



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

International Petroleum Analysis

July 25, 2008

World Petroleum Perspectives Monthly Review and Outlook

Summary

Since our last report, the prompt NYMEX crude oil contract has declined by some \$10.00 per barrel. Funds could not find a rationale to push to \$150.00 per barrel or above despite dollar weakness while fundamentals continued to deteriorate in the OECD, particularly the United States. The Bush Administration subsequently decided it was time to talk up the dollar, leading to an unwinding of long crude oil/ short dollar positions which had played a major role in crude oil price appreciation since February. A more recent weakening influence has come from the expectation that a diplomatic breakthrough was possible with regard to Iran's nuclear program development, but in our view nothing has changed in this regard.

Overall, market sentiment has clearly shifted, with traders and funds selling rallies versus buying dips. The market has decided that the United States *does* matter after all, still accounting for the largest single refined product market in the world. In particular focus is the U.S. gasoline market, whose demand decline thus far in 2008 has even exceeded our expectations first forecast one year ago. While Congress continues to debate legislation aimed at curbing "speculation", as we anticipated the consumer has taken the bull by the horns, opting for more fuel efficient vehicles as evidenced by the substantial drop in sales of U.S. automakers and their subsequent corporate restructuring. As we issue this report, U.S. Federal Reserve officials remain concerned about inflation, although interest rate futures are telling us that the odds of a rate hike remain below 50%. We believe the odds are nil in an election year and until the unemployment rate declines, and thus there is a chance the dollar rally may soon end. If so, it would likely preclude a "balloon prick" collapse scenario for crude oil prices. Nonetheless, our Base Case still calls for a progressive easing of WTI, with our forecast average of \$90.00 per barrel for 2009 retained at the present time. With regard to global fundamentals, we remain quite conservative on both the demand and supply side for the remainder of 2008 and through next year. We, as well as OPEC economists, expect the demand for OPEC crude oil to decline in 2009, and with more Saudi capacity additions implies an increase in OPEC spare capacity to around 3.5 MMB/D by the end of next year.

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- + World oil demand is expected to increase by 0.6%, or some 500 MB/D in 2009.
 - + Non-OPEC supply is forecast to rise by only about 225 MB/D next year.
 - + Our 2009 balances imply Saudi crude oil sales averaging around 8.7 MMB/D
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Viewpoint

Since the publication of our last monthly report, the prompt NYMEX crude oil contract has declined by some \$10.00 per barrel, and as we issue this report the September contract is struggling to preclude further declines toward \$120.00 per barrel.

After setting a new all-time nominal price record on July 11, funds could not find any rationale to push to \$150.00 per barrel or above despite dollar weakness. Fundamentals continued to deteriorate within the OECD, particularly in the United States.

Over the last couple weeks, the Bush Administration decided it was time to talk up the dollar, which led to the unwinding of long crude oil/short dollar positions, a trade that had played a major role in crude oil price appreciation since the February lows.

A more recent weakening influence on price had come from the expectation that a diplomatic breakthrough was possible with regard to Iran's nuclear program development, but in our view nothing had changed in this regard, and the outcome of the Geneva meeting confirmed our perspective.

Overall, market sentiment has shifted, with traders and funds more inclined to sell rallies versus buying dips. Participants have decided that the United States *does* in fact matter after all, still accounting for the largest single refined product market in the world.

Of increasing focus has been the U.S. gasoline market, whose size still exceeds the entirety of China oil demand. The consumption decline thus far has even exceeded our expected drop for 2008 first forecast one year ago.

Congress continues to debate legislation aimed at curbing "speculation", and our view has been that any such bills signed into law will likely have a limited impact on non-commercial market participation. There is even now a reasonable chance that such legislation may eventually die on the vine.

In spite of such governmental attempts, however, as we have anticipated the consumer has taken the bull by the horns, buying en masse more fuel efficient vehicles as evidenced by the substantial drop in sales of

U.S. automakers, leading to their current attempts to restructure operations in line with consumer preferences.

At the present time, U.S. Federal Reserve officials remain concerned about inflation, although interest rate futures are suggesting that the odds of raising the target Fed funds rate in September remain below 50%.

We believe the odds of a rate hike are effectively nil in an election year and until the unemployment rate declines, and thus there is a chance the current dollar rally may soon end.

If so, it would likely preclude a "balloon prick" type of collapse scenario for crude oil prices, which we have not been forecasting in any event. Nonetheless, our Base Case still calls for a progressive easing of crude oil prices, with our forecast WTI average of \$90.00 per barrel for 2009 retained at the present time.

With regard to global fundamentals, we remain quite conservative on the outlook for both demand and non-OPEC supply for the remainder of 2008 and through next year.

