



HORNSBY & COMPANY, INC.

www.hornsbyco.com

Energy Risk  
Management Services

---

International Petroleum Analysis

April 25, 2008

## World Petroleum Perspectives Monthly Review and Outlook

### Summary

Since the publication of our last monthly report, the prompt NYMEX crude oil contract has jumped about \$18.00 per barrel. Until April 24, there had not been a retracement in NYMEX crude on a settlement basis greater than \$1.00 per barrel since March 31. Factors influencing the gain have included a continued collapse in the dollar, periodic disruptions in supply, particularly from Nigeria, surprisingly strong demand growth in China for the month of March, and a contra-seasonal decline in U.S. crude oil inventories. The current environment has led to the consensus dramatically revising upward the estimated WTI average for 2008. Since January we have assumed that because of major fund inflows this year WTI would average well above what fundamentals would justify. Everyone's task from here, obviously including our own, is to determine whether what we have seen in the month of April is reflective of 2008 as a whole, or whether due to the pure crude oil/dollar trade in combination with uncertain equity markets eventually the consensus will embrace underlying global oil market fundamentals which, while perhaps not suggesting a collapse, nonetheless imply weaker oil prices than the range prevailing at the present time.

We do not take lightly any revision to our oil price outlook, as you all are fully aware. Our Base Case established back in January lay above the prevailing consensus, in large part due to our estimation that the financial funds flow impact on crude oil would be substantial this year. In fact, our next most likely Alternative Case established at the end of December called for a WTI average in 2008 of \$97.50 per barrel, which assumed a \$95.00 per barrel first quarter average rising to a \$105.00 per barrel average in the second quarter. Year to date WTI has averaged about \$101.25 per barrel. Barring a near-term collapse in price, the second quarter will average higher than our Base Case has implied, but we believe that if prospective Fed rate cuts are minimal in nature, or perhaps even end if the Fed cuts rates next week, the dollar should stabilize and even strengthen, leading to an unwinding of long crude oil/short dollar positions in the second half of the year, weakening crude oil prices back below \$100.00 per barrel once again. Taking all this into consideration, we believe a 2008 WTI average of around \$101.00 per barrel may be more appropriate, an upward revision to our Base Case of roughly \$9.00 per barrel.

---

+ World oil demand is forecast to rise by 0.9%, or some 770 MB/D this year.

+ Non-OPEC supply is expected to gain by only 355 MB/D in 2008.

+ Saudi Arabian crude oil sales are anticipated to average under 9.1 MMB/D, and possibly lower, reflecting higher output from Iraq and Angola.

---

## Viewpoint

Since the publication of our last monthly report, the prompt NYMEX crude oil contract has risen by about \$18.00 per barrel. Thus far this year, it is fair to say that WTI to date has exceeded even the most bullish of forecasts prevailing at the beginning of the year.

Until Thursday April 24, the market had not witnessed a \$1.00+ per barrel retracement in NYMEX crude on a settlement basis since March 31, when the prompt contract dropped by \$4.04 per barrel.

Factors influencing the march upward have included a continued collapse in the dollar and periodic disruptions in supply, particularly from Nigeria.

In addition, strong demand growth in China for the month of March, above January and February rates encouraged those buyers who believe the U.S. “does not matter any more”. Finally the market has witnessed a contra-seasonal decline in U.S. crude oil inventories, which has occurred only once before in this decade.

These factors led for a period of time to a large rise in CFTC-reporting, futures-only fund net length, which thus far peaked on March 11 at 113,297 contracts.

The current environment has obviously led to the consensus dramatically revising upward the estimated WTI average for 2008, with some suggesting that crude oil will average well in excess of \$100.00 per barrel this year, with one noted economist stating there are good odds that WTI will hit \$200.00 per barrel.

Since January we have assumed that because of our assumption of major fund inflows into oil this year this year WTI would average well above what OECD fundamentals would justify.

