



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

International Petroleum Analysis

September 21, 2007

World Petroleum Perspectives Monthly Review and Outlook

Summary

Since our last monthly report, the prompt NYMEX crude oil contract has risen by some \$12.00 per barrel. While we had anticipated that a progressive decline in U.S. crude oil stocks would lead many traders and funds to assume that the global balance was tightening, prices have thus far well exceeded our expectations for late August and September. In our view the bulk of the price gains reflect a financial funds flow phenomenon, and not underlying oil market fundamentals. As the term structure moved into backwardation, pension funds and other passive investors came in and bought, encouraged by the prospects of both a rising flat price and a positive “roll”. Bullish Wall Street price forecasts and a weaker dollar added fuel to the fire. The increase in passive length more than offset the reduction in net length held by active commodity funds that has occurred since the end of July.

As WTI rose, underlying world oil demand growth has moderated. While demand gains in heavily price-subsidized countries and groups such as China, India, and OPEC continues apace, the increments have been partially, but now increasingly, offset by declines within the OECD, particularly Europe and Japan. Even in the United States, however, recent trends in implied distillate demand, our bellwether of concurrent manufacturing activity, has turned negative compared to last year. Based on preliminary world oil demand estimates through August, it is even more evident that the IEA will have to slash its global oil demand estimate for the fourth quarter, if not for the entirety of 2008. The extent of any price impact in response to this inevitable action is uncertain, but will likely have to be accompanied by signs that the recent rate cut by the Federal Reserve may not be sufficient in order to induce financial institutions to reduce length by any material degree.

As such, despite the fact that the world oil balance continues to track closely with our long-standing Base Case, we are compelled to increase our forecast WTI average for the fourth quarter to \$75.00 per barrel. For next year, we are raising our forecast average for the year by \$5.00 per barrel to over \$65.00 per barrel, and have made what we believe to be required demand adjustments in response to higher prices for next year than were previously anticipated.

+ World oil demand is forecast to rise by 1.1%, or some 945 MB/D next year, a modest cut from last month.

+ Non-OPEC supply is projected to increase by 795 MB/D in 2008, unchanged from our previous report.

+ With little net global stock change for next year, Saudi crude oil sales average about 8.8 MMB/D.

Viewpoint

Since the publication of our last monthly report on world oil markets, the prompt NYMEX crude oil contract has risen by some \$12.00 per barrel, from \$69.00 per barrel to about \$82.00 per barrel.

While we had anticipated that a progressive decline in U.S. crude oil stocks would lead many traders and funds to imply that the global crude oil balance was tightening, obviously prices have thus far well exceeded our long-standing Base Case expectations for August and September.

In our view, however, the bulk of the crude oil price gains reflect a financial funds flow phenomenon, and not developing oil market fundamentals.

We believe that as the NYMEX term structure moved into backwardation, which began around mid July, pension funds and other passive investors came in and bought, encouraged by the prospects of not only a rising flat price but a positive “roll” as well. Bullish Wall Street oil price forecasts as well as a weaker dollar added fuel to the fire.

With regard to the dollar, however, we note there is no consistent or close inverse statistical relationship between a weaker dollar and higher crude oil prices, but often becomes a de facto theme du jour when bullish sentiment prevails.

This estimated increase in passive length more than offset the reduction in net length held by active commodity funds since the end of July.

To quantify, whereas the prompt NYMEX settlement was within 2 cents at around \$78.20 per barrel on both July 31 and September 11, the net length held by active CFTC-reporting commodity funds was 127,491 contracts and only 44,240 contracts, respectively.

As WTI rose, however, underlying world oil demand growth has progressively moderated, with preliminary estimates for the first eight months of the year on track with our long-standing Base Case.

Demand growth in heavily price-subsidized countries and groups such as China, India, and OPEC continues to rise, fueled by

booming economies. These gains have been partially, but now increasingly, offset by progressive declines within the OECD, particularly Europe and Japan who largely face free market prices.

Even in the United States, however, recent trends in implied distillate demand, our traditional bellwether of current manufacturing activity when weather is not a factor, has turned negative compared to last year for the latest four-week rolling average ending September 14.