We, as well as OPEC economists, expect the demand for OPEC crude oil to decline modestly in 2009, and with more Saudi capacity additions this view implies an increase in OPEC spare capacity to around 3.5 MMB/D by the end of next year.

Global Oil Demand

World oil demand is forecast to rise by 0.6%, or some 510 MB/D this year, about unchanged from last month's assessment. Marginal upward revisions in select non-OECD countries have been just about matched by reductions for the United States. OECD oil demand is expected to decline by 1.3%, or some 560 MB/D this year, with a gain outside the OECD pegged at 2.8%, or about 1.1 MMB/D.

For 2009, world oil demand is also expected to gain by 0.6%, unrevised from last month, composed of a 1.0%, or 415 MB/D fall in OECD oil demand, more than offset by an expected rise in non-OECD demand of 2.3%, or about 915 MB/D.

United States

As discussed above, the United States appears to have assumed a renewed relevance these days, with the “China theme” taking a bit of a back seat to deteriorating conditions here at home.

While Wall Street became encouraged about the Fed’s handling of the financial system woes, it has been reminded that high energy and food costs are real economic inputs, and the adverse impact on the average American and corporations is just now being appreciated.

The Federal Reserve Board reported that June manufacturing activity declined by 0.6% versus June of 2007, and thus remains broadly consistent with our own economic assumptions impacting our refined product and natural gas demand outlook.

From here, we expect the beginnings of more stable activity, though remaining modestly below last year’s levels for a couple more months. Subsequently, we would look for a slow recovery as we move through the end of 2008 and into 2009.

We fully concede, however, that the odds probably favor weaker, as opposed to stronger, economic activity than we currently anticipate.

While gasoline demand is in part a function of manufacturing activity as reflected in usage by small businesses, the individual consumer plays the largest role in determining demand. For more than a year we have anticipated U.S. gasoline demand to begin a secular decline in response to higher prices, reflecting the gradual turnover of the automotive fleet toward more fuel efficient vehicles.

While gasoline demand is thus far declining more in 2008 than we originally anticipated, we believe the difference lies with larger cutbacks in discretionary driving than originally assumed.

In terms of *total* U.S. refined products, the latest DOE weekly report suggests that year to date U.S. product demand is down by

2.1% versus last year, although the odds favor downward revisions by the DOE once monthly data are available for May and June.

At this point, however, we believe 2008 U.S. oil demand will decline by 2.5%, or about 525 MB/D, a downward revision from last month’s report by 70 MB/D reflecting a cut in “other” products most directly sensitive to economic activity.

For next year, we are looking for a more modest 1.4%, or 275 MB/D rate of decline, with a further fall in gasoline consumption partially offset by some recovery in other products and heavy fuel oil demand.

Europe

OECD Europe oil demand appears to have come in slightly stronger than we anticipated for the second quarter, i.e. “less weak”, but we will reserve final judgment until June data are available. In addition, there appeared to be a few factors that temporarily boosted demand compared to a particularly weak performance in the prior year.

For example, implied demand was relatively strong in France during the month of May, with gasoline the only product to decline versus May of 2007. The major influence was higher gas oil demand for space heating, since May of 2007 was inordinately warm.

Italy, on the other hand, continued to falter in the second quarter, with most products declining, particularly heavy fuel oil demand which has been in a secular decline for the last couple years.

Germany oil demand declined in May across the board, in part influenced by non-primary restocking of several products during the prior month which “borrowed” from May consumption. Heating oil demand remains quite low, with traditional summer consumer restocking likely deferred until later in the third quarter in anticipation of lower prices.

For 2008, we anticipate OECD Europe oil demand to decline by 1.0%, or about 115 MB/D, a slightly smaller fall than previously assumed. For next year we forecast a decline in demand of 1.1%, or around 120 MB/D, a

modestly larger rate of decline than forecast last month as a result of “fine tuning”.

Japan and South Korea

Preliminary second quarter data for Japan reveal that aside from strong heavy fuel oil demand and crude for direct burning reflecting ongoing Tepco nuclear unit problems, oil consumption turned in a mixed performance.

Gasoline demand has resumed its secular fall, impacted by a maturing population and moves toward smaller, more fuel efficient vehicles, in addition to a one-off impact from the re-imposition of the gasoline tax. On the other hand, heating fuel demand, particularly kerosene, was boosted in May reflecting colder temperatures compared to the prior year.

On balance, we expect Japan oil demand to rise by 1.6%, or 75 MB/D this year, followed by a 0.3%, or 15 MB/D decline in 2009, reflecting a fall in heavy fuel oil demand in the second half of the year assuming Tepco nuclear capacity comes back online.