The task from here is to determine whether what we have seen in the month of April will be reflective of 2008 as a whole, or whether due to the pure crude oil/dollar trade in combination with uncertain equity markets eventually the consensus will embrace underlying global oil market fundamentals which, while perhaps not suggesting a

collapse, nonetheless imply weaker oil prices than the range prevailing at the present time.

We do not take lightly any revision to our oil price outlook and try to avoid appearing like a “windsock” at all costs, as you all are fully aware.

Our Base Case established back in January lay above the prevailing consensus, in large part due to our belief and quantification that the financial funds flow impact on crude oil would be substantial this year in response to positive index returns generated in the second half of 2007.

In fact, our next most likely Alternative Case established at the end of December called for a WTI average in 2008 of \$97.50 per barrel, which assumed a \$95.00 per barrel first quarter average rising to a \$105.00 per barrel average in the second quarter.

Year to date WTI has averaged about \$101.25 per barrel. Barring a near-term collapse in price, the second quarter will average higher than our Base Case has implied.

However, if prospective Fed rate cuts are minimal in nature, or perhaps end if the Fed cuts rates next week, the dollar should stabilize and even strengthen further, leading to an unwinding of long crude oil/short dollar positions in the remainder of the second quarter and in the second half of the year, weakening crude oil prices back below \$100.00 per barrel once again.

Taking all this into consideration, we believe a 2008 WTI average of around \$101.00 per barrel may be more appropriate, an upward revision to our Base Case of roughly \$9.00 per barrel.

## Global Oil Demand

World oil demand is forecast to rise by 0.9%, or around 770 MB/D this year, nearly unchanged from our previous assessment, with small fine tunings in various countries largely offsetting each other.

OECD oil demand is expected to decline by 0.6%, or about 280 MB/D. Non-OECD oil demand is anticipated to increase by 2.7%, or around 1.0 MMB/D. Our overall

outlook still remains well below the consensus and in particular the IEA, despite their recent downward revisions.

## **United States**

The Department of Energy recently reported that year to date, U.S. refined product demand is off by 1.6% versus the comparable period in 2007. All products with the exception of gasoline are down thus far, with implied gasoline demand flat.

However, as we have previously discussed the DOE has consistently revised down the preliminary weekly data via the Petroleum Supply Monthly (PSM), and gasoline has been no exception. January gasoline demand, the latest available from the near-final PSM data, was off by 0.9% from January of 2007.

This decline is broadly consistent with the January data on aggregate vehicle miles traveled on all roads from the Federal Highway Administration, which declined by 1.7% versus the previous year, taking into account the degradation in fuel efficiency reflecting ethanol blends.

Recent increases in average retail pump prices as well as the ongoing pinch in consumer pocketbooks will likely lead to further declines in discretionary driving this summer. We also assume the DOE will revise down gasoline demand for February through April. As such, we are looking for a 0.4% decline in U.S. gasoline demand this year.

Jet fuel demand continues to fall reflecting ongoing fleet restructuring, with other products reflecting the moderation in economic growth, although once again we have not assumed an official recession as technically defined.

On balance, we anticipate a 1.2%, or 255 MB/D decline in U.S. oil demand in 2008, about unchanged from last month's report. We would suggest, however, that if we are off the mark, the odds would tend to favor lower and not higher demand.

## **Europe**

It now appears that first quarter OECD Europe oil demand came in a bit higher than previously estimated, but due almost exclusively to temporary weather phenomenon.

Gasoline demand came in either in line or even weaker than expected, depending upon the country, while heavy fuel oil faltered significantly reflecting higher prices, moderating economic growth, and ongoing fuel substitution.

Diesel demand held up reasonably well, impacted by consumer preference for diesel cars, while gas oil gained in February reflecting colder temperatures relative to January. The data implied, however, particularly in Germany where gas oil demand is greatest, a further reduction in gas oil consumption per heating degree day, a trend in evidence for the last several years.

As we have discussed in previous reports, there now appears to be more concern by European leaders and central bankers about euro zone economic prospects, with the strong euro now adversely impacting export demand, even in Germany.