Based on preliminary world oil demand estimates through August, it is even more obvious that the IEA will have to slash its global oil demand estimate for the fourth quarter at a minimum.

In order to reach the IEA’s latest estimate that 2007 world oil demand will rise by 1.4 MMB/D, based on estimates through August global consumption for the remaining four months of the year would have to rise by 2.47 MMB/D, a difficult, if not impossible, outcome.

The extent of any price impact in response to what we believe to be an inevitable slash by the IEA in their demand outlook is uncertain, but given the “outlier” nature of their forecast will likely have to be accompanied by more data and anecdotal evidence that the recent 50 basis point rate cut by the U.S. Federal Reserve may not be sufficient to stem economic weakness, therefore inducing financial institutions to reduce length by any material degree.

As such, despite the fact that the fundamental world oil balance continues to track closely with our long-standing Base Case, we are compelled to increase our forecast WTI average for the fourth quarter to \$75.00 per barrel.

For 2008, we are raising our forecast average for the year by about \$5.00 per barrel to over \$65.00 per barrel, and have made what we believe to be reasonable downward demand adjustments in response to a higher price than previously anticipated.

Global Oil Demand

For 2008, we are looking for world oil demand to increase by 1.1%, or about 945

MB/D. This marks a modest downward adjustment from last month's assessment reflecting our assumption that WTI will average somewhat higher next year than previously forecast.

OECD oil demand is expected to gain by 0.4%, or about 175 MB/D, a slight acceleration from our estimated growth for 2007 reflecting somewhat lower prices next year, despite our upward revision to the average from last month.

Non-OECD oil demand is forecast to rise by 2.0%, or some 775 MB/D, about the same rate of growth anticipated for 2007. The leaders are expected to remain China, India, and OPEC.

United States

Preliminary estimates which, of course, are likely susceptible to DOE revisions, suggest that U.S. refined product demand growth is moderating. We have been pointing out that implied distillate demand, as reflected by the four-week rolling average, has moved from flat growth to decline of 1.0% for the data for the four weeks ending September 14.

We once again emphasize that the data have to be interpreted carefully. Due to lower natural gas prices there has likely been some fuel switching away from distillate at the margin in peak shaving applications.

Nonetheless, we estimate that the magnitude of the demand decline, since short-term diesel substitution is limited, may reflect more moderate growth in manufacturing activity than macro economists now anticipate.

Elsewhere, implied demand growth for gasoline remains moderate at 0.5% versus last year, reflecting a trim in discretionary driving in response to higher retail prices. Jet fuel demand is off some 1.6% versus last year for the four-week rolling average.

"Other" products, those most directly sensitive to economic activity, are down by about 2.3% over the past four weeks, but once again we would emphasize that implied demand for this category is an arithmetic estimate, and not a survey.

Despite the most recent data, our Base Case still does not assume a full-blown recession. As such, for 2008 we forecast U.S. refined product demand to increase by 0.8%, or some 155 MB/D, about unchanged from last month's report.

Europe

The OECD European oil demand picture remains the same, with gasoline demand continuing to decline and a mixed picture for the rest of the barrel. On balance, however, our conservative outlook for Europe for this year has been trimmed a bit more, with 2007 estimated to fall by 1.6%, or some 195 MB/D relative to 2006.

Based on recent preliminary data, gasoline demand for the "Big Four" is declining anywhere from 1%-4%, with the biggest drop now occurring in the United Kingdom.

Heavy fuel oil demand for the group as a whole remains down, influenced by double-digit declines in Italy reflecting alternative fuel substitution.

With regard to the middle of the barrel, the picture remains mixed. German implied gas oil demand remains lower as consumers continue to delay any restocking due to ample consumer supplies, a carryover from last winter's mild temperatures.

In light of currently high prices, we would look for any consumer restocking to be delayed for as long as possible in hopes of lower prices prior to the onset of the 2007-2008 heating season.

Reflecting our expectation that 2008 oil prices will average somewhat higher than previously assumed, we have trimmed our outlook for OECD Europe oil demand next year. We now expect demand to decline by 0.7%, or about 80 MB/D, a reduction from last month by some 45 MB/D.