In South Korea, second quarter demand for heating fuels also gained reflecting cooler weather, but transport fuels overall were flat in response to higher prices.

Under the assumption that conservation and a drive toward cutting energy demand in the public sector have a sustainable impact, we expect that for both 2008 and 2009 Korea oil demand will decline by 1.3%, or some 25 MB/D.

Non-OECD

China remains the major single non-OECD country demand story due both to underlying economic activity and as the Summer Olympics approaches. In terms of the latter, there has no doubt been some impact on implied demand growth as the government has stressed the need for adequate supplies during

the games, evidenced by frequent restocking of gasoline and diesel.

Implied demand growth in May was relatively modest at less than 2.0%, impacted by the underlying decline in heavy fuel oil demand and a pause in light product stocking.

However, real income growth remains quite strong, and as we suspected there has been little impact from last month’s increase in gasoline and gasoil prices, aimed at satisfying pent up demand as opposed to curbing consumption.

We have assumed that there will be some post-Olympic slowdown in implied demand growth, but not materially so. As such, for 2008 we believe China implied oil demand will increase by 5.6%, or some 360 MB/D, a modest increase from last month’s assessment.

For 2009, we are looking for China oil demand to rise by 4.1%, or about 280 MB/D, reflecting continued robust economic growth, partially offset by further declines in heavy fuel oil and a lack of the “pre-Olympic effect.”

Elsewhere, India oil demand growth has begun to slow modestly reflecting the June retail product price increases. The impact of such price hikes, with more likely to come in 2009, will be offset for the time being by a rising consumer income effect. For 2008 we anticipate a gain in India oil demand of 3.8%, moderating to a 2.4% pace next year.

Otherwise, OPEC oil demand continues on track with our expectations. As such, we are looking for total non-OECD oil demand to increase by 2.8%, or about 1.1 MMB/D this year, marking a slight upward revision from last month. For 2009, our outlook implies a “moderating rise” of 2.3%, or some 915 MB/D.

Global Oil Supply

Non-OPEC

As previously discussed we remain among the most, if not *the* most conservative forecasters of non-OPEC supply growth for 2008 and 2009. Halfway through the year, the burden of proof appears to remain with others.

Most analyses expect an upcoming surge in supply with the IEA, for example,

looking for a 500 MB/D gain in the fourth quarter over the prior year, led by the FSU.

However, as discussed in previous reports we do not anticipate such a rise since stagnating Russian production will partially offset gains in Kazakhstan and Azerbaijan. Thus far total FSU remains broadly in line with our more conservative assumptions.

North Sea output continues to fall, and gains elsewhere will be minimal with the exception of Brazil, although output in China is modestly exceeding our forecast thus far. On balance, for 2008 we expect a gain in non-OPEC supply of only 225 MB/D in 2008 and a similar increase in 2009. Our latest outlook marks a modest upward revision for 2008 but a slight reduction for 2009 relative to last month's report.

OPEC and Inventory

Our customary table below reveals little change in estimated OPEC crude oil production for the month of July compared to June with the exception of Saudi Arabia, where we expect volumes to be higher by about 200 MB/D.

However, at an estimated 9.6 MMB/D, the Kingdom will likely end up producing somewhat lower volumes compared to Saudi oil minister Naimi's pronouncement at the Jeddah meeting.

In the final analysis, Saudi Aramco was unwilling to offer the magnitude of discounts required to move the incremental barrels in an environment where U.S. refiners, the most likely candidates for such volumes, simply do not need the crude oil as they minimize working capital and adjust to weaker refined product demand.

OPEC "12"		
Targeted Vienna "Quotas"		
v.		
Estimated July Production		
(MB/D)		
	Prod.	
	Vs.	
"Quota"	Production	"Quota"

Algeria	1,358	1,340	-18
Angola	1,900	1,870	-30
Ecuador	520	500	-20
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	1,880	-293
Qatar	824	800	-24
S. Arabia	8,987	9,600	+613
UAE	2,546	2,495	-51
Venezuela	2,485	2,410	-75
Total	29,673	29,670	-3

For this year, we believe that total OPEC crude oil deliveries, including Iraq, will average about 31.8 MMB/D. Our balance implies an estimated net global oil stock increase this year averaging around 570 MB/D, with the bulk of the build reflecting involuntary refined product stock recovery as demand in various countries either declines, stagnates, or where growth is decelerating in response to higher prices.

This bias toward products is obviously leading to in weaker refining margins, since crude stocks have been kept, and will likely remain kept, at a minimum. At the end of the year we expect the usable commercial tier of global inventories to lie about two days higher than at the end of 2007.