Our 2008 outlook for OECD Europe oil demand has been conservative all along, and we still look for a decline this year on the heels of the estimated 1.7% decline in 2007. However, as a result of temporarily higher demand during the first quarter, we have moderated our expected decline rate to 0.9%, or some 105 MB/D for this year.

## **Japan and South Korea**

The primary support to Japan oil demand since the beginning of the year has been heavy fuel oil and direct burning of crude oil, reflecting incremental usage to replace offline nuclear generation.

In addition, however, first quarter data suggest that kerosene and jet fuel demand has held up reasonably well, with the former boosted by colder temperatures in February.

It now appears that Tepco's nuclear plant and Japan's largest, Kashiwazaki-Kariwa, will be offline until the first quarter of next year, and we have modified our path of boiler fuel oil demand accordingly.

Also, the removal of the gasoline tax may end up boosting gasoline demand this summer to a degree, perhaps partially offsetting the underlying structural decline in consumption reflecting the aging population and the move toward more fuel efficient vehicles.

Overall, however, at this juncture we expect Japan oil demand to gain by 0.8%, or about 40 MB/D in 2008, an upward revision from last month's assessment by only 30 MB/D.

In South Korea, as previously discussed the trend has begun to evolve in the opposite direction of Japan, with first quarter implied demand off versus the prior year.

Although as in Japan kerosene demand for space heating rose significantly in February in response to colder temperatures, naphtha petrochemical feedstock demand contracted, which accounts for a significant percentage of total South Korea oil demand.

For 2008, we forecast a 0.5%, or 10 MB/D rise in South Korea oil demand, a reduction from last month's estimated growth by some 30 MB/D in large part reflecting the weaker first quarter.

## **Non-OECD**

A popular theme these days, highlighted frequently in the petroleum press, is that the United States with weaker oil demand "does not matter any more" due to the rising significant of non-OECD oil demand in terms of growth and absolute volume.

From both a fundamental and psychological standpoint, we would agree that more rapid *growth* has been a major factor, due to the incremental "draw" East of Suez of Atlantic Basin light sweet crudes, helping to boost WTI relative to other grades.

Also, rising OPEC demand has been a major factor, which has led to a reduction in

export availability. These factors all have an *incremental* impact on price at the margin.

From a total volume standpoint, however, the data are nothing new. One press report emphasized that fact that "emerging market" oil demand now exceeds U.S. oil demand. We estimate U.S. oil demand to average about 20.4 MMB/D this year.

Defining "emerging market" oil demand as non-OECD oil demand minus FSU and non-OECD Europe demand and taking out international bunkers and refinery fuel/loss yields an expected 2008 average of some 30.3 MMB/D. However, this "emerging market" oil exceeded U.S. oil demand back in 2004 when WTI averaged only about \$41.00 per barrel.

Be all this as it may, obviously non-OECD oil demand growth will continue this year, and overall we are looking for a gain of 2.7%, or about 1.0 MMB/D, an upward revision from last month by about 25 MB/D.

The market recently took note of a hefty boost in March China implied demand growth relative to the early part of 2008. We have previously emphasized that China demand would be boosted this year by incremental diesel demand reflecting the need for power generation following the closure of a number of smaller coal mines due to environmental considerations.

Total mid-barrel product growth this year is expected to account for over 70% of the total demand gain in China. However, transport fuel demand is rising at a steady pace, though somewhat more moderate, while heavy fuel oil demand is expected to decline.

Overall we have revised up modestly our expected growth rate for China oil demand for 2008 to 5.4%, implying a volumetric gain of around 345 MB/D. We believe we have taken adequately into account any incremental third quarter transport demand reflecting the Olympic Games.

Elsewhere, OPEC oil demand growth continues broadly in line with our Base Case. As a result of maintaining retail prices well below international levels, India remains a strong source of non-OECD demand growth, particularly amongst transport fuels.