Japan and South Korea

The oil demand situation in Japan continues to deteriorate. Recent preliminary

data reveal that refined product demand is now falling across most of the barrel, including gasoline and gas oil.

It would appear that the decline in a number of products is now structural in nature, with the aging population turning to smaller and more fuel efficient vehicles in the case of gasoline.

Weather was somewhat of a factor which apparently restrained leisure travel in mid summer, but higher prices are also taking their toll amongst other products.

The largest exception to the decline has been a gain in heavy fuel oil demand by electric utilities, once again reflecting substitution by TEPCO to compensate for off-line nuclear plant capacity.

For next year, under somewhat higher prices than previously assumed we have slightly reduced our expectations for Japan oil demand. We are now looking for a decline of 0.2%, or some 10 MB/D, compared to last month's assessment which anticipated no growth.

Once again South Korea lies in contrast to Japan, with recent data suggesting continued growth in demand for petrochemical feedstocks, gasoline, gas oil, and heavy fuel oil, all positive during the summer.

Part of the summer gain in gas oil was due to pre-stocking in advance of the diesel fuel tax hike, which took place late in July in contrast to early July the previous year.

Petrochemical feedstock demand growth reflects the coming online of new units complementing rising output from existing plants.

For 2008 we are looking for some moderation in demand growth, with a forecast increase of 2.1%, or some 40-45 MB/D, unchanged from last month.

Non-OECD

As has been well known, the primary, though not exclusive, engines of non-OECD oil demand growth have been and remain China, India, and OPEC. This has been due to the fact that consumers in these countries and groups of

countries remain well sheltered from free market oil prices.

Recent implied demand data for China suggest that our outlook for this year remains broadly on track, with summertime gains registered across the board, including heavy fuel oil, which previously had been somewhat lethargic due in part to higher import taxes.

For next year we are looking for China implied oil demand to rise by 4.0%, or about 255 MB/D, unchanged from last month's assessment.

With regard to India, summer demand data reveal continued strength virtually across the board. Rising gasoline demand reflects a surge in the vehicle fleet, while petrochemical plant output is pulling up LPG consumption.

The primary exception to the rise in demand has been naphtha, which continues to decline as a result of rising natural gas supplies. For next year we anticipate India demand growth to come in at +2.1% or 45 MB/D, unchanged from our previous report.

We see little need to revise our outlook for OPEC oil demand for 2008, which we project to rise by 5.9%, or some 425 MB/D versus 2007, unchanged from last month.

Global Oil Supply

Non-OPEC

As with world oil demand, our Base Case assessment of non-OPEC supply remains largely on track. The primary exception has been on the downside as a result of the unanticipated shut in of Mexico production in response to Hurricane Dean. We estimate that August Mexico production averaged some 200 MB/D below the anticipated mean for 2007.

Output has recovered since then, however, and in combination with a return from summer platform maintenance in the North Sea and underlying new field buildup, we anticipate that the fourth quarter will witness an upswing in non-OPEC supply from the third quarter averaging some 110 MB/D.

Compared to the fourth quarter of 2006, however, we expect non-OPEC supplies to gain

by 545 MB/D. We believe that most of the forecasts we see for the fourth quarter are too optimistic. On balance, we believe that non-OPEC supply will end up rising this year by an average of 795 MB/D, a modest reduction from last month's report.

For next year, we expect continued gains, primarily from Brazil, Canada, the FSU, and even the United States to a modest degree assuming that Thunder Horse eventually starts up. The increases from these countries and regions more than offsets expected net declines from the North Sea and select other countries.

Overall, we are looking for non-OPEC supplies to increase by 795 MB/D in 2008, unchanged from last month's assessment. Our outlook lies some 300 MB/D below that of the IEA which we believe, as has been their trend, will be revised down along with demand over time.

OPEC and Inventory

At its most recent meeting in Vienna, OPEC decided to increase the "official" output target for the "OPEC 10" to 27.253 MMB/D, including 500 MB/D of "new, real" oil, to be shared pro rata among the members.