Recently, OPEC Secretariat economists issued their outlook for 2009 which implied a decline in the call on OPEC crude oil relative to 2008. Our balances would concur, and we believe OPEC crude oil deliveries will average about 31.3 MMB/D next year, some 500 MB/D below our estimate for 2008.

The reduction comes about through a combination of rising OPEC NGL production which combined with non-OPEC supply gains helps balance the expected increase in demand.

In addition, however, we believe that next year refiners will be able to work off excess refined product stocks more in line with demand, which implies a lower level of crude oil runs reducing the demand for OPEC crude in the process. We are looking for a net global

stock draw averaging about 155 MB/D in 2009.

In terms of the ultimate impact on Saudi crude oil sales, following an estimated average of close to 9.2 MMB/D this year, our balances suggest a decline in the need for Saudi crude to around 8.7 MMB/D in 2009.

If reasonable, by the end of next year Saudi sustainable production capacity should reach about 12.2 MMB/D, suggesting spare capacity at the end of the year of some 3.5 MMB/D.

Implications for Price

As we issue this report, prompt WTI has failed stabilize above \$125.00 per barrel. The magnitude of further price declines will be a function of global fundamentals and, within this context, the willingness of the market to either emphasize or deemphasize the United States.

As previously discussed, for the time being the market is concentrating on weak U.S. refined product demand and the concurrent buildup of product stocks. We all realize the market can be fickle, however, and if it deems appropriate will be willing to turn back to non-OECD demand growth and geopolitical concerns if technical considerations so dictate.

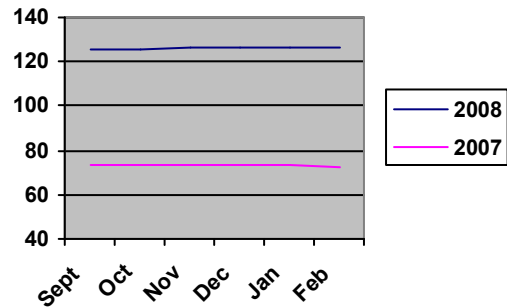
Within all of this, there is still a possibility that the U.S. Congress can actually pass legislation that will have a major negative impact on oil prices, possibly through limiting “speculative” influences, but more likely a push to auction sweet SPR crude oil and replace with sour barrels later on.

Either way, however, in the final analysis we believe the most influential factors on crude oil prices will be underlying fundamentals combined with U.S. Fed policy and the resultant impact on the dollar.

With regard to fundamentals, to the extent that the market will remain focused on the fact that the United States “still matters”, further gains in product stocks with a literal implied surplus in gasoline inventories suggests further downward pressure on crude oil prices.

Refinery runs will remain constrained, and even the neotradgers now seem to appreciate that lower U.S. crude stocks do not necessarily imply a tight global crude oil market.

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



From a financial standpoint, however, we believe the odds of any Fed rate hike between now and the November Presidential election carries 10% odds at most. Economic data are likely to suggest little if any improvement and the possibility of further weakness. Politically, as long as the unemployment rate does not decline the odds of a rate hike are nil almost irrespective of inflation concerns.

Thus, the Treasury and the Federal Reserve can try and talk the dollar up all they wish, but in the final analysis traders will have their say. As such, following the recent dollar rally versus the euro it would not surprise us in the least to see the dollar stabilize and subsequently weaken once again, remaining within the trading range in effect over the past couple months.

If so, traders and funds will try and buy crude, hoping to reestablish the close inverse correlation that has generally made money since February. Overall, however, we believe that fundamentals will, on a net basis, offset the crude oil/dollar trade, leading over time to a progressive weakening in WTI back toward \$100.00 per barrel before year end.

For next year, as we have discussed the prospects for crude oil prices will in no small manner be impacted by index returns in the second half of 2008, which will influence early-2009 asset allocation decisions by pension funds and other financial institutions.

From our current perspective, we suspect that in the first quarter of next year there will be *less* incremental allocation to passive length and *more* to active management by pension funds and others. This will tend to “rebalance” the non-commercial component of the market, implying that prices, over time, will be influenced more by underlying global fundamentals.

In terms of price specifics, second quarter WTI averaged \$123.76 per barrel, while we estimate the third quarter will average around \$118.15 per barrel. Retaining our \$92.00 per barrel fourth quarter average implies a 2008 WTI average of some \$107.95 per barrel, unchanged from last month.

For 2009, for the reasons discussed above we also retain our \$90.00 per barrel forecast average for the year, with the seasonal pattern as illustrated in our accompanying table.

