



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

International Petroleum Analysis

August 27, 2008

World Petroleum Perspectives Monthly Review and Outlook

Summary

Over the past month the prompt NYMEX crude oil contract has declined by roughly \$8.00 per barrel on a point-to-point basis. Within the period, however, length was unwound to the extent that prompt WTI came close to testing the \$110.00 per barrel level, which we have previously suggested would represent a major battle between bulls and bears. The intra-period decline was catalyzed by a recovering dollar and a concentration on the part of non-commercials on weakening global fundamentals, all combining to lead to the price drop off the record high of early July. From an actual fundamental standpoint, nothing has changed in our view. It is simply that intrinsic to commodity price behavior is the concentration by the consensus on particular price-determining factors when the time has arrived to do so. It is difficult to place the non-fundamental responsibility of weaker crude oil prices on anything other than a recovering dollar. Some analysts may point to efforts on the part of the U.S. Congress to deter “speculation”, but consistent with our view that politicians arrive late to the party, it is unlikely, as we have suspected, that any comprehensive legislation will be enacted that will have a major influence on oil prices, and the consensus realizes this.

The subsequent recovery off the settlement low established on August 18 was caused by a technical rebound justified by a pause in the dollar’s strength versus the euro. In addition, new geopolitical concerns have manifested themselves in the form of U.S.-Russian “tensions”, following the deployment by the United States of interceptor missiles in Poland. Rumors of Russian retaliation, including a reduction of oil exports to the West, currently abound and, unlike the Iranian nuclear development program, there is no obvious end game to resolve the current situation which would scare the longs. However, subsequently crude oil fell back once again as the dollar recovered within a broad \$110.00-\$120.00 per barrel trading range. With regard to underlying fundamentals, we have modestly revised down our outlook for world oil demand for 2008, while leaving 2009 virtually unchanged. We note the consensus is now more conservative and closer to our view, but we do not envision any further deterioration in fundamentals beyond expectations which would encourage new selling beyond the underlying trend.

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- + World oil demand is forecast to rise by 0.6%, or some 525 MB/D in 2009.
 - + We expect non-OPEC production to rise by only 245 MB/D next year.
 - + Our balances for 2009 continue to imply a need for Saudi crude oil averaging about 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 \$8.00 per barrel on a point-to-point basis.

Within this time period, however, non-commercial length was unwound to a degree such that prompt WTI approached the \$110.00 per barrel level, a “bogie” we have previously identified as a major battleground between bulls and bears.

The intra-month price decline was primarily catalyzed by a recovering greenback and a renewed emphasis on the part of non-commercials on weakening global fundamentals. This all combined to lead to the price fall from the record high of early July.

From the standpoint of fundamentals, nothing has changed from a few months ago. We have simply witnessed a long-standing adage intrinsic to commodity price behavior of the market’s concentration on particular price determining factors when the time has arrived to do so.

In terms of starting the decline, however, we find it difficult to place the responsibility on anything other than a recovery in the dollar.

Some analysts have pointed to efforts on the part of the U.S. Congress to deter “speculation”, but consistent with our own adage that politicians arrive late to the party, it is unlikely, as we have suspected, that any comprehensive legislation will be enacted that will have a major influence on oil prices. We believe the consensus appreciates this.

Since the settlement low established on August 18, a rebound occurred, caused by a pause in the dollar’s strength versus the euro.

In addition, new geopolitical concerns have manifested themselves in the form of U.S.-Russian “tensions”, following the deployment by the United States of interceptor missiles in Poland.

Rumors of Russian retaliation taking many possible forms, including a reduction of oil exports to the West, currently abound and, unlike the Iranian nuclear development program, there is no obvious end game to

resolve the current situation which would scare the longs.

More recently, however, traders have decided to “reduce” the geopolitical component and WTI has fallen back within a broad \$110.00-\$120.00 per barrel trading range once the dollar began to recover once again.

With regard to underlying fundamentals, we have made virtually no revision to either the global demand or supply side relative to last month’s report.

It is clear the consensus is now more conservative and thus closer to our long-standing perspective, but we do not envision any further significant deterioration in fundamentals beyond expectations which would encourage new selling over the short term in excess of the underlying trend.

Global Oil Demand

World oil demand is forecast to increase by only 0.4%, or some 325 MB/D in 2008 and by 0.6%, or about 525 MB/D in 2009. While our outlook for next year is essentially unchanged from last month’s report, we have reduced expectations for 2008, largely reflecting a cut for the United States.

OECD oil demand is expected to fall by 1.7% and 0.9% this year and next, representing declines of 730 MB/D and 400 MB/D, respectively.

