For the second quarter, our balances suggest a net build approaching 1.0 MMB/D, which would average three times last year’s second quarter build rate, but lie well within the historical range.

For 2008 as a whole, we anticipate there will be a net global inventory gain averaging some 120 MB/D, but on a days supply basis usable commercial/discretionary stocks will end the year roughly on par with the end of last year at 14 days.

Implications for Price

Before we are prepared to forecast that WTI will average over \$100.00 per barrel this year, we wish to point out a few factors that suggest the recent surge to \$101.00+ per barrel may not have been due to widespread market participant buying as the press had indicated.

Wednesday marked the expiration of the March crude oil contract, and apparently one major fund had been substantially short March crude and long April and May crude, i.e. short the calendar spreads.

As March's expiration approached, news from Nigeria, the weak dollar, the prospects of OPEC cuts, and a few refinery problems all combined to catalyze further gains in the March contract in particular.

Ultimately the major fund was forced to begin covering the short March/ long April and May crude oil calendar spreads as the clock toward expiration began ticking. The rest of the market smelled blood, and forced the fund to pay up big time all the way to contract expiration.

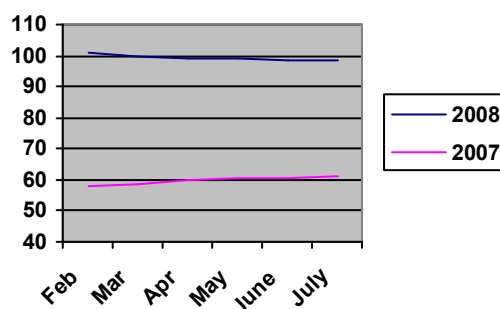
Our point is that since the underlying global balance has not gotten tighter since February, but actually somewhat more balanced, we need to be careful with regard to interpreting short-term price movements and what may appear on the face of it to be a new "breakout".

We fully appreciate the power of financial funds flow on oil prices, and such was the basis for generating an above-consensus price forecast for 2008 back in January. By the same token, at this point we are still inclined to suggest that over time the market will once again appreciate the impact of rising crude oil inventories, and that robust demand growth in China, India, and OPEC cannot completely offset the weaker trends in the OECD.

Our customary graph below illustrates the six-month NYMEX term structure. Obviously the most striking aspect is the fact that crude oil is now trading more than 70% higher than the same point in 2007. However,

the U.S. day's supply of crude oil is less than one day lower, suggesting a decoupling of price relative to fundamentals compared to only one year ago.

**Current Six-Month NYMEX Crude Oil
Term Structure
2008 vs. 2007**



Clearly, perceived geopolitical risk is greater now with concerns including Venezuelan and Nigerian supply. More importantly, however, as discussed last year negative index returns in 2006 led to selling of passive length in early 2007, while positive index returns of 2007 led to early-2008 buying.

In addition, March expiration led to a move into backwardation compared to the modest contango of last year. Over time, we would look for the market to move back into contango as the day's supply of crude oil rises.

If so, this should discourage incremental buying by passive longs, encourage additional stocking at the margin by some physical players, weakening prices overall on a seasonal basis as a result.

We also believe that over the next couple months the market will begin to appreciate the fact that there will either be no widespread cutoff by Hugo Chavez to the United States and/or that replacement barrels are readily available if there is such a disruption.

Nigeria, of course, remains problematic, and we simply have to make assumptions in this regard. We have therefore assumed, right or wrong, that there will be no further *substantive* supply disruptions that will have a sustainable impact on price.

On balance, we believe that WTI will progressively weaken from current levels and achieve our Base Case trough in March before beginning a seasonal recovery, which will be somewhat muted compared to historical experience given our more conservative view of the summertime U.S. gasoline picture.

As such, at this point we have revised up our Base WTI average for 2008 by only \$1.25 per barrel from \$87.75 per barrel to \$89.00 per barrel, simply due to the higher price average of February.