Forecast Prompt NYMEX Crude Oil Prices By Quarter: Base Case

	2008(E)	2009(E)
Q1	\$97.90	\$90.00
Q2	\$123.76	\$95.00
Q3	\$118.15	\$90.00
Q4	\$92.00	\$85.00
Yr.	\$107.95	\$90.00

July 25, 2008

Table 1
 OECD Oil Demand
 (Thousands of Barrels Daily)

BASE CASE 7/24/08						% Chng							% Chng	
	Q1E	Q2E	Q3E	Q4E	2008E	08/07	Q1E	Q2E	Q3E	Q4E	2009E	09/08		
DEMAND														
United States	19876	20242	20236	20355	20177	-2.5	19610	19929	19965	20103	19902	-1.4		
Motor Gasoline	8908	9277	9284	9116	9146	-1.5	8753	9176	9124	8957	9003	-1.6		
Jet Fuel	1539	1584	1569	1549	1560	-3.9	1508	1552	1537	1518	1529	-2.0		
Distillate	4200	4128	4157	4258	4186	-0.9	4272	4104	4200	4298	4219	0.8		
Residual	598	645	628	651	630	-14.1	538	581	597	644	590	-6.4		
Other	4631	4608	4598	4781	4655	-3.7	4538	4516	4506	4686	4562	-2.0		
Canada	2203	2106	2147	2142	2150	0.3	2207	2101	2158	2161	2157	0.3		
Naphtha	74	72	69	78	73	1.0	74	73	70	79	74	1.0		
LPG	217	280	225	139	215	1.3	215	290	227	140	218	1.3		
Gasoline	739	756	826	791	778	0.8	746	758	834	802	785	1.0		
Kerosene	81	79	91	81	83	1.0	81	79	91	81	83	-0.1		
Gasoil/Diesel	675	477	501	598	563	-0.4	675	468	506	604	563	0.1		
Fuel Oil	141	95	83	157	119	-0.5	143	93	81	154	118	-0.8		
Other	278	346	352	298	318	-0.4	272	339	349	301	315	-1.0		
Mexico	1972	2036	2040	2077	2031	0.6	1952	2037	2051	2098	2034	0.2		
United Kingdom	1504	1403	1391	1578	1469	-0.6	1490	1397	1389	1577	1463	-0.4		
Naphtha	85	75	61	90	78	1.0	86	75	62	91	79	1.0		
LPG	134	134	114	132	128	1.0	135	135	115	133	130	1.0		
Gasoline	431	383	392	407	403	-3.1	416	371	384	399	393	-2.6		
Kerosene	248	202	220	215	221	0.5	248	202	219	215	221	-0.1		
Gasoil/Diesel	368	474	460	577	470	0.6	372	479	465	583	474	1.0		
Fuel Oil	143	44	39	52	69	-1.5	139	43	39	52	68	-1.7		
Other	95	92	105	104	99	-0.4	94	91	105	104	99	-0.4		
France	1772	1597	1763	1615	1687	0.0	1773	1568	1746	1613	1675	-0.7		
Naphtha	168	145	224	251	197	0.5	169	146	225	252	198	0.5		
LPG	163	94	76	130	116	0.1	163	94	76	130	116	0.1		
Gasoline	204	270	232	179	221	-3.5	195	260	226	175	214	-3.3		
Kerosene	96	112	122	88	104	0.8	95	111	121	87	103	-1.0		
Gasoil/Diesel	983	767	907	788	861	0.9	993	751	898	792	859	-0.3		
Fuel Oil	90	93	59	79	80	-1.4	89	90	57	76	78	-2.4		
Other	68	116	143	100	107	0.2	68	116	143	101	107	0.2		
Italy	1561	1477	1477	1476	1498	-3.2	1547	1415	1441	1451	1463	-2.3		
Naphtha	68	78	47	38	58	1.0	69	79	48	38	58	1.0		
LPG	149	99	105	146	125	1.0	150	100	106	148	126	1.0		
Gasoline	339	310	322	301	318	-3.3	329	300	316	295	310	-2.5		