Non-OECD oil demand is expected to increase, more than offsetting the drop in the OECD, as it has done for the last few years, rising by 2.8% and 2.3% in 2008 and 2009, gains of about 1.1 MMB/D and 915 MB/D, respectively.

United States

Year to date, according to data from the DOE which is “near final” through June and preliminary through August 22, U.S. refined product demand has decline by 3.6%.

The single product registering the largest decline has been heavy fuel oil, down

by 17.4% or about 130 MB/D, adversely impacted by moderating economic activity and alternative fuel substitution, but currently accounts for only some 3.0% of total U.S. refined product demand.

Obviously the largest single product is gasoline, representing about 46% of the total. Demand has thus far fallen by about 1.6%, or 150 MB/D, although preliminary data for July and August are likely to be revised down, if history is any guide.

On a year to date basis, no refined product has registered a gain, although more recently distillate fuel oil has managed to recover versus last year, reflecting the impact on preliminary data of stronger export demand as well as the fact that manufacturing growth has not yet materially declined beyond expectations versus the comparable period in 2007.

Once 2008 comes to a close, we believe the numbers will reveal that total U.S. oil demand declined by 3.3%, or some 690 MB/D this year, a downward revision from last month's assessment. We believe, however, that if we are off the mark the decline will likely be somewhat greater than we expect.

However, later in the year we would look for the year-over-year rate of decline to begin to moderate. This is due to the fact that later in 2007 refined product demand was already beginning to weaken, and thus unless prices recover materially from current levels the year-over-year comparisons should become somewhat less onerous.

For 2009, as discussed in previous reports we believe U.S. gasoline demand will continue to decline by 2.0%, or some 185 MB/D despite our expectation of lower retail prices due to a further gain in average fleet fuel efficiency.

Although other products are generally expected to fall as well, we believe distillate fuel oil demand will manage to register a 2.1%, or 85 MB/D increase next year.

Although we fully anticipate heating oil demand per heating degree day will decline significantly, the assumption of normal weather on average combined with a modest recovery in manufacturing growth lead to the

net increase in overall distillate demand for the year as a whole.

Adding up all refined products, we expect U.S. demand to decline by "only" 1.3%, or some 260 MB/D in 2009, with distillate the only product expected to register a gain over 2008.

Europe

Updated but preliminary demand data for OECD Europe for June reveal that total product demand overall resumed a healthy decline following transient strength in select countries and products earlier in the second quarter.

The decline in demand was heavily influenced by gasoline, where preliminary June implied demand for OECD Europe overall dropped by more than 7.0%. Whereas gasoline demand has consistently declined over the past few years, the late second quarter fall was among the strongest to date.

In Germany June oil demand fell largely across the board, with the latest economic data confirming such a picture. The one exception was heating oil's modest rise in implied demand, reflecting some consumer restocking.

In France June witnessed a double-digit fall in gasoline demand, compounded by a drop in diesel as consumers curtailed driving in response to higher pump prices irrespective of the fuel.

Italy also witnesses a double-digit drop in June gasoline demand, while in the U.K. total demand fell by almost 8.0% as all transportation fuels joined the decline in heavy fuel oil demand.

In addition to responses to higher retail oil prices across all products, the declining picture for European oil demand is now compounded by faltering economic growth.

At this point we have not made any material revisions to our outlook for the remainder of 2008 and 2009, however, since our bias has fallen on the conservative side for some months now.

As such, we expect OECD Europe oil demand in 2008 to decline by 1.0%, or some 115 MB/D, followed by a 1.1%, or 120 MB/D

drop in 2009. Our outlook implies weaker European oil demand than that assumed by the IEA in their latest monthly report.

Japan and South Korea

In contrast to Europe, preliminary June data reveal that Japan oil demand in June rose over the prior year, but once again the gains largely reflect the boost in heavy fuel oil consumption and crude for direct burning by Tepco as nuclear outages continue.

Overall, however, we saw nothing in the numbers that lead us to revise our outlook for Japan for the remainder of the year and through 2009. As such, we expect Japan oil demand to rise by 1.5%, or some 75 MB/D this year, but decline by 0.3%, or about 15 MB/D in 2009.

Next year we expect the demand for heavy fuel oil to moderate, particularly in the second half of the year, assuming that Tepco nuclear capacity returns online.

We are also anticipating that demand for products such as gasoline will continue to fall in a lagged response to higher prices and a move by the maturing population toward more fuel efficient vehicles.

We have likewise not revised our expectations for South Korea, with more recent evidence finally suggesting a response to higher prices, as discussed last month. As such, for both 2008 and 2009 we forecast South Korea oil demand to decline by 1.3%, or some 25 MB/D.

