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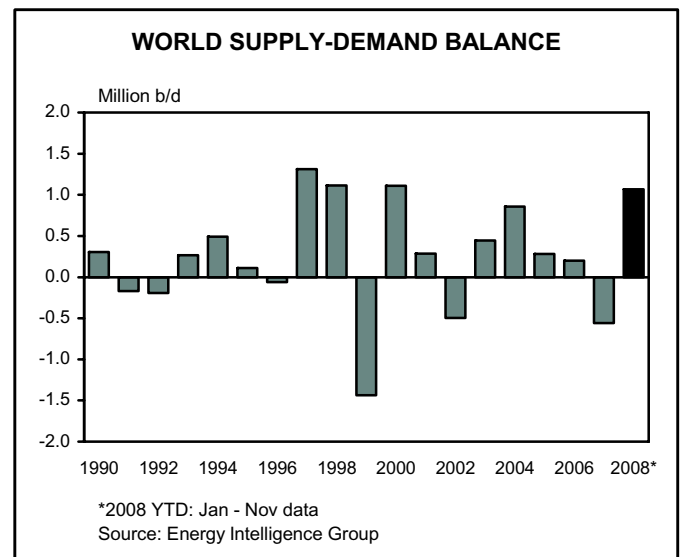
Commentary

December 17, 2008

DESPITE OPEC RESTRAINT, OIL PRICE DOWNTREND TO REMAIN INTACT

- OPEC slashes output quotas
- Supply surplus in 2009 still likely

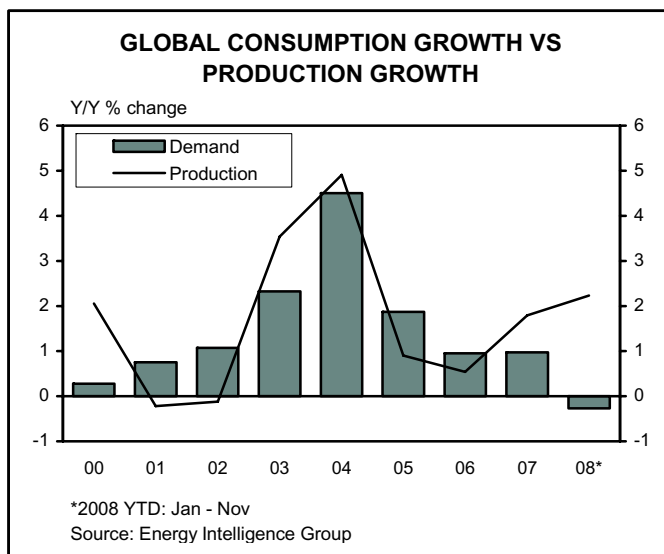
Today, at their 151st (Extraordinary) Meeting, OPEC decided to cut production quotas by 4.2 million barrels per day from September 2008 levels, effective January 1, 2009. Essentially, this works out to a 2.2 million barrel per day cut from