Kerosene	67	73	77	64	70	0.8	67	73	76	64	70	-0.1		
Gasoil/Diesel	602	473	581	559	554	-0.2	621	468	575	565	557	0.6		
Fuel Oil	194	341	218	225	245	-14.3	169	290	192	198	212	-13.2		
Other	141	103	126	143	128	1.0	143	104	127	144	130	1.0		
Germany	2334	2287	2289	2512	2355	-0.4	2356	2252	2260	2479	2337	-0.8		
Naphtha	257	225	218	252	238	0.2	257	225	218	252	238	0.2		
LPG	135	135	117	114	125	0.1	135	135	117	114	125	0.1		
Gasoline	531	582	522	566	550	-2.5	515	564	511	554	536	-2.5		
Kerosene	99	140	145	122	126	1.0	98	140	145	122	126	-0.1		
Gasoil/Diesel	1130	944	976	1186	1059	0.3	1169	925	957	1163	1053	-0.5		
Fuel Oil	66	77	113	99	89	-2.3	62	75	112	100	87	-1.5		
Other	117	186	198	173	168	1.0	118	188	200	175	170	1.0		
Austria	224	214	237	289	241	-1.2	220	211	235	286	238	-1.2		
Belgium	427	418	390	459	423	-2.3	416	408	382	450	414	-2.2		
Denmark	215	190	198	209	203	0.2	213	188	200	213	203	0.3		
Finland	222	219	217	214	218	0.6	220	222	219	218	220	0.6		
Greece	301	260	281	344	296	-1.5	295	255	279	340	292	-1.5		
Iceland	12	16	26	25	20	2.0	12	16	26	25	20	2.0		
Ireland	125	115	125	134	124	1.0	126	116	126	135	126	1.0		
Luxembourg	52	48	47	46	48	2.0	53	48	48	47	49	2.0		
Netherlands	421	398	401	399	405	-2.4	411	388	391	389	395	-2.5		
Norway	192	188	194	205	195	1.1	195	190	196	207	197	1.1		
Portugal	195	283	266	289	258	1.0	196	285	269	292	261	1.0		
Spain	897	785	963	919	891	-2.3	870	762	934	900	867	-2.7		
Sweden	381	332	309	319	335	-0.2	380	332	308	318	335	-0.2		
Switzerland	275	271	282	355	296	-0.6	269	268	277	361	294	-0.6		
Turkey	564	472	621	554	553	-1.2	553	462	620	549	546	-1.2		
OECD Europe	11672	10972	11476	11940	11515	-1.0	11593	10782	11346	11853	11393	-1.1		
Japan	5653	4421	4346	5111	4882	1.6	5673	4404	4307	5090	4869	-0.3		
Naphtha	673	579	577	790	655	1.4	681	587	586	802	664	1.4		
LPG	918	624	572	702	704	1.6	941	633	578	709	715	1.6		
Gasoline	965	950	896	923	934	-1.8	936	922	879	914	913	-2.3		
Kerosene	1036	455	365	656	628	2.1	1025	450	361	650	622	-1.0		
Gasoil/Diesel	1169	1069	911	1242	1098	-2.0	1134	1037	892	1244	1077	-1.9		
Fuel Oil	416	400	626	390	458	22.5	478	439	620	370	477	4.2		
Other	194	174	206	225	200	-0.3	190	172	207	227	199	-0.3		
Direct Crude	282	171	192	182	207	-1.6	288	163	184	174	202	-2.2		
South Korea	2094	1954	1827	1932	1952	-1.3	2052	1896	1808	1952	1927	-1.3		
Australia	878	837	839	898	863	1.1	887	845	851	907	873	1.1		
New Zealand	106	108	105	113	108	0.5	106	108	106	114	108	0.5		
Total OECD	44453	42675	43016	44568	43678	-1.3	44080	42101	42592	44278	43263	-1.0		