Our customary table below lays out the hypothetical quotas for each OPEC country under the latest output target, however relevant or irrelevant they may be for each individual producer.

As is shown, the "quota" for Saudi Arabia is now almost 9.0 MMB/D, marginally above what we estimate October wellhead crude oil production will average, where we see the Kingdom's output creeping up from the summertime average.

OPEC "10"
Targeted Vienna "Quotas"
v.
Estimated October Production
(MB/D)

year, once again profiled by lower crude stocks and somewhat higher refined product inventories than prevailing at the present time. For 2008 as a whole, our balances imply little net change in inventory levels.

	"Quota"	Production	Prod. Vs. "Quota"
Algeria	1,358	1,340	-18
Indonesia	871	850	-21
Iran	3,818	3,720	-98
Kuwait	2,487	2,475	-12
Libya	1,704	1,730	+26
Nigeria	2,173	2,015	-158
Qatar	824	800	-24
S. Arabia	8,987	8,800	-187
UAE	2,546	2,495	-51
Venezuela	2,485	2,410	-75
Total	27,253	26,635	-618

The consensus clearly believe that OPEC's actions were quite inadequate, particularly if one takes as gospel the implied IEA global demand gain for the fourth quarter.

The IEA outlook bears little relationship to likely reality, however, and in our view OPEC's actions were suitable to our forecast call on Saudi crude. We do not see a need for Saudi production to exceed the Kingdom's new "ceiling" for virtually all of 2008, unless Iraq production deteriorates to a greater extent than we anticipate. We expect Saudi crude oil production to average about 8.8 MMB/D next year, little changed from our previous report.

Putting together our demand and supply balances, we estimate the third quarter witnessed a net global stock draw averaging about 350 MB/D, impacted in large part by the temporary reduction from Mexico due to Hurricane Dean, exacerbated by seasonally lower North Sea production.

For the final quarter of 2007, we are looking for a marginal net draw, averaging somewhat less than our estimated draw in the fourth quarter of 2006.

At the end of this year, we look for usable commercial inventories to represent one day lower supply compared to the end of last

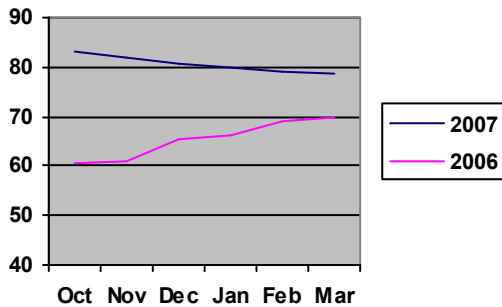
Implications for Price

For almost eight months of 2007, our forecast of not only the flat price of WTI but the

turning points have been relatively close to the mark. Over the past month, however, prices have soared beyond expectations.

Although we correctly anticipated the seasonal decline in U.S. crude oil inventories and the fact that hedge funds and other speculators would incorrectly interpret such a seasonal correction as reflecting global crude oil tightness, the response has thus far been well beyond what we felt would be reasonable. The underlying global balance remains on track with our long-standing Base Case, and yet crude oil prices are now substantially higher.

**Current Six-Month NYMEX Crude Oil Term Structure
2007 vs. 2006**



We believe the increment in price over the past month largely, if not exclusively, reflects a funds flow phenomenon, with passive long investors once again attracted to a term structure in backwardation that was expected to generate incremental returns through both flat price gains and a positive “roll”, unlike the experience of 2006, as illustrated quite dramatically via our customary term structure chart shown above.

Such capital inflows far outweighed the negative impact of active, CFTC-reporting funds who reduced net length dramatically from the end of July to early September.

As all of this unfolded, the global demand picture did not improve and if anything has deteriorated in the OECD even further, as previously discussed. In addition, an analysis of the relationship over the last few years between the prompt NYMEX crude oil contract and U.S. crude oil inventories suggests that price tends to

lead any inflection point in stocks by about two months.

