1) Oil Demand Falling In U.S.

Oil demand in the U.S. has fallen as high gasoline prices at the pump deter demand. Since the beginning of the year overall motor gasoline demand has fallen 0.4% from the prior year-to-date and is down a deeper 2.3% in the last four weeks as increasing gasoline prices caused rising demand destruction. At US$4/gal in many markets usage of gasoline is falling. If prices rise materially this summer, a more pronounced decline in demand will occur and at some point after the peak summer driving season we may see a significant decline in crude prices. We expect to see WTI prices fall to the low US$70's in Q3/Q4 2011.

Petroleum Supply (Thousand Barrels per Day)	Current Week	Week Ago		Year Ago		Four-Week Averages Week Ending			Cumulative Daily Average		
	5/13/11	5/6/11	Difference	5/14/10	Difference	5/13/11	5/14/10	Percent Change	5/13/11	5/14/10	Percent Change
Products Supplied											
(26) Total[12]	18,515	18,164	351	19,604	-1,089	18,650	19,205	-2.9	19,079	19,069	0.0
(27) Finished Motor Gasoline[13]	9,048	8,826	222	9,092	-44	8,991	9,201	-2.3	8,916	8,955	-0.4
(28) Kerosene-Type Jet Fuel	1,510	1,335	175	1,471	39	1,474	1,443	2.1	1,407	1,370	2.7
(29) Distillate Fuel Oil	3,620	3,769	-149	4,086	-466	3,755	3,867	-2.9	3,787	3,727	1.6
(30) Residual Fuel Oil	548	596	-48	506	42	526	491	7.1	555	547	1.6
(31) Propane/Propylene	760	926	-166	1,147	-387	883	902	-2.1	1,212	1,230	-1.5
(32) Other Oils[14]	3,029	2,712	317	3,301	-272	3,021	3,301	-8.5	3,201	3,240	-1.2
Net Imports of Crude and Petroleum Products											
(33) Total	8,639	9,361	-722	10,308	-1,669	9,424	10,627	-11.3	9,054	9,946	-9.0

Source: EIA Petroleum Balance Sheet, Week Ending 5/13/2011

Oil prices currently reflect a premium for Middle Eastern supply disruption fears and for the commodity risk on trade by hedge and commodity funds. There is adequate current production and more importantly inventories to meet current usage.

OPEC Crude Oil Production
Based on Secondary Sources, 1,000 b/d

	2009	2010	3Q10	4Q10	1Q11	Feb 11	Mar 11	Apr 11	Apr/Mar
Algeria	1,270	1,261	1,255	1,258	1,265	1,265	1,266	1,260	*-6.3*
Angola	1,786	1,792	1,749	1,661	1,671	1,655	1,710	1,598	*-111.8*
Ecuador	477	475	475	480	484	485	482	483	*0.3*
Iran, I.R.	3,725	3,707	3,682	3,673	3,666	3,663	3,660	3,666	*6.3*
Iraq	2,422	2,399	2,355	2,423	2,647	2,643	2,632	2,655	*23.9*
Kuwait	2,263	2,301	2,313	2,310	2,377	2,358	2,431	2,454	*22.5*
Libya, S.P.A.J.	1,557	1,560	1,567	1,569	1,097	1,360	375	240	*-135.3*
Nigeria	1,812	2,063	2,115	2,175	2,088	2,084	1,991	2,095	*104.3*
Qatar	781	803	805	805	808	807	811	816	*5.5*
Saudi Arabia	8,051	8,273	8,370	8,376	8,779	8,920	8,755	8,885	*130.4*
UAE	2,256	2,306	2,318	2,315	2,439	2,422	2,494	2,521	*26.3*
Venezuela	2,309	2,286	2,285	2,275	2,318	2,289	2,310	2,312	*2.4*
Total OPEC	**28,708**	**29,226**	**29,289**	**29,320**	**29,639**	**29,950**	**28,916**	**28,985**	***68.6***
OPEC excl. Iraq	**26,286**	**26,828**	**26,934**	**26,897**	**26,992**	**27,307**	**26,285**	**26,329**	***44.7***