Non-OECD

Outside the OECD, one of the “burning” questions, of course, has been the impact both psychologically and fundamentally on China oil demand now that the Beijing Olympics have ended.

Historically, the forecast demand impacts of such themes for China have been grossly exaggerated, and this time we would expect a similar outcome. Namely, at this point we see no reason to influence our oil

demand path for China to reflect a “post-Olympic letdown”.

This is not to say that we do not envision short-term product de-stocking after the Games, the reverse of behavior earlier in the year to ensure adequate supplies. This behavior should limit the reported gains in implied demand for the month of September relative to earlier in the summer.

However, based on anecdotal evidence there are a number of energy-consuming construction projects that were delayed due to the Olympics that will now resume. In addition, driving during the Games was curtailed to reduce air pollution which should begin to recover.

On balance, we have made no change to our outlook for China implied oil demand. We are looking for a 5.6%, or 360 MB/D gain for 2008 followed by a 4.1%, or 280 MB/D increase in 2009.

Elsewhere outside the OECD we likewise have made little or no revision to our demand forecast, and thus see no need to add further discussion from our last report. Overall, we expect non-OECD oil demand to rise by 2.8%, or almost 1.1 MMB/D in 2008. For next year we anticipate an increase of 2.3%, or some 925 MB/D.

Global Oil Supply

Non-OPEC

As more up to date numbers come in with regard to non-OPEC production, we have seen little that would lead us to revise our long-standing and conservative outlook. This is particularly true for the North Sea, whose secular decline has been a cornerstone for our forecast modest gains for the last several years. The phenomenon has also played a major role in widening sweet/sour, light/heavy crude oil differentials in the Atlantic Basin.

Mexico crude oil production continues to decline even more rapidly than expected at this point, more than compensating for our periodic and modest fine tuning up for select countries elsewhere in the world.

Many forecasts are still looking for a late-2008 surge in non-OPEC supply that will lead to a stronger gain for the year than we currently assume.

However, since a few of these outlooks expect a good part of this influence to originate in the FSU, thus far it is quite clear that the burden of proof lies with these forecasters, particularly given the political uncertainty that now engulfs the region.

Thus, for 2008 we expect an increase in non-OPEC production averaging only about 200 MB/D. For next year we forecast a slightly larger non-OPEC gain of 245 MB/D, primarily influenced by a more modest rate of decline in the North Sea than we estimate for 2008.

OPEC and Inventory

OPEC has been fairly quiet lately, but that may change as we approach September 9 when the Organization is scheduled to meet. As crude oil prices progressively dropped from \$145.00 per barrel, a few ministers suggested that production levels may not be adjusted since the price fall reflected a liquidation of speculative positions and not an emerging market surplus.

We would agree, but recently Iran has been stating that OPEC should consider a production “cut” under the risk that prices could drop significantly further.

The bottom line is that once again we will be faced with a meeting that will likely have little market significance in *reality*, with the *psychology* of any decision-making the primary price determinant over the short term.

By this we mean that, as has usually been the case, OPEC will either “cut” or not to reflect refiner nominations for crude oil that have previously been submitted. That is, OPEC will continue to supply what the market wants, nothing more and nothing less, as they have for the last few years.

This is particularly true for Saudi Arabia, as periodically espoused by Saudi oil minister Ali Naimi. Although as our customary table below indicates we estimate little change in August OPEC production

relative to July, our balances imply a reduction in the need for OPEC crude oil for the fourth quarter and into the first quarter of 2009.

OPEC “12” Targeted Vienna “Quotas” v. Estimated August Production (MB/D)			
	“Quota”	Production	Prod. Vs. “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	9,500	+513
UAE	2,546	2,495	-51
Venezuela	2,485	2,410	-75
Total	29,673	29,570	-103

Given that light, low-sulphur crude oil producers such as Algeria and Libya are highly unlikely to reduce a single barrel irrespective of “official” OPEC decisions and the demand for such crudes remains relatively high, the onus for any reduction in OPEC sales will fall largely on Saudi Arabia and its sour crude oil streams.

As such, our balances suggest that Saudi crude oil deliveries will fall below 9.0 MMB/D for the fourth quarter and the first two quarters of 2009.

The implication of our balances is also that OPEC in fact may decide to “cut” production on September 9 on a pro rata basis, but once again it will mark a reaction to reduced refiner requirements and not a proactive, preemptive decision to deny supplies to the market. In any event, any pro rata decision will be simply window dressing for a reduction in Saudi crude oil deliveries.