That is, WTI will tend to trough about two months before the beginning of a crude oil stock decline and peak about two months before inventories stabilize and begin to rebuild. Right or wrong, our refinery balances suggest that U.S. crude oil inventories will begin to stabilize and subsequently recover by November.

If we are anywhere close to the mark on our inventory forecast and world oil demand growth slows to the pace we are expecting, if not more so, it suggests that crude oil prices are likely to form a peak at some level in the not too distant future, barring any unforeseen geopolitical event.

Peaking at what level is of course an important question. Since we are in completely uncharted waters in terms of price, on a short-term basis prices can rise to almost any level with no sustainable impact on fundamentals.

However, if our price/inventory analysis holds any water in the current environment, it would imply that WTI in the mid \$80s may represent a reasonable target, since our balances would imply that within the next week or so WTI should be peaking and it is unlikely we will see a straight move to \$90.00 or \$100.00 per barrel over this time frame.

Even if we are correct that prices may peak soon and even if there is a severe downward correction, our long-standing Base Case fourth quarter WTI forecast is obviously far too conservative, based if nothing else on the arithmetic of a price decline from such lofty current levels.

As such, we believe that \$75.00 per barrel for the fourth quarter is now more reasonable, adjusted purely on the basis of incremental financial institution buying of crude oil, and not due to any revision to our fundamental outlook.

**Actual and Forecast Prompt NYMEX Crude
Oil Prices By Quarter**

	2007	2008
Q1	\$58.24	\$67.00
Q2	\$64.85	\$70.00
Q3	\$75.50	\$64.00
Q4	\$75.00	\$60.00
Yr.	\$68.40	\$65.25

As our table above illustrates, we now anticipate a WTI average for 2008 of a shade over \$65.00 per barrel, an upward revision of about \$5.00 from our last report.

One factor impacting our current view is this year's move into backwardation, which enticed passive longs to increase their positions.

Since the odds now favor such indices as the GSCI generating more attractive returns for this year than the first half of 2007 implied, we do not believe that the first quarter of 2008 will witness a material exit of passive length in response to the prior year's returns, as we estimated was in fact the case during the first quarter of this year.

Since the summer of 2006 we had been forecasting a material decline in crude oil prices during the first quarter of 2007 based not only on normal seasonal factors, but that passive longs would exit the market in response to the negative returns that indices such as the GSCI generated during 2006.

This should not be much of a factor in the first quarter of 2008, thus precluding as sharp a drop in crude oil prices as occurred in the first quarter of this year.

However, we would then expect a somewhat "flatter" price recovery during the second quarter, followed by weakness in the second half, consistent with our view that the global balance will not tighten, and that managed funds may eliminate net length in anticipation of an even more modest world oil demand gain in 2009.

September 21, 2007

Table 1
OECD Oil Demand
(Thousands of Barrels Daily)