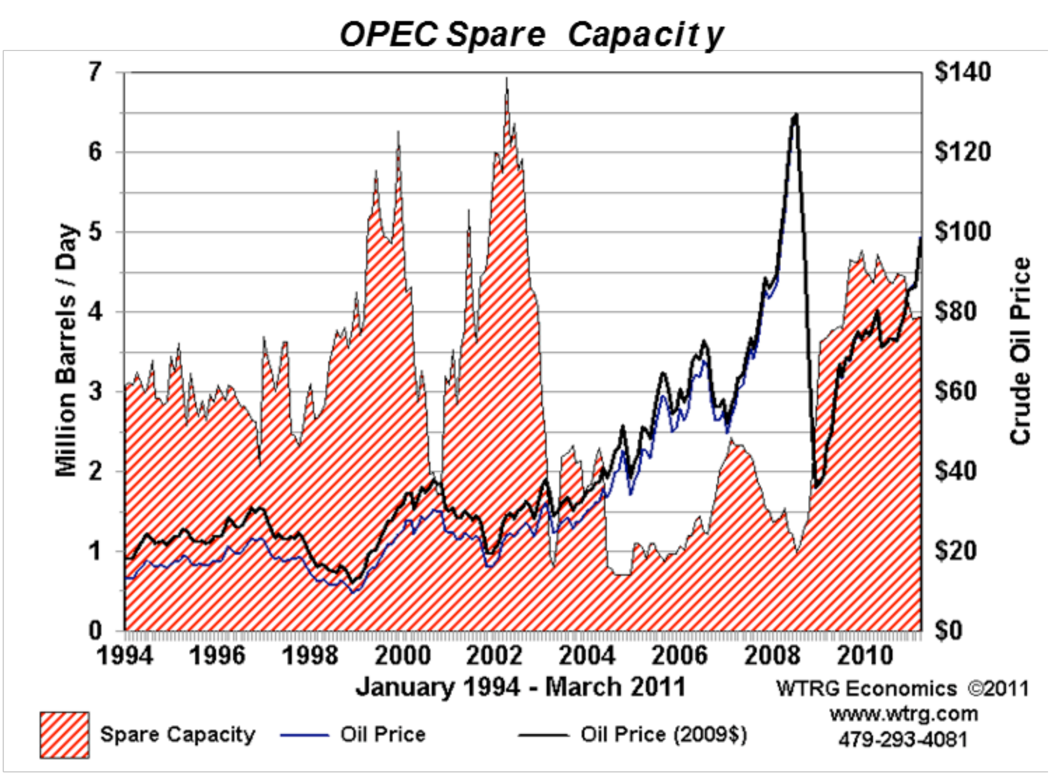
Totals may not add due to independent rounding

Source: OPEC Monthly Oil Market Report – May, 2011

OPEC producers have increased production to offset the cut-off of Libyan production (an OPEC member) and the disruption of supplies from Yemen and Syria (non–OPEC). Nigeria and Saudi Arabia have been able to increase supplies to offset the above production declines as well as to offset Angola's production falloff. Overall OPEC spare capacity is nearly 4Mb/d and this is at a time of high crude demand as the market prepares for the strong summer driving season.

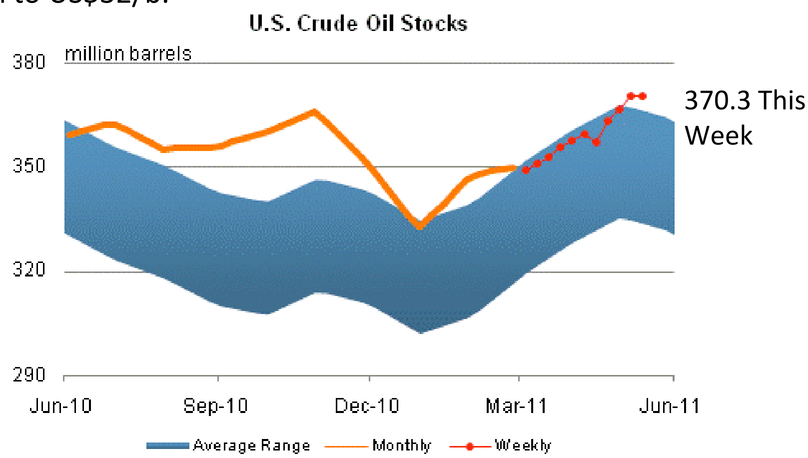
With continuing economic weakness in OECD countries due to fiscal austerity programs and weak job creation, at the same time as India and China are tightening lending due to rising inflation pressures, the overall demand picture for energy and particularly for crude, is getting less stimulative to prices.

One of the drivers of strong oil prices has been demand from institutional inflation hawks, commodity funds and hedge funds who were big buyers of crude contracts. With the recent rise in margin requirements, there was a significant sell off, as weak holders with inadequate capital were forced to liquidate. Watch for a breach of US$94/b in the near term.



Source: WTRG , Apr 2011

US Inventories are at the high end of the 5-year band and with shrinking demand due to usage fall-off, we expect to see less buying of crude by refiners once we enter into the second half of the summer driving season. If so, watch out for a sharp fall in the price of crude and oil-weighted securities. We expect to remain bearish on oil prices until they breach US$70. If economic activity weakens into the 2H/11, then our price target for oil will be reduced even further. We remind readers that during the troubles of the financial crises of 2008-2009 we felt fair value for oil was US$50/b and yet fear and liquidation by commodity and hedge funds drove the price down to US$32/b.



Source: eia.gov, May 13, 2011

WTI Light Crude

Source: Stockcharts.com, May 16, 2011

A breach of US$94/b should be watched carefully as it could set up a sharp decline in crude prices into the US$70's. If world economies show conclusive double dip recessionary indicators later this year, then our price target for crude will decline even further than our current price forecast.