Putting all sides of the equation together, our outlook suggest a net global stock build in 2008 averaging almost 550 MB/D, and by year end the usable commercial tier of inventory will lie two days above the end of 2007.

For next year, our balances suggest a small net draw in global stocks to match supply with our forecast moderate demand growth, with discretionary stocks still ending 2009 at the same days supply as we estimate for the end of 2008.

The net result is a forecast decline in OPEC crude oil deliveries next year, with Saudi deliveries averaging about 8.7 MMB/D, more than 300 MB/D below the estimated average for 2008.

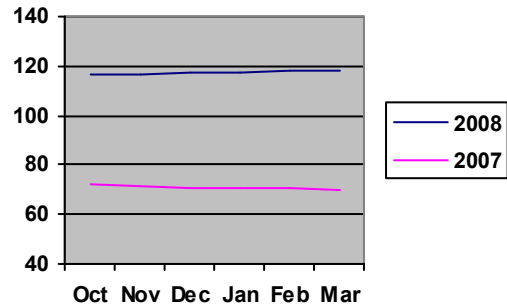
Implications for Price

As we issue this report prompt WTI is trading toward the upper end of its recent range following the larger more consistent decline in price since early July.

A broad sea change in sentiment toward the dollar in combination with the recognition that OECD fundamentals remain weak have largely comprised the catalysts for the largest portion of the price decline from \$145.00+ per barrel.

Geopolitical uncertainty remains supportive, with Russia now taking over from Iran for the time being, while Nigeria remains as problematic as ever. There is no question, however, that the consensus of non-commercials has finally come to appreciate what we have known and discussed for months. Namely, that **price works** in this industry when consumers face world levels, and even outside the OECD the dire need in many cases to reduce subsidies has begun to retard oil demand growth.

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



Having said this, thus far the prompt NYMEX crude oil contract has not been able to drop below a level approaching \$110.00 per barrel, a target we had previously suggested would represent a major battle between bulls and bears, and so it has.

While we believe from a fundamental basis that WTI “should be” trading below \$100.00 per barrel and is likely to do so, we are increasingly of the mind that such a fall may be delayed, if it in fact comes, to the first quarter of next year.

The reason we say this is that our balances for the remainder of 2008 do not suggest a material deterioration from the current picture, and thus funds may not see any *incremental* reason to sell. Second, the dollar may end up in a trading range and not continue to strengthen, particularly versus the euro if rates are not cut by the ECB despite weakening economic conditions.

Third, as previously discussed our U.S. refinery balances suggest a progressive decline in crude oil inventories in the fourth quarter. While due to normal seasonal and year-end factors, the neotrader is likely to interpret this as reflective of a tightening crude oil market.

This would be particularly true if in fact on September 9 OPEC decides to officially “cut” production in response to lower refiner requirements which, of course, will manifest themselves in lower U.S. crude stocks in the fourth quarter as discussed above.

Not only would such a move boost prices immediately after the meeting, but once again the neotrader would view a fourth

quarter decline in U.S. crude oil inventories as proof that OPEC's action was "working".

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All of these positive factors, however, will be balanced to a degree by the likelihood that the economic and therefore demand picture is not improving as of yet.

The reasons we suggest the odds would subsequently favor a fall in price below \$100.00 per barrel in the first quarter of next year before seasonally recovering in the second are essentially two. The first is a normal seasonal weakening in price due to underlying fundamentals as the demand for OPEC crude slackens.

**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	\$121.75	\$90.00
Q4	\$105.00	\$85.00
Yr.	\$112.10	\$90.00

The second, as discussed in previous reports, is our assumption, right or wrong, that many institutions will opt to either reduce passive length or at least not increase it early in 2009 in response to what we expect will be mediocre returns for the remainder of 2008.

Our research indicates that such behavior appears to have a tangible impact on price early in the year in either direction, and in contrast to the positive impact in January of this year, we believe it will have a modestly negative impact in the first quarter of 2009.

Putting it all together, as our customary table above indicates we are revising up modestly our expected WTI averages for the third and fourth quarters of this year for the reasons outlined above while leaving 2009 unchanged.

The net result is an estimated 2008 average for WTI of around \$112.00 per barrel, an upward revision from last month's report by roughly \$4.00 per barrel.