<b>Global Oil Supply</b>	<b>(MB/D)</b>		<b>Prod. Vs. “Quota”</b>	
	<b>“Quota”</b>	<b>Production</b>		
<b>Non-OPEC</b>				
	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	1,995	-178
	Qatar	824	800	-24
	S. Arabia	8,987	9,100	+113
	UAE	2,546	2,495	-51
	Venezuela	2,485	2,410	-75
	<b>Total</b>	<b>27,253</b>	<b>26,915</b>	<b>-338</b>

There appears to be more and more concern these days with regard to the pace of non-OPEC supply growth for this year, in contrast to consensus expectations in early 2008 of significant gains.

We have consistently remained well below the mean forecast annual growth rate for the past several years, impacted by our anticipated decline rates in the North Sea and more conservative expectations for Russia.

In terms of the latter, first quarter production was adversely impacted by the comparison with a more robust first quarter 2007 reflecting divergent temperature patterns. In addition, government drilling restrictions are expected to adversely impact Sakhalin 1 output growth in 2008, although we concede any impact has yet to materialize.

Elsewhere, first quarter North Sea production came in a bit below even our conservative estimates and as we issue this report an expected strike at the Grangemouth refinery has led BP to begin shutting its Forties pipeline system.

Other non-OPEC country output has been finely tuned for this year, with the net result an expected 2008 rise averaging only 355 MB/D, unchanged from last month.

## **OPEC and Inventory**

The International Energy Forum in Rome recently ended, and as we fully anticipated OPEC did not use the venue to establish a full meeting and approve official production increases. The Forum concluded that currently high oil prices have been substantially influenced by financial factors, a conclusion with which we would agree.

### **OPEC “10” Targeted Vienna “Quotas” v. Estimated May Production**

Our customary table above suggests some reduction in May OPEC production versus April due in large part to additional supply problems in Nigeria. We also sense there is little incremental refiner demand for cargoes from Saudi Arabia at this time.

For 2008 as a whole, we forecast “OPEC 10” crude oil deliveries to average about 27.1 MMB/D, a reduction from last month’s assessment by about 100 MB/D. The primary reason is a small upward adjustment to both Iraq and Angola production expectations.

Taking our global demand and supply outlook together, we are looking for a net build in global stocks in 2008 averaging about 295 MB/D, almost unchanged from last month’s outlook.

At the end of the first quarter we estimate that usable/commercial stocks stood about 2 days below end first quarter 2007. At the end of the year, we forecast that such usable/commercial stocks will stand about one day higher than at the end of 2007, when global inventories were on the low side of recent experience.

## **Implications for Price**

In the opening days of 2008, when devising a Base Case WTI average for this year, we stated it was our intent to wait until the end of January to gauge the magnitude of funds flow into crude oil in response to

positive index returns generated in the second half of 2007.

At that time, we believed the funds inflow would be quite significant, and led to our Base Case above consensus expectations, despite our forecast of weakening fundamentals in the OECD.

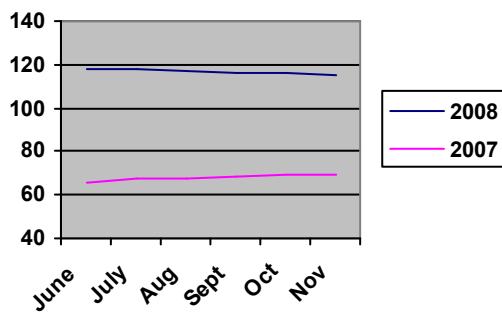
In fact, our most likely Alternative Case, as discussed in our World Petroleum Perspectives dated December 28 of last year, called for a 2008 WTI average of \$97.50 per barrel, which included a \$95.00 per barrel average for the first quarter followed by a \$105.00 per average for the second quarter.

Our rationale for the Alternative Case as being next most likely was an even *larger* funds inflow into crude oil, compounded by a normal seasonal strengthening in the second quarter. Obviously in hindsight and from current perspectives, this perhaps should have been our Base Case all along.

We decided not to go with it, however, and our current Base Case has called for a WTI average this year of \$91.85 per barrel. For one, we did not anticipate the dollar collapsing to the extent that it has, as well as such a tight inverse correlation between WTI and the dollar that we began to quantify with our evolving price forecasting system back in March.