**Forecast Prompt NYMEX Crude
Oil Prices By Quarter: Base Case**

	2007	2008(E)
Q1	\$58.24	\$90.90
Q2	\$64.85	\$90.10
Q3	\$75.40	\$90.00
Q4	\$90.50	\$85.00
Yr.	\$72.25	\$89.00

February 21, 2008

Table 1
OECD Oil Demand
(Thousands of Barrels Daily)

BASE CASE 2/20/07	Q1	Q2	Q3	Q4E	2007E	% Chng 07/06	Q1E	Q2E	Q3E	Q4E	2008E	% Chng 08/07
DEMAND												
United States	20786	20649	20692	20787	20729	0.2	20721	20699	20552	20897	20717	-0.1
Motor Gasoline	9028	9390	9486	9280	9296	0.5	9048	9369	9441	9205	9265	-0.3
Jet Fuel	1602	1641	1634	1584	1615	-1.1	1570	1625	1626	1576	1599	-1.0
Distillate	4399	4134	4109	4296	4234	1.6	4356	4228	3991	4451	4257	0.5
Residual	820	733	698	654	726	5.5	795	726	705	667	723	-0.4
Other	4937	4751	4765	4973	4856	-1.8	4952	4752	4789	4998	4873	0.3
Canada	2200	2102	2146	2125	2143	2.8	2277	2116	2169	2147	2177	1.6
Naphtha	73	72	68	77	73	1.0	74	72	69	78	73	1.0
LPG	219	271	223	137	213	1.3	217	280	225	139	215	1.3
Gasoline	731	754	818	783	772	2.6	742	765	830	794	783	1.5
Kerosene	80	79	90	80	82	1.0	81	79	91	81	83	1.0
Gasoil/Diesel	675	487	506	592	565	4.4	742	477	511	599	582	3.1
Fuel Oil	138	96	84	161	120	6.4	141	94	83	157	119	-0.8
Other	283	344	356	295	320	1.4	280	348	359	298	321	0.6
Mexico	1992	2006	2020	2056	2018	2.1	2031	2026	2040	2077	2044	1.2
United Kingdom	1518	1414	1399	1577	1477	0.0	1511	1413	1399	1578	1475	-0.1
Naphtha	84	74	60	89	77	1.0	85	75	61	90	78	1.0
LPG	133	132	113	131	127	1.0	134	134	114	132	128	1.0
Gasoline	446	399	404	415	416	-2.3	433	391	396	407	407	-2.3
Kerosene	247	201	218	214	220	0.8	248	202	220	215	221	0.5
Gasoil/Diesel	364	471	460	571	467	1.0	368	476	465	577	471	1.0
Fuel Oil	147	43	39	52	70	1.3	147	43	39	52	70	0.0
Other	96	93	105	104	99	1.0	95	92	105	104	99	-0.4
France	1751	1589	1790	1616	1686	-1.3	1724	1573	1776	1619	1673	-0.8
Naphtha	167	144	223	249	196	1.0	168	145	224	251	197	0.5
LPG	163	94	76	130	119	1.0	163	94	76	130	116	0.1
Gasoline	212	280	242	184	229	-3.4	206	272	236	179	223	-2.7
Kerosene	95	111	121	87	104	1.1	96	112	122	88	104	0.8
Gasoil/Diesel	955	752	925	784	854	-1.8	936	744	916	792	847	-0.8
Fuel Oil	91	92	60	81	81	-3.9	88	89	59	79	79	-3.0
Other	68	116	143	100	107	0.2	68	116	143	100	107	0.2
Italy	1587	1557	1528	1514	1546	-2.9	1551	1495	1499	1487	1508	-2.5
Naphtha	68	78	47	37	57	1.0	68	78	47	38	58	1.0
LPG	147	98	104	145	123	1.0	149	99	105	146	125	1.0
Gasoline	353	323	332	307	329	-3.5	341	313	326	301	320	-2.6