Table 1
OECD Oil Demand
(Thousands of Barrels Daily)

BASE CASE 8/26/08											% Chng	
	Q1	Q2E	Q3E	Q4E	2008E	08/07	Q1E	Q2E	Q3E	Q4E	2009E	09/08
DEMAND												
United States	19876	19683	20237	20244	20010	-3.3	19591	19559	19836	20010	19749	-1.3
Motor Gasoline	8908	9135	9273	9119	9109	-1.9	8734	8944	9065	8959	8926	-2.0
Jet Fuel	1539	1582	1569	1549	1560	-3.9	1508	1550	1537	1518	1529	-2.0
Distillate	4200	3924	4240	4241	4151	-1.7	4272	4178	4200	4298	4237	2.1
Residual	598	678	628	651	639	-13.0	538	610	597	644	597	-6.5
Other	4631	4364	4527	4684	4551	-5.8	4538	4277	4436	4590	4460	-2.0
Canada	2203	2099	2147	2142	2148	0.2	2207	2093	2158	2161	2155	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	755	826	791	778	0.8	746	757	834	802	785	1.0
Kerosene	81	79	91	81	83	1.0	81	79	91	81	83	-0.1
Gasoil/Diesel	675	473	501	598	562	-0.6	675	463	506	604	562	0.1
Fuel Oil	141	94	83	157	119	-0.8	143	92	81	154	118	-0.8
Other	278	346	352	298	318	-0.4	272	339	349	301	315	-1.0
Mexico	1972	2032	2040	2077	2030	0.6	1952	2033	2051	2098	2033	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	4428	4332	5111	4881	1.5	5673	4410	4293	5090	4867	-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	600	390	451	20.7	478	439	594	370	470	4.3
Other	194	174	206	225	200	-0.3	190	172	207	227	199	-0.3
Direct Crude	282	178	203	182	211	0.6	288	169	195	174	207	-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	42111	43003	44456	43506	-1.7	44061	41726	42449	44185	43105	-0.9

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)

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United States	19876	19683	20237	20244	20010	-3.3	19591	19559	19836	20010	19749	-1.3
Canada	2203	2099	2147	2142	2148	0.2	2207	2093	2158	2161	2155	0.3
Mexico	1972	2032	2040	2077	2030	0.6	1952	2033	2051	2098	2033	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	4428	4332	5111	4881	1.5	5673	4410	4293	5090	4867	-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	42111	43003	44456	43506	-1.7	44061	41726	42449	44185	43105	-0.9
Non-OECD	38662	39950	40284	38804	39425	2.8	39559	40874	41273	39693	40350	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	2085	2083	2074	2078	0.3	2052	2073	2072	2068	2066	-0.6
Refinery F/L	3330	3340	3355	3332	3339	1.5	3316	3338	3353	3338	3336	-0.1
Grand Total Demand	83116	82061	83287	83260	82931	0.4	83620	82600	83721	83878	83455	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 8/26/08	Q1	Q2E	Q3E	Q4E	2008E	% Chng 08/07	Q1E	Q2E	Q3E	Q4E	2009E	% Chng 09/08
Grand Total Demand	83116	82061	83287	83260	82931	0.4	83620	82600	83721	83878	83455	0.6
Inventory Change	122	1440	589	32	546		-720	853	101	-437	-51	
SUPPLY	83238	83501	83876	83292	83477	1.5	82900	83452	83822	83442	83404	-0.1
United States	5115	5146	5167	5192	5155	1.0	5195	5180	5165	5150	5173	0.3
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	2615	2710	2710	2660	1.0	2655	2610	2710	2710	2671	0.4
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	670	670	680	673	-3.9	670	675	670	680	674	0.2
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	1846	1874	1873	1866	0.4	1881	1858	1884	1887	1878	0.6
Non-Conventional	1189	1194	1200	1215	1199	2.5	1219	1224	1230	1245	1229	2.5
Total Non-OPEC	48074	48044	48109	48120	48087	0.4	48538	48328	48294	48170	48333	0.5
OPEC SUPPLY	35163	35457	35767	35172	35390	3.0	34362	35124	35528	35271	35071	-0.9
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	31393	31662	31972	31377	31601	2.5	30552	31309	31708	31436	31251	-1.1
Saudi Arabia	8950	9100	9400	8800	9063	3.6	8400	8600	9000	8800	8700	-4.0
Iran	3708	3757	3702	3807	3743	0.3	3727	3644	3738	3641	3688	-1.5
Iraq	2295	2295	2285	2275	2288	9.8	2335	2350	2350	2365	2350	2.7
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	2650	2525	2594	3.6	2350	2650	2550	2550	2525	-2.7
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	1805	1875	1900	1871	-11.0	2000	2000	2000	2000	2000	6.9
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	122	1440	589	32	546		-720	853	101	-437	-51	
Assumed Inventory Position(c)												
Days Supply of MOV	50	50	50	49	49		50	49	49	49	49	
Days Supply of UC	14	15	16	16	16		16	16	16	16	16	
Days Supply of MOV+	65	65	66	66	66		66	66	66	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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