BASE CASE 9/20/07												% Chng 08/07
	Q1	Q2E	Q3E	Q4E	2007E	% Chng 07/06	Q1E	Q2E	Q3E	Q4E	2008E	
DEMAND												
United States	20786	20649	20971	20788	20799	1.0	21013	20827	20982	20998	20955	0.8
Motor Gasoline	9028	9390	9550	9267	9309	0.9	9011	9416	9454	9249	9283	-0.3
Jet Fuel	1602	1641	1707	1661	1653	1.8	1642	1682	1749	1702	1694	2.5
Distillate	4399	4134	4166	4302	4250	1.9	4562	4228	4193	4451	4358	2.5
Residual	820	733	668	632	713	4.8	836	748	681	645	728	2.0
Other	4937	4751	4880	4926	4873	-0.1	4962	4753	4904	4951	4892	0.4
Canada	2200	2102	2127	2092	2130	2.2	2277	2116	2150	2114	2164	1.6
Naphtha	73	72	68	77	73	1.0	74	72	69	78	73	1.0
LPG	219	271	223	137	213	1.3	217	280	225	139	215	1.3
Gasoline	731	754	814	779	770	2.3	742	765	826	791	781	1.5
Kerosene	80	79	90	80	82	1.0	81	79	91	81	83	1.0
Gasoil/Diesel	675	487	498	592	563	4.0	742	477	503	599	581	3.1
Fuel Oil	138	96	84	131	112	-0.2	141	94	83	128	111	-0.8
Other	283	344	349	295	318	0.8	280	348	352	298	320	0.6
Mexico	1992	2006	2030	2026	2013	1.9	2011	2026	2050	2046	2033	1.0
United Kingdom	1518	1414	1398	1577	1477	0.0	1517	1415	1398	1579	1477	0.0
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	437	391	396	407	408	-2.0
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	37	52	70	0.7	147	43	37	52	70	0.0
Other	96	93	105	104	99	1.0	97	94	106	105	100	1.1
France	1751	1588	1791	1616	1686	-1.3	1732	1579	1781	1625	1679	-0.4
Naphtha	167	144	223	249	196	1.0	169	146	225	252	198	1.0
LPG	163	94	76	130	116	1.0	164	95	77	131	117	1.0
Gasoline	212	280	242	184	229	-3.4	207	273	236	179	224	-2.5
Kerosene	95	111	121	87	104	1.1	96	112	122	88	104	0.8
Gasoil/Diesel	955	752	925	784	854	-1.8	936	744	916	792	847	-0.8
Fuel Oil	91	92	61	81	81	-3.7	92	93	62	82	82	1.0
Other	68	115	143	100	106	0.0	69	116	143	100	107	0.5
Italy	1587	1557	1511	1514	1542	-3.1	1552	1495	1486	1487	1505	-2.4
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	343	313	326	301	321	-2.5
Kerosene	66	73	76	63	70	1.1	67	73	77	64	70	0.8
Gasoil/Diesel	585	482	595	565	557	1.0	591	487	601	570	562	1.0
Fuel Oil	228	402	231	255	279	-14.6	194	341	204	225	241	-13.7
Other	140	102	125	142	127	0.9	141	103	126	143	128	1.0
Germany	2312	2287	2361	2543	2376	-2.9	2322	2279	2362	2544	2377	0.0
Naphtha	256	224	217	251	237	1.1	260	227	219	254	240	1.1
LPG	135	135	117	114	125	1.1	137	136	118	115	127	1.1
Gasoline	548	600	532	577	564	-3.0	537	588	524	569	554	-1.8
Kerosene	97	139	144	121	125	1.0	99	140	145	122	126	1.0
Gasoil/Diesel	1091	925	1039	1210	1066	-5.1	1102	927	1041	1213	1071	0.4
Fuel Oil	69	80	115	98	91	-1.7	70	76	116	99	90	-0.4
Other	116	184	196	171	167	0.8	117	186	198	173	168	1.0
Austria	229	216	240	292	244	-0.5	224	218	242	296	245	0.4
Belgium	438	429	398	468	433	-1.7	429	420	394	468	428	-1.2
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	135	125	1.1
Luxembourg	51	47	46	45	47	1.5	52	48	47	46	48	2.0
Netherlands	432	406	411	409	415	-2.0	424	398	407	405	409	-1.5
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	378	330	306	316	332	-1.0
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	11093	11667	12039	11636	-1.6	11626	10972	11607	12024	11557	-0.7
Japan	5561	4337	4325	5049	4818	-1.2	5589	4295	4293	5054	4807	-0.2
Naphtha	665	570	569	779	645	1.4	673	579	577	790	655	1.4
LPG	895	615	567	695	693	1.4	918	624	572	702	704	1.6
Gasoline	995	960	915	923	948	-2.5	965	940	906	914	931	-1.8
Kerosene	1006	448	360	646	615	1.1	1036	455	365	656	628	2.1
Gasoil/Diesel	1206	1080	1001	1242	1132	-3.3	1169	1058	981	1243	1113	-1.7
Fuel Oil	320	315	499	355	372	-2.4	352	299	484	344	370	-0.6
Other	198	175	205	223	200	-0.7	194	174	206	225	200	-0.3
Direct Crude	277	175	209	186	212	-4.0	282	166	201	178	207	-2.2
South Korea	2137	1974	1845	1971	1982	2.4	2190	2023	1882	2001	2024	2.1
Australia	869	829	826	881	851	0.9	878	837	839	890	861	1.1
New Zealand	105	107	105	113	107	0.4	106	108	105	113	108	0.5
Total OECD	45394	43097	43896	44959	44336	0.2	45690	43203	43907	45240	44510	0.4