There is no question in our minds that this phenomenon, which hedge funds have capitalized on, has added as much as \$10.00-\$15.00 per barrel to WTI thus far in the second quarter.

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



In addition, we also anticipated a more customary second quarter U.S. crude oil inventory build leading to a modest and temporary contango in the NYMEX term structure which, in our view, would have deterred at least *some* incremental funds flow into indexes.

From a fundamental standpoint, our balances have thus far been close to the mark, and if anything our long-standing below-consensus view of both demand and non-OPEC supply growth may end up on the high side.

Having said all of this, our task is now to determine the magnitude of any further upward revision to average price expectations for this year, despite our rationale in January to have a Base Case that was above consensus in order to avoid any massive upward revision, which we prefer not to do, as you are all aware.

We have stated that we believe, right or wrong, that there is a good chance that the dollar/euro rate may end up peaking at \$1.6000. There appears to be emerging sensitivity on the part of Euro zone central bankers as to the potential harm that could come from a rate hike, given the continued deterioration in economic conditions, due in part due to the adverse export impact from a strong euro.

At the same time, while there is of course a chance that the Fed will cut the Fed funds rate by another 25 basis points next week, if so we believe that rate cuts will end for the time being.

One would assume, barring disastrous domestic economic news, that the dollar would not only stabilize but strengthen, leading to the unwinding of long euro/short dollar positions, which in turn should lead to an unwinding of long crude oil/short dollar trades.

In the second half of the year, there may be speculation that the U.S. economy will begin a recovery, and no doubt many analysts will assume that oil prices will strengthen in tandem.

While clearly this is a possibility, we believe any oil demand recovery will tend to disappoint the consensus, because irrespective of our short-term price outlook we believe there are structural forces at work which will

lead to an even smaller oil/GDP ratio in the OECD and, over time, to a lower oil/GDP ratio outside the OECD.

The last thing we ever wish to do is to revise up a price outlook precisely at the inflection point. Nonetheless, it would appear that second quarter WTI will average above our Base Case expectations, while we believe that in the second half of the year a stronger dollar will weaken prices off what may end up as a second quarter peak.

As our table below illustrates, first quarter WTI averaged \$97.90 per barrel. Barring any flood of oil into inventory, we estimate the second quarter will average \$115.00 per barrel.

For the second half of the year, however, we envision a gradual, but progressive moderation in crude oil prices. As such, we now believe a 2008 WTI average of around \$101.00 per barrel is more appropriate as our Base Case, marking an upward revision of roughly \$9.00 per barrel. The upward revision reflects exclusively the crude oil/dollar trade impact we have been witnessing thus far this year.

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

	<b>2007</b>	<b>2008(E)</b>
<b>Q1</b>	<b>\$58.24</b>	<b>\$97.90</b>
<b>Q2</b>	<b>\$64.85</b>	<b>\$115.00</b>
<b>Q3</b>	<b>\$75.40</b>	<b>\$100.00</b>
<b>Q4</b>	<b>\$90.50</b>	<b>\$90.00</b>
<b>Yr.</b>	<b>\$72.25</b>	<b>\$100.70</b>