Kerosene	66	73	76	63	70	1.1	67	73	77	64	70	0.8
Gasoil/Diesel	585	482	587	565	555	0.7	591	487	593	570	560	1.0
Fuel Oil	228	402	257	255	285	-12.6	194	341	226	225	247	-13.7
Other	140	102	125	142	127	0.9	141	103	126	143	128	1.0
Germany	2312	2287	2318	2543	2365	-3.3	2287	2258	2292	2512	2337	-1.2
Naphtha	256	224	217	251	237	1.1	257	225	218	252	238	0.2
LPG	135	135	117	114	125	1.1	135	135	117	114	125	0.1
Gasoline	548	600	532	577	564	-3.0	531	588	522	566	552	-2.2
Kerosene	97	139	144	121	125	1.0	99	140	145	122	126	1.0
Gasoil/Diesel	1091	925	996	1210	1056	-6.1	1080	907	976	1186	1037	-1.7
Fuel Oil	69	80	115	98	91	-1.7	68	78	116	99	90	-0.5
Other	116	184	196	171	167	0.8	117	186	198	173	168	1.0
Austria	229	216	240	292	244	-0.5	224	214	237	289	241	-1.2
Belgium	438	429	398	468	433	-1.7	427	418	390	459	423	-2.3
Denmark	217	192	196	205	202	-0.3	215	190	198	209	203	0.2
Finland	224	217	215	211	217	-0.4	222	219	217	214	218	0.6
Greece	307	265	284	347	301	-1.3	301	260	281	344	296	-1.5
Iceland	12	15	25	24	19	1.5	12	16	26	25	20	2.0
Ireland	123	113	123	133	123	0.4	125	115	125	134	124	1.0
Luxembourg	51	47	46	45	47	1.5	52	48	47	46	48	2.0
Netherlands	432	406	411	409	415	-2.0	421	396	401	399	405	-2.5
Norway	189	186	192	203	193	0.8	192	188	194	205	195	1.1
Portugal	193	280	264	286	256	0.4	195	283	266	289	258	1.0
Spain	924	793	993	937	912	-2.3	897	770	973	928	892	-2.2
Sweden	381	333	309	320	336	-1.3	381	332	309	319	335	-0.2
Switzerland	280	273	288	348	297	-0.4	275	271	282	355	296	-0.6
Turkey	576	481	622	560	560	-0.9	564	481	621	554	555	-0.8
OECD Europe	11745	11094	11642	12039	11630	-1.7	11574	10938	11533	11964	11502	-1.1
Japan	5561	4337	4275	5059	4808	-1.4	5573	4307	4244	5063	4797	-0.2
Naphtha	665	570	569	779	645	1.4	673	579	577	790	655	1.4
LPG	895	615	567	695	693	1.4	918	624	572	702	704	1.6
Gasoline	995	960	915	933	951	-2.3	965	940	906	923	934	-1.8
Kerosene	1006	448	360	646	615	1.1	1036	455	365	656	628	2.1
Gasoil/Diesel	1206	1080	939	1255	1120	-4.3	1169	1058	920	1256	1101	-1.7
Fuel Oil	320	315	522	339	374	-2.0	336	311	506	329	370	-0.9
Other	198	175	205	223	200	-0.7	194	174	206	225	200	-0.3
Direct Crude	277	175	200	189	210	-4.7	282	166	192	182	205	-2.2
South Korea	2137	1974	1845	1952	1977	2.1	2179	2023	1882	1981	2016	2.0
Australia	869	829	826	890	853	1.1	878	837	839	898	863	1.1
New Zealand	105	107	105	113	107	0.4	106	108	105	113	108	0.5
Total OECD	45394	43097	43551	45021	44266	-0.2	45339	43053	43364	45140	44224	-0.1

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.

Table 2
World Oil Demand
(Thousands of Barrels Daily)

BASE CASE 2/20/07												% Chng 08/07
	Q1	Q2	Q3	Q4E	2007E	% Chng 07/06	Q1E	Q2E	Q3E	Q4E	2008E	
DEMAND												
United States	20786	20649	20692	20787	20729	0.2	20721	20699	20552	20897	20717	-0.1
Canada	2200	2102	2146	2125	2143	2.8	2277	2116	2169	2147	2177	1.6
Mexico	1992	2006	2020	2056	2018	2.1	2031	2026	2040	2077	2044	1.2
United Kingdom	1518	1414	1399	1577	1477	0.0	1511	1413	1399	1578	1475	-0.1
France	1751	1589	1790	1616	1686	-1.3	1724	1573	1776	1619	1673	-0.8
Italy	1587	1557	1528	1514	1546	-2.9	1551	1495	1499	1487	1508	-2.5
Germany	2312	2287	2318	2543	2365	-3.3	2287	2258	2292	2512	2337	-1.2
Austria	229	216	240	292	244	-0.5	224	214	237	289	241	-1.2
Belgium	438	429	398	468	433	-1.7	427	418	390	459	423	-2.3
Denmark	217	192	196	205	202	-0.3	215	190	198	209	203	0.2
Finland	224	217	215	211	217	-0.4	222	219	217	214	218	0.6
Greece	307	265	284	347	301	-1.3	301	260	281	344	296	-1.5
Iceland	12	15	25	24	19	1.5	12	16	26	25	20	2.0
Ireland	123	113	123	133	123	0.4	125	115	125	134	124	1.0
Luxembourg	51	47	46	45	47	1.5	52	48	47	46	48	2.0
Netherlands	432	406	411	409	415	-2.0	421	396	401	399	405	-2.5
Norway	189	186	192	203	193	0.8	192	188	194	205	195	1.1
Portugal	193	280	264	286	256	0.4	195	283	266	289	258	1.0
Spain	924	793	993	937	912	-2.3	897	770	973	928	892	-2.2
Sweden	381	333	309	320	336	-1.3	381	332	309	319	335	-0.2
Switzerland	280	273	288	348	297	-0.4	275	271	282	355	296	-0.6
Turkey	576	481	622	560	560	-0.9	564	481	621	554	555	-0.8
OECD Europe	11745	11094	11642	12039	11630	-1.7	11574	10938	11533	11964	11502	-1.1
Japan	5561	4337	4275	5059	4808	-1.4	5573	4307	4244	5063	4797	-0.2
South Korea	2137	1974	1845	1952	1977	2.1	2179	2023	1882	1981	2016	2.0
Australia	869	829	826	890	853	1.1	878	837	839	898	863	1.1
New Zealand	105	107	105	113	107	0.4	106	108	105	113	108	0.5
Total OECD	45394	43097	43551	45021	44266	-0.2	45339	43053	43364	45140	44224	-0.1
Non-OECD	37521	38795	39195	37938	38362	2.1	38379	39669	40068	38722	39209	2.2
FSU	4216	3188	3124	3935	3616	0.2	4195	3172	3108	3915	3598	-0.5
Non-OECD Europe	2536	2383	2411	2547	2469	-0.6	2519	2367	2396	2531	2453	-0.6
China	5223	7653	7531	5268	6419	4.9	5484	7960	7832	5479	6689	4.2
OPEC	7396	6845	7294	7322	7214	5.7	7845	7247	7721	7743	7639	5.9
Argentina	484	526	507	544	515	0.1	484	528	509	546	517	0.3
Brazil	1881	2149	2209	2225	2116	0.4	1919	2170	2231	2247	2142	1.2
Other L. A.	1499	1587	1737	1816	1660	0.8	1514	1603	1771	1834	1681	1.3
Egypt	558	569	569	575	568	2.5	569	583	583	589	581	2.4
South Africa	451	484	499	510	486	2.0	460	496	509	521	496	2.1
Other Africa	1056	1101	1158	1169	1121	1.6	1075	1118	1180	1188	1140	1.7
Non-OPEC M. E.	634	621	635	639	632	2.2	653	634	648	651	647	2.3
India	2187	2181	2120	2183	2168	3.6	2230	2227	2165	2229	2213	2.1
Other Asia	4066	4148	4044	3821	4020	-0.9	4025	4135	4003	3833	3999	-0.5
Int. Bunkers	2057	2072	2071	2078	2070	-0.5	2068	2079	2072	2073	2073	0.2
Refinery F/L	3278	3288	3285	3307	3290	0.4	3337	3349	3338	3344	3342	1.6
Grand Total Demand	82915	81892	82746	82959	82628	0.9	83718	82722	83432	83863	83434	1.0

Note: Demand by country is shown on an "inland" basis, i.e., excluding bunkers and refinery fuel/loss.

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.

Table 3
World Oil Supply
(Thousands of Barrels Daily)