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Table 2
World Oil Demand
(Thousands of Barrels Daily)

BASE CASE 9/20/07											% Chng	
	Q1	Q2E	Q3E	Q4E	2007E	07/06	Q1E	Q2E	Q3E	Q4E	2008E	08/07
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Canada	2200	2102	2127	2092	2130	2.2	2277	2116	2150	2114	2164	1.6
Mexico	1992	2006	2030	2026	2013	1.9	2011	2026	2050	2046	2033	1.0
United Kingdom	1518	1414	1398	1577	1477	0.0	1517	1415	1398	1579	1477	0.0
France	1751	1588	1791	1616	1686	-1.3	1732	1579	1781	1625	1679	-0.4
Italy	1587	1557	1511	1514	1542	-3.1	1552	1495	1486	1487	1505	-2.4
Germany	2312	2287	2361	2543	2376	-2.9	2322	2279	2362	2544	2377	0.0
Austria	229	216	240	292	244	-0.5	224	218	242	296	245	0.4
Belgium	438	429	398	468	433	-1.7	429	420	394	468	428	-1.2
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	135	125	1.1
Luxembourg	51	47	46	45	47	1.5	52	48	47	46	48	2.0
Netherlands	432	406	411	409	415	-2.0	424	398	407	405	409	-1.5
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	378	330	306	316	332	-1.0
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	11093	11667	12039	11636	-1.6	11626	10972	11607	12024	11557	-0.7
Japan	5561	4337	4325	5049	4818	-1.2	5589	4295	4293	5054	4807	-0.2
South Korea	2137	1974	1845	1971	1982	2.4	2190	2023	1882	2001	2024	2.1
Australia	869	829	826	881	851	0.9	878	837	839	890	861	1.1
New Zealand	105	107	105	113	107	0.4	106	108	105	113	108	0.5
Total OECD	45394	43097	43896	44959	44336	0.2	45690	43203	43907	45240	44510	0.4
Non-OECD	37524	38797	39109	37735	38291	2.0	38261	39612	39926	38458	39064	2.0
FSU	4216	3188	3047	3781	3558	-1.4	4174	3156	3001	3705	3509	-1.4
Non-OECD Europe	2536	2383	2411	2547	2469	-0.6	2519	2367	2396	2531	2453	-0.6
China	5223	7653	7459	5268	6401	4.7	5432	7960	7758	5479	6657	4.0
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	2220	2203	2113	0.3	1872	2138	2242	2225	2119	0.3
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	2151	2164	2171	3.8	2230	2227	2197	2209	2216	2.1
Other Asia	4066	4148	4044	3821	4020	-0.9	4025	4135	4003	3833	3999	-0.5
Int. Bunkers	2058	2072	2071	2069	2067	-0.5	2061	2071	2066	2066	2066	-0.1
Refinery F/L	3280	3290	3306	3307	3296	0.7	3348	3349	3342	3339	3344	1.5
Grand Total Demand	82918	81894	83004	82694	82627	1.0	83952	82814	83834	83698	83574	1.1

