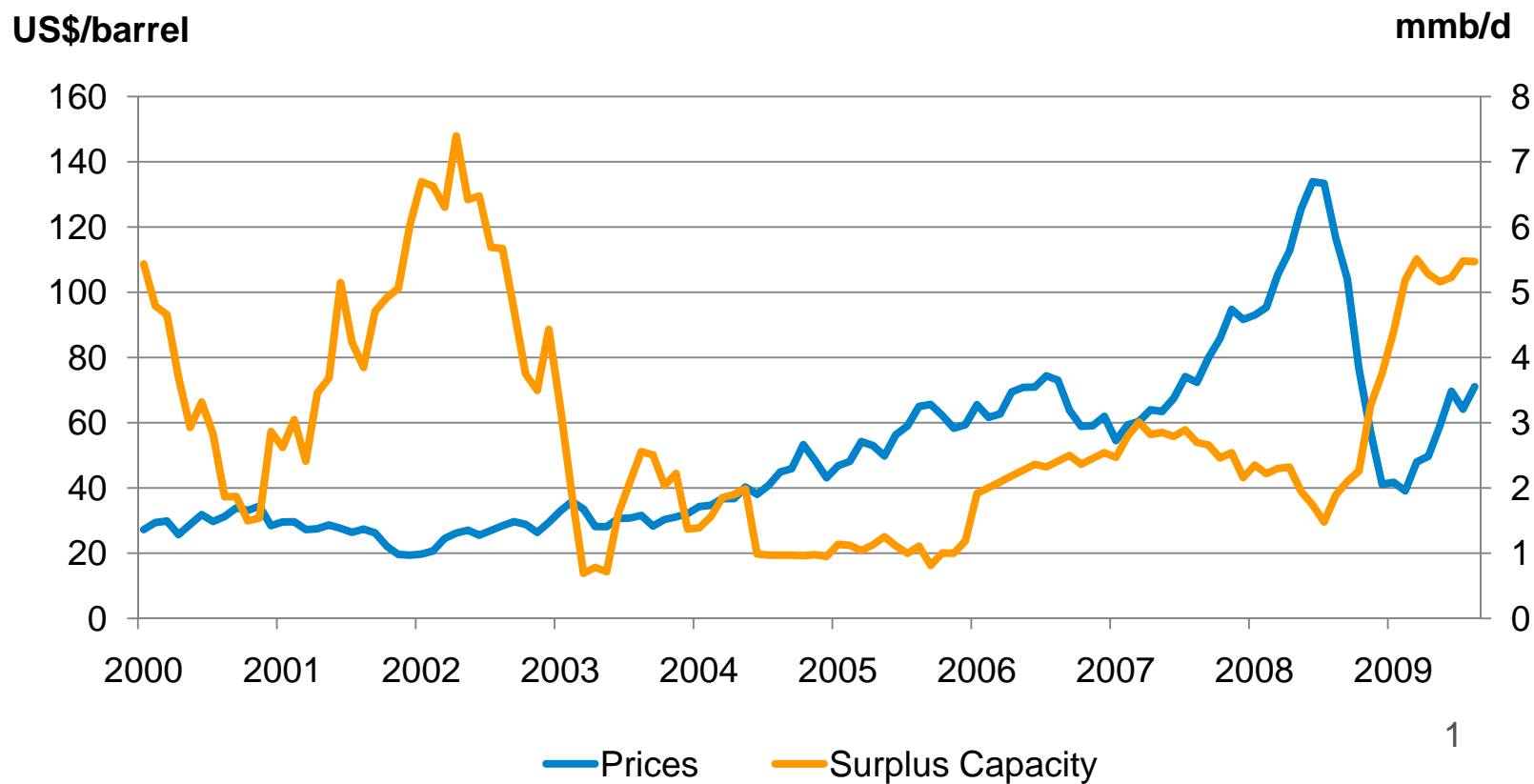


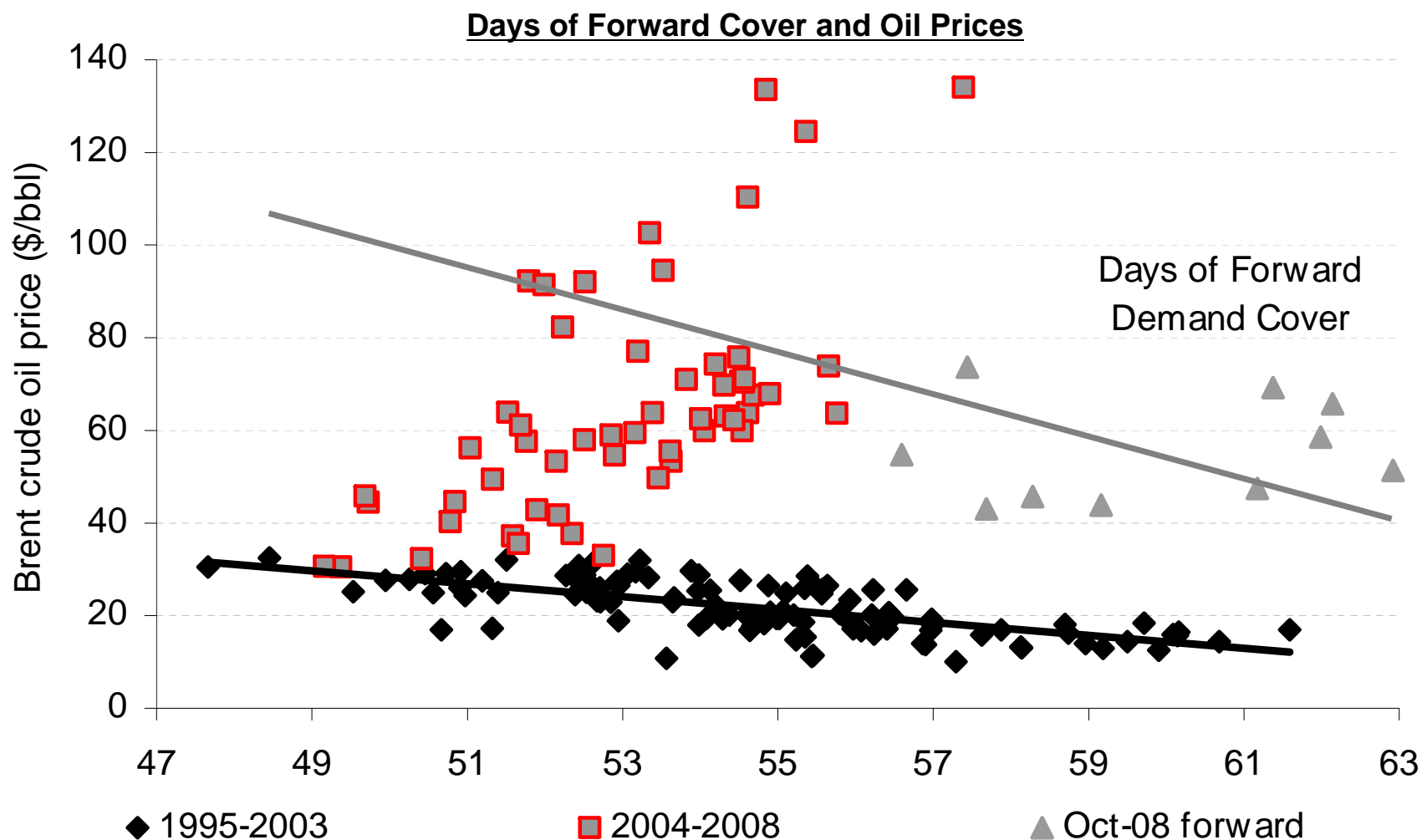
Despite Excess Spare Capacity, Reduced Demand and Increased OPEC Production volumes, High Prices Persist....



If the Fundamentals are so Bad, What's Driving Oil Prices to Increase?

- **Questionable Data ? What is really happening in non-OECD/China? Stocks and Line Fill? Cold Weather?**
- **(Misplaced) Confidence in OPEC Quota Compliance**
- **Bullish Forecasts for the Economic Recovery - A bit Premature or Real Demand Growth?**
- **Fears of Longer Term Capacity Constraints – e.g., Nigeria, Iran, Iraq, Mexico, Venezuela, regulation induced (climate)**
- **Investor moves back to Commodities; since December 1, money managers have boosted energy positions by 70%**
- **Declining Dollar**
- **“Real” Replacement Price for Oil, including recalibration of F&D relationship**

Are there “New Fundamentals” at Work?



Keys to the Short-Term Market

Upward Price Pressure:

- Pace of Economic Growth – optimistic
- Seasonal Demand – e.g., cold weather – stock draws
- Dollar Weakness
- Investor Moves to Commodities
- Non-OPEC supply weakness
- Continued OPEC Cohesion
- Supply Interruptions/threats

Downward Pressure:

- Pace/Level of Economic Growth – pessimistic
- Continued High Crude Inventories & Spare Capacity
- Strong Dollar
- Non-OPEC supply strength
- Increase in OPEC output
- Supply Stability
- Efficiency & Alternative Fuels