April 25, 2008

**Table 1**  
**OECD Oil Demand**  
(Thousands of Barrels Daily)

<b>BASE CASE 4/25/07</b>						<b>% Chng</b>						<b>% Chng</b>
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4E</b>	<b>2007E</b>	<b>07/06</b>	<b>Q1E</b>	<b>Q2E</b>	<b>Q3E</b>	<b>Q4E</b>	<b>2008E</b>	<b>08/07</b>
<b>DEMAND</b>												
United States	20786	20649	20692	20677	20701	0.1	20223	20444	20423	20685	20444	-1.2
Motor Gasoline	9028	9390	9486	9249	9289	0.4	8979	9377	9452	9196	9251	-0.4
Jet Fuel	1602	1641	1634	1614	1623	-0.6	1570	1625	1626	1606	1607	-1.0
Distillate	4399	4134	4109	4250	4223	1.3	4254	4211	4000	4301	4191	-0.7
Residual	820	733	698	685	734	6.6	656	623	628	699	651	-11.2
Other	4937	4751	4765	4879	4833	-2.3	4764	4608	4717	4884	4743	-1.9
Canada	2200	2102	2146	2125	2143	2.8	2203	2097	2158	2145	2151	0.4
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	739	756	826	794	779	1.0
Kerosene	80	79	90	80	82	1.0	81	79	91	81	83	1.0
Gasoil/Diesel	675	487	506	592	565	4.4	675	477	511	598	565	0.1
Fuel Oil	138	96	84	161	120	6.4	141	94	83	157	119	-0.8
Other	283	344	356	295	320	1.4	278	337	352	298	316	-1.0
Mexico	1992	2006	2020	2056	2018	2.1	2011	2010	2040	2077	2035	0.8
United Kingdom	1518	1414	1399	1577	1477	0.0	1504	1413	1399	1578	1474	-0.2
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	431	391	396	407	406	-2.4
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	143	43	39	52	69	-1.6
Other	96	93	105	104	99	1.0	95	92	105	104	99	-0.4
France	1751	1589	1790	1616	1686	-1.3	1772	1573	1776	1619	1685	-0.1
Naphtha	167	144	223	249	196	1.0	168	145	224	251	197	0.5
LPG	163	94	76	130	116	1.0	163	94	76	130	116	0.1
Gasoline	212	280	242	184	229	-3.4	204	272	236	179	223	-2.9
Kerosene	95	111	121	87	104	1.1	96	112	122	88	104	0.8
Gasoil/Diesel	955	752	925	784	854	-1.8	983	744	916	792	859	0.6
Fuel Oil	91	92	60	81	81	-3.9	90	89	59	79	79	-2.4
Other	68	116	143	100	107	0.2	68	116	143	100	107	0.2
Italy	1587	1557	1528	1514	1546	-2.9	1561	1495	1499	1487	1510	-2.3
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	339	313	326	301	320	-2.8
Kerosene	66	73	76	63	70	1.1	67	73	77	64	70	0.8
Gasoil/Diesel	585	482	587	565	555	0.7	602	487	593	570	563	1.5
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	2334	2258	2292	2512	2349	-0.7
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	1130	907	976	1186	1050	-0.6
Fuel Oil	69	80	115	98	91	-1.7	66	78	116	99	90	-1.0
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
<b>OECD Europe</b>	<b>11745</b>	<b>11094</b>	<b>11642</b>	<b>12039</b>	<b>11630</b>	<b>-1.7</b>	<b>11672</b>	<b>10938</b>	<b>11533</b>	<b>11964</b>	<b>11527</b>	<b>-0.9</b>
Japan	5561	4337	4275	5059	4808	-1.4	5687	4389	4244	5063	4846	0.8
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	975	940	906	923	936	-1.5
Kerosene	1006	448	360	646	615	1.1	1036	455	365	656	628	2.1
Gasoil/Diesel	1206	1080	939	1255	1120	-4.3	1194	1058	920	1256	1107	-1.1
Fuel Oil	320	315	522	339	374	-2.0	416	393	506	329	411	9.9
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	2094	1994	1882	1981	1988	0.5
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
<b>Total OECD</b>	<b>45394</b>	<b>43097</b>	<b>43551</b>	<b>44910</b>	<b>44238</b>	<b>-0.2</b>	<b>44874</b>	<b>42815</b>	<b>43224</b>	<b>44928</b>	<b>43960</b>	<b>-0.6</b>