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 7/24/08							% Chng								% Chng	
	Q1E	Q2E	Q3E	Q4E	2008E	08/07	Q1E	Q2E	Q3E	Q4E	2009E	09/08				
DEMAND																
United States	19876	20242	20236	20355	20177	-2.5	19610	19929	19965	20103	19902	-1.4				
Canada	2203	2106	2147	2142	2150	0.3	2207	2101	2158	2161	2157	0.3				
Mexico	1972	2036	2040	2077	2031	0.6	1952	2037	2051	2098	2034	0.2				
United Kingdom	1504	1403	1391	1578	1469	-0.6	1490	1397	1389	1577	1463	-0.4				
France	1772	1597	1763	1615	1687	0.0	1773	1568	1746	1613	1675	-0.7				
Italy	1561	1477	1477	1476	1498	-3.2	1547	1415	1441	1451	1463	-2.3				
Germany	2334	2287	2289	2512	2355	-0.4	2356	2252	2260	2479	2337	-0.8				
Austria	224	214	237	289	241	-1.2	220	211	235	286	238	-1.2				
Belgium	427	418	390	459	423	-2.3	416	408	382	450	414	-2.2				
Denmark	215	190	198	209	203	0.2	213	188	200	213	203	0.3				
Finland	222	219	217	214	218	0.6	220	222	219	218	220	0.6				
Greece	301	260	281	344	296	-1.5	295	255	279	340	292	-1.5				
Iceland	12	16	26	25	20	2.0	12	16	26	25	20	2.0				
Ireland	125	115	125	134	124	1.0	126	116	126	135	126	1.0				
Luxembourg	52	48	47	46	48	2.0	53	48	48	47	49	2.0				
Netherlands	421	398	401	399	405	-2.4	411	388	391	389	395	-2.5				
Norway	192	188	194	205	195	1.1	195	190	196	207	197	1.1				
Portugal	195	283	266	289	258	1.0	196	285	269	292	261	1.0				
Spain	897	785	963	919	891	-2.3	870	762	934	900	867	-2.7				
Sweden	381	332	309	319	335	-0.2	380	332	308	318	335	-0.2				
Switzerland	275	271	282	355	296	-0.6	269	268	277	361	294	-0.6				
Turkey	564	472	621	554	553	-1.2	553	462	620	549	546	-1.2				
OECD Europe	11672	10972	11476	11940	11515	-1.0	11593	10782	11346	11853	11393	-1.1				
Japan	5653	4421	4346	5111	4882	1.6	5673	4404	4307	5090	4869	-0.3				
South Korea	2094	1954	1827	1932	1952	-1.3	2052	1896	1808	1952	1927	-1.3				
Australia	878	837	839	898	863	1.1	887	845	851	907	873	1.1				
New Zealand	106	108	105	113	108	0.5	106	108	106	114	108	0.5				
Total OECD	44453	42675	43016	44568	43678	-1.3	44080	42101	42592	44278	43263	-1.0				
Non-OECD	38662	39963	40300	38817	39436	2.8	39558	40886	41271	39695	40352	2.3				
FSU	4237	3190	3155	3974	3639	0.6	4275	3191	3187	4014	3667	0.8				
Non-OECD Europe	2519	2373	2408	2531	2458	-0.5	2503	2358	2394	2531	2446	-0.5				
China	5614	8113	7893	5505	6781	5.6	5839	8437	8224	5737	7059	4.1				
OPEC	7845	7247	7721	7743	7639	5.9	8330	7682	8183	8199	8099	6.0				
Argentina	484	528	509	546	517	0.3	484	530	511	548	518	0.3				
Brazil	1919	2159	2231	2247	2139	1.1	1957	2213	2253	2269	2173	1.6				
Other L. A.	1514	1603	1771	1834	1681	1.3	1530	1619	1807	1852	1702	1.3				
Egypt	569	583	583	589	581	2.4	581	598	598	604	595	2.4				
South Africa	460	496	509	521	496	2.1	469	508	519	531	507	2.1				
Other Africa	1075	1118	1180	1188	1140	1.7	1095	1136	1203	1207	1160	1.7				
Non-OPEC M. E.	653	634	648	651	647	2.3	672	646	661	664	661	2.3				
India	2285	2312	2173	2229	2250	3.8	2354	2358	2228	2276	2304	2.4				
Other Asia	4086	4169	4064	3840	4040	0.5	4102	4185	4080	3856	4056	0.4				
Int. Bunkers	2072	2087	2087	2077	2081	0.4	2051	2076	2071	2068	2066	-0.7				
Refinery F/L	3329	3351	3367	3342	3347	1.8	3315	3347	3352	3339	3338	-0.3				
Grand Total Demand	83116	82638	83316	83385	83113	0.6	83638	82987	83863	83973	83615	0.6				