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 9/20/07												% Chng 08/07
	Q1	Q2E	Q3E	Q4E	2007E	% Chng 07/06	Q1E	Q2E	Q3E	Q4E	2008E	
Grand Total Demand	82918	81894	83004	82694	82627	1.0	83952	82814	83834	83698	83574	1.1
Inventory Change	-920	357	-353	-11	-232		-245	903	-292	-222	36	
SUPPLY	81997	82251	82651	82683	82396	0.7	83706	83717	83542	83476	83610	1.5
United States	5174	5199	5273	5295	5235	1.9	5323	5317	5310	5303	5313	1.5
United Kingdom	1580	1570	1430	1491	1518	0.9	1580	1523	1444	1446	1498	-1.3
Norway	2455	2165	2265	2392	2319	-3.3	2455	2143	2220	2344	2291	-1.2
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	2925	3105	3086	-5.4	3087	3102	2867	3043	3025	-2.0
Canada	2675	2475	2740	2740	2658	4.9	2745	2745	2765	2765	2755	3.7
Argentina	670	660	655	650	659	-0.6	650	650	650	650	650	-1.3
Brazil	1835	1805	1905	1915	1865	4.2	1915	1920	1925	1925	1921	3.0
Colombia	520	515	500	505	510	-3.3	515	510	510	510	511	0.2
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	385	390	393	-2.5	390	390	390	390	390	-0.6
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	625	635	629	-1.6	635	630	630	635	633	0.6
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	500	505	496	11.1	505	505	500	500	503	1.3
India	685	680	685	690	685	3.1	690	690	690	690	690	0.7
Malaysia	720	700	720	720	715	-3.4	720	720	720	720	720	0.7
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	11574	11474	11573	5.3	12010	12279	12095	11991	12093	4.5
China	3745	3765	3760	3775	3761	2.5	3785	3780	3790	3785	3785	0.6
NGL	4818	4814	4864	4918	4854	1.3	4879	4876	4928	4983	4916	1.3
Ref. Gain/Other	1866	1843	1868	1861	1859	1.0	1889	1863	1886	1883	1880	1.1
Non-Conventional	1160	1165	1171	1185	1170	2.0	1189	1194	1200	1215	1199	2.5
Total Non-OPEC	48718	48489	48535	48643	48597	1.7	49645	49530	49219	49174	49392	1.6
OPEC SUPPLY	33279	33762	34116	34039	33799	-0.6	34061	34187	34323	34302	34218	1.2
OPEC NGL	1710	1750	1760	1765	1746	5.5	1770	1775	1775	1775	1774	1.6
OPEC CONDENSATE	1695	1725	1725	1730	1719	4.0	1755	1760	1775	1775	1766	2.8
OPEC CRUDE SALES	29874	30287	30631	30544	30334	-1.2	30536	30652	30773	30752	30678	1.1
Saudi Arabia	8600	8750	8775	8800	8731	-4.3	8750	8800	8800	8900	8813	0.9
Iran	3869	3777	3721	3739	3777	-0.8	3706	3752	3748	3742	3737	-1.0
Iraq	1905	2075	2175	2025	2045	6.0	2025	2025	2125	2025	2050	0.2
Kuwait	2300	2500	2525	2525	2463	2.5	2525	2525	2550	2550	2538	3.0
Qatar	800	810	815	815	810	0.0	810	810	810	810	810	0.0
UAE	2410	2475	2550	2525	2490	1.8	2525	2525	2525	2525	2525	1.4
Algeria	1315	1345	1345	1345	1338	-0.2	1345	1345	1345	1345	1345	0.6
Angola	1565	1615	1655	1660	1624	12.4	1665	1665	1665	1660	1664	2.5
Nigeria	2125	2005	2175	2210	2129	-6.1	2275	2285	2290	2290	2285	7.3
Libya	1700	1700	1700	1700	1700	3.4	1705	1710	1715	1715	1711	0.7
Venezuela	2415	2375	2345	2350	2371	-7.6	2355	2360	2350	2340	2351	-0.8
Indonesia	870	860	850	850	858	-5.9	850	850	850	850	850	-0.9
Inventory Change	-920	357	-353	-11	-232		-245	903	-292	-222	36	
Assumed Inventory Position(c)												
Days Supply of MOV	50	50	50	49	49		50	49	49	49	49	
Days Supply of UC	15	15	15	15	15		14	15	15	15	15	
Days Supply of MOV+	65	65	64	64	64		64	64	64	64	64	
Days Supply of S/C	14	14	14	14	14		14	14	14	14	14	

a) OPEC supply measured on a delivered sales basis, i.e. accounting for tanker transit and storage time lag, plus net producer stock change.

b) Includes share of Neutral Zone, shared equally.

c) MOV: Minimum Operating Volume; UC: Usable Commercial; S/C: Strategic/Compulsory.

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