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 4/25/07											% Chng	
	Q1	Q2	Q3	Q4E	2007E	07/06	Q1E	Q2E	Q3E	Q4E	2008E	08/07
<b>DEMAND</b>												
United States	20786	20649	20692	20677	20701	0.1	20223	20444	20423	20685	20444	-1.2
Canada	2200	2102	2146	2125	2143	2.8	2203	2097	2158	2145	2151	0.4
Mexico	1992	2006	2020	2056	2018	2.1	2011	2010	2040	2077	2035	0.8
United Kingdom	1518	1414	1399	1577	1477	0.0	1504	1413	1399	1578	1474	-0.2
France	1751	1589	1790	1616	1686	-1.3	1772	1573	1776	1619	1685	-0.1
Italy	1587	1557	1528	1514	1546	-2.9	1561	1495	1499	1487	1510	-2.3
Germany	2312	2287	2318	2543	2365	-3.3	2334	2258	2292	2512	2349	-0.7
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	11672	10938	11533	11964	11527	-0.9
Japan	5561	4337	4275	5059	4808	-1.4	5687	4389	4244	5063	4846	0.8
South Korea	2137	1974	1845	1952	1977	2.1	2094	1994	1882	1981	1988	0.5
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	44910	44238	-0.2	44874	42815	43224	44928	43960	-0.6
Non-OECD	37521	38795	39194	37930	38360	2.1	38661	39862	40261	38837	39406	2.7
FSU	4216	3188	3124	3935	3616	0.2	4237	3220	3155	3974	3647	0.9
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	5614	8036	7893	5521	6766	5.4
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	2285	2258	2173	2229	2236	3.2
Other Asia	4066	4148	4044	3821	4020	-0.9	4086	4169	4064	3840	4040	0.5
Int. Bunkers	2057	2072	2071	2076	2069	-0.5	2070	2080	2075	2074	2075	0.3
Refinery F/L	3278	3288	3284	3301	3288	0.3	3330	3353	3352	3350	3346	1.8
Grand Total Demand	82915	81892	82744	82841	82598	0.9	83535	82677	83485	83765	83366	0.9

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)