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

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Table 3
World Oil Supply
(Thousands of Barrels Daily)

BASE CASE 7/24/08						% Chng							% Chng	
	Q1E	Q2E	Q3E	Q4E	2008E	08/07	Q1E	Q2E	Q3E	Q4E	2009E	09/08		
Grand Total Demand	83116	82638	83316	83385	83113	0.6	83638	82987	83863	83973	83615	0.6		
Inventory Change	121	1127	857	166	568		-752	688	-64	-500	-157			
SUPPLY	83237	83764	84173	83551	83681	1.8	82886	83675	83799	83473	83458	-0.3		
United States	5115	5121	5167	5192	5149	0.9	5195	5180	5165	5150	5173	0.5		
United Kingdom	1508	1424	1430	1528	1472	-4.1	1478	1339	1444	1482	1436	-2.5		
Norway	2215	2125	2166	2210	2179	-4.1	2171	2083	2122	2166	2135	-2.0		
Denmark	380	380	380	380	380	-0.7	380	380	380	380	380	0.0		
Netherlands	52	51	51	53	52	-1.0	52	51	51	53	52	0.0		
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	2945	2775	2780	2775	2819	-8.8	2798	2636	2641	2636	2678	-5.0		
Canada	2605	2720	2710	2710	2686	2.0	2655	2610	2710	2710	2671	-0.6		
Argentina	655	625	650	650	645	-2.3	655	650	650	650	651	1.0		
Brazil	1905	1885	2035	2075	1975	9.0	2075	2080	2080	2080	2079	5.3		
Colombia	515	525	530	530	525	5.0	515	525	530	530	525	0.0		
Peru	105	105	105	105	105	0.0	105	105	105	105	105	0.0		
Trinidad & Tobago	130	130	135	130	131	0.0	130	130	135	130	131	0.0		
Other L. A.	75	80	80	80	79	0.0	75	80	80	80	79	0.0		
Bahrain	37	37	38	38	38	0.0	37	37	38	38	38	0.0		
Oman	695	685	690	690	690	-2.6	685	685	690	690	688	-0.4		
Syria	345	345	345	345	345	-10.7	345	345	345	345	345	0.0		
Other Middle East	365	365	365	65	290	0.0	365	365	365	65	290	0.0		
Congo	195	195	195	195	195	0.0	195	195	195	195	195	0.0		
Egypt	625	645	635	625	633	1.6	620	625	620	620	621	-1.8		
Gabon	265	265	265	265	265	0.0	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	0.0	365	375	380	380	375	0.0		
Australia	525	560	550	545	545	7.9	540	545	545	535	541	-0.7		
India	685	690	690	690	689	0.9	685	685	685	685	685	-0.5		
Malaysia	670	675	670	680	674	-3.8	670	675	670	680	674	0.0		
Brunei	135	135	130	130	133	0.0	135	135	130	130	133	0.0		
Other Asia/Pacific	610	610	615	615	613	1.9	610	610	615	615	613	0.0		
FSU	11775	11985	11636	11679	11769	2.1	12011	12225	11869	11913	12004	2.0		
China	3745	3805	3795	3800	3786	1.4	3790	3795	3790	3790	3791	0.1		
NGL	4879	4876	4928	4983	4916	1.3	4942	4941	4995	5050	4982	1.3		
Ref. Gain/Other	1870	1859	1875	1876	1870	0.6	1882	1867	1887	1889	1881	0.6		
Non-Conventional	1189	1194	1200	1215	1199	2.5	1219	1224	1230	1245	1229	2.5		
Total Non-OPEC	48074	48142	48110	48123	48112	0.5	48539	48337	48297	48172	48336	0.5		
OPEC SUPPLY	35162	35622	36063	35428	35569	3.5	34348	35338	35502	35301	35122	-1.3		
OPEC NGL	1895	1910	1915	1915	1909	7.8	1925	1930	1930	1935	1930	1.1		
OPEC CONDENSATE	1875	1885	1880	1880	1880	7.5	1885	1885	1890	1900	1890	0.5		
OPEC CRUDE SALES	31392	31827	32268	31633	31780	3.1	30538	31523	31682	31466	31302	-1.5		
Saudi Arabia	8950	9225	9600	9000	9194	5.1	8400	8700	9000	8800	8725	-5.1		
Iran	3707	3762	3748	3643	3715	-0.5	3663	3708	3662	3621	3663	-1.4		
Iraq	2295	2350	2315	2320	2320	11.4	2335	2350	2350	2365	2350	1.3		
Kuwait	2425	2525	2550	2550	2513	2.0	2200	2525	2550	2550	2456	-2.2		
Qatar	835	835	840	840	838	2.8	835	835	840	840	838	0.0		
UAE	2550	2650	2550	2550	2575	2.8	2350	2650	2550	2550	2525	-1.9		
Algeria	1410	1410	1410	1410	1410	4.6	1410	1410	1410	1410	1410	0.0		
Angola	1895	1900	1900	1900	1899	13.8	1900	1910	1910	1910	1908	0.5		
Nigeria	1905	1785	1995	2050	1934	-8.0	2050	2050	2050	2050	2050	6.0		
Libya	1745	1745	1745	1745	1745	1.5	1745	1745	1745	1745	1745	0.0		
Ecuador	485	475	455	465	470	3.9	485	475	455	465	470	0.0		
Venezuela	2315	2315	2310	2310	2313	-1.4	2315	2315	2310	2310	2313	0.0		
Indonesia	875	850	850	850	856	-0.1	850	850	850	850	850	-0.7		
Inventory Change	121	1127	857	166	568		-752	688	-64	-500	-157			
Assumed Inventory Position(c)														
Days Supply of MOV	50	50	50	49	49		49	49	49	49	49			
Days Supply of UC	14	15	16	16	16		16	16	16	16	16			
Days Supply of MOV+	64	65	66	66	66		65	65	65	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.

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