BASE CASE 2/20/07	Q1	Q2	Q3	Q4E	2007E	% Chng 07/06	Q1E	Q2E	Q3E	Q4E	2008E
Grand Total Demand	82915	81892	82746	82959	82628	0.9	83718	82722	83432	83863	83434
Inventory Change	-968	318	-624	-286	-390		-284	995	26	-254	121
SUPPLY	81947	82210	82122	82673	82238	0.4	83433	83717	83458	83609	83554
United States	5174	5199	4998	5017	5097	-0.8	5077	5097	5117	5192	5120
United Kingdom	1580	1570	1415	1575	1535	2.1	1605	1523	1429	1528	1521
Norway	2455	2165	2210	2255	2271	-5.3	2275	2143	2166	2210	2199
Denmark	385	380	380	385	383	-0.6	380	380	380	380	380
Netherlands	52	51	52	54	52	-0.5	52	51	51	53	52
Other OECD Europe	460	460	460	460	460	0.0	460	460	460	460	460
Non-OECD Europe	305	305	305	305	305	0.0	305	305	305	305	305
Mexico	3150	3165	3055	2995	3091	-5.2	2995	2995	2990	2980	2990
Canada	2675	2475	2705	2675	2633	3.9	2705	2705	2710	2710	2708
Argentina	670	660	645	665	660	-0.4	675	675	670	670	673
Brazil	1835	1805	1815	1790	1811	1.2	1925	1945	2035	2075	1995
Colombia	520	515	490	475	500	-5.2	500	500	500	500	500
Ecuador	365	365	365	365	365	1.4	365	365	365	365	365
Peru	105	105	105	105	105	0.0	105	105	105	105	105
Trinidad & Tobago	130	130	135	130	131	5.0	130	130	135	130	131
Other L. A.	75	80	80	80	79	17.8	75	80	80	80	79
Bahrain	37	37	38	38	38	0.0	37	37	38	38	38
Oman	720	705	705	705	709	-4.9	710	705	705	705	706
Syria	400	395	375	375	386	-4.0	380	380	380	380	380
Other Middle East	365	365	365	65	290	-19.4	365	365	365	65	290
Congo	195	195	195	195	195	0.6	195	195	195	195	195
Egypt	625	630	620	615	623	-2.6	615	615	615	615	615
Gabon	265	265	265	265	265	-1.9	265	265	265	265	265
Tunisia	130	130	125	125	128	0.0	130	130	125	125	128
Other Africa	365	375	380	380	375	8.7	365	375	380	380	375
Australia	475	505	495	505	505	13.0	505	505	500	500	503
India	685	680	680	685	683	2.7	690	690	690	690	690
Malaysia	720	700	690	690	700	-5.4	700	700	700	700	700
Brunei	135	135	130	130	133	0.0	135	135	130	130	133
Other Asia/Pacific	585	605	605	610	601	2.3	610	610	615	615	613
FSU	11492	11750	11408	11450	11525	4.9	11722	11985	11636	11679	11756
China	3745	3765	3695	3725	3733	1.7	3725	3725	3720	3720	3723
NGL	4818	4814	4864	4918	4854	1.3	4879	4876	4928	4983	4916
Ref. Gain/Other	1866	1843	1862	1867	1859	0.9	1884	1861	1877	1887	1877
Non-Conventional	1160	1165	1171	1185	1170	2.0	1189	1194	1200	1215	1199
Total Non-OPEC	48718	48489	47883	47859	48247	0.9	48729	48807	48562	48629	48682
OPEC SUPPLY	33229	33721	34239	34814	34001	-0.3	34704	34910	34896	34980	34873
OPEC NGL	1710	1750	1800	1825	1771	7.0	1835	1855	1865	1895	1863
OPEC CONDENSATE	1695	1725	1765	1810	1749	5.8	1815	1830	1845	1855	1836
OPEC CRUDE SALES	29824	30246	30674	31179	30481	-1.1	31054	31225	31186	31230	31174
Saudi Arabia	8600	8750	8675	8950	8744	-4.2	9100	9100	9000	9000	9050
Iran	3819	3736	3889	3889	3833	-2.3	3854	3870	3876	3880	3870
Iraq	1905	2075	2145	2205	2083	7.9	2175	2135	2155	2175	2160
Kuwait	2300	2500	2525	2525	2463	2.5	2425	2525	2550	2550	2513
Qatar	800	810	825	825	815	0.6	820	820	820	820	820
UAE	2410	2475	2565	2565	2504	2.4	2495	2550	2550	2550	2536
Algeria	1315	1345	1355	1375	1348	0.6	1375	1380	1380	1380	1379
Angola	1565	1615	1690	1805	1669	15.6	1805	1810	1810	1820	1811
Nigeria	2125	2005	2125	2155	2103	-7.2	2125	2155	2165	2175	2155
Libya	1700	1700	1735	1740	1719	4.6	1745	1745	1745	1745	1745
Venezuela	2415	2375	2295	2295	2345	-8.6	2285	2285	2285	2285	2285
Indonesia	870	860	850	850	858	-5.9	850	850	850	850	850
Inventory Change	-968	318	-624	-286	-390		-284	995	26	-254	121
Assumed Inventory Position(c)											
Days Supply of MOV	50	50	50	50	50		50	50	49	49	49
Days Supply of UC	15	15	14	14	14		14	14	14	14	14
Days Supply of MOV+	65	65	64	63	63		63	64	64	64	64
Days Supply of S/C	14	14	14	14	14		14	14	14	14	14

- a) OPEC supply measured on a delivered sales basis, i.e. accounting for tanker transit and storage time lag, plus net producer stock change.
b) Includes share of Neutral Zone, shared equally.
c) MOV: Minimum Operating Volume; UC: Usable Commercial; S/C: Strategic/Compulsory.

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.