<b>BASE CASE 4/25/07</b>												<b>% Chng</b>
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4E</b>	<b>2007E</b>	<b>07/06</b>	<b>Q1E</b>	<b>Q2E</b>	<b>Q3E</b>	<b>Q4E</b>	<b>2008E</b>	<b>% Chng</b>
Grand Total Demand	82915	81892	82744	82841	82598	0.9	83535	82677	83485	83765	83366	0.9
Inventory Change	-968	317	-649	-309	-402		-282	1159	317	-23	293	
<b>SUPPLY</b>	81947	82210	82095	82532	82196	0.3	83253	83836	83802	83742	83658	1.8
United States	5174	5199	4998	5039	5102	-0.7	5083	5097	5117	5192	5122	0.4
United Kingdom	1580	1570	1415	1575	1535	2.1	1508	1523	1429	1528	1497	-2.5
Norway	2455	2165	2210	2255	2271	-5.3	2215	2143	2166	2210	2184	-3.9
Denmark	385	380	380	385	383	-0.6	380	380	380	380	380	-0.7
Netherlands	52	51	52	54	52	-0.5	52	51	51	53	52	-1.0
Other OECD Europe	460	460	460	460	460	0.0	460	460	460	460	460	0.0
Non-OECD Europe	305	305	305	305	305	0.0	305	305	305	305	305	0.0
Mexico	3150	3165	3055	2995	3091	-5.2	2945	2985	2990	2980	2975	-3.8
Canada	2675	2475	2705	2675	2633	3.9	2605	2685	2710	2710	2678	1.7
Argentina	670	660	645	665	660	-0.4	655	660	670	670	664	0.6
Brazil	1835	1805	1815	1790	1811	1.2	1905	1945	2035	2075	1990	9.9
Colombia	520	515	490	475	500	-5.2	515	515	510	510	513	2.5
Ecuador	365	365	365	365	365	1.4	365	365	365	365	365	0.0
Peru	105	105	105	105	105	0.0	105	105	105	105	105	0.0
Trinidad & Tobago	130	130	135	130	131	5.0	130	130	135	130	131	0.0
Other L. A.	75	80	80	80	79	17.8	75	80	80	80	79	0.0
Bahrain	37	37	38	38	38	0.0	37	37	38	38	38	0.0
Oman	720	705	705	705	709	-4.9	710	705	705	705	706	-0.4
Syria	400	395	375	375	386	-4.0	345	370	380	380	369	-4.5
Other Middle East	365	365	365	65	290	-19.4	365	365	365	65	290	0.0
Congo	195	195	195	195	195	0.6	195	195	195	195	195	0.0
Egypt	625	630	620	615	623	-2.6	615	615	615	615	615	-1.2
Gabon	265	265	265	265	265	-1.9	265	265	265	265	265	0.0
Tunisia	130	130	125	125	128	0.0	130	130	125	125	128	0.0
Other Africa	365	375	380	380	375	8.7	365	375	380	380	375	0.0
Australia	475	505	495	505	505	13.0	505	505	500	500	503	-0.5
India	685	680	680	685	683	2.7	685	690	690	690	689	0.9
Malaysia	720	700	690	690	700	-5.4	670	685	690	685	683	-2.5
Brunei	135	135	130	130	133	0.0	135	135	130	130	133	0.0
Other Asia/Pacific	585	605	605	610	601	2.3	610	610	615	615	613	1.9
FSU	11492	11750	11408	11450	11525	4.9	11775	11985	11636	11679	11769	2.1
China	3745	3765	3695	3725	3733	1.7	3745	3755	3755	3755	3753	0.5
NGL	4818	4814	4864	4918	4854	1.3	4879	4876	4928	4983	4916	1.3
Ref. Gain/Other	1866	1843	1862	1864	1858	0.9	1880	1860	1878	1885	1876	0.9
Non-Conventional	1160	1165	1171	1185	1170	2.0	1189	1194	1200	1215	1199	2.5
Total Non-OPEC	48718	48489	47883	47878	48252	0.9	48402	48781	48598	48656	48609	0.7
<b>OPEC SUPPLY</b>	33229	33721	34212	34654	33954	-0.5	34851	35054	35204	35086	35049	3.2
OPEC NGL	1710	1750	1800	1825	1771	7.0	1865	1895	1910	1915	1896	7.1
OPEC CONDENSATE	1695	1725	1765	1810	1749	5.8	1855	1875	1880	1880	1873	7.1
OPEC CRUDE SALES	29824	30246	30647	31019	30434	-1.2	31131	31284	31414	31291	31280	2.8
Saudi Arabia	8600	8750	8675	8950	8744	-4.2	9000	9100	9100	9000	9050	3.5
Iran	3819	3736	3862	3729	3786	-3.4	3881	3814	3849	3836	3845	1.5
Iraq	1905	2075	2145	2205	2083	7.9	2295	2245	2235	2225	2250	8.0
Kuwait	2300	2500	2525	2525	2463	2.5	2425	2525	2550	2550	2513	2.0
Qatar	800	810	825	825	815	0.6	835	835	840	840	838	2.8
UAE	2410	2475	2565	2565	2504	2.4	2550	2550	2550	2550	2550	1.8
Algeria	1315	1345	1355	1375	1348	0.6	1410	1410	1410	1410	1410	4.6
Angola	1565	1615	1690	1805	1669	15.6	1895	1900	1900	1900	1899	13.8
Nigeria	2125	2005	2125	2155	2103	-7.2	1905	1995	2075	2075	2013	-4.3
Libya	1700	1700	1735	1740	1719	4.6	1745	1745	1745	1745	1745	1.5
Venezuela	2415	2375	2295	2295	2345	-8.6	2315	2315	2310	2310	2313	-1.4
Indonesia	870	860	850	850	858	-5.9	875	850	850	850	856	-0.1
Inventory Change	-968	317	-649	-309	-402		-282	1159	317	-23	293	
<b>Assumed Inventory Position(c)</b>												
Days Supply of MOV	50	50	50	50	50		50	50	49	50	50	
Days Supply of UC	15	15	14	14	14		13	14	15	15	15	
Days Supply of MOV+	65	65	64	63	63		63	64	64	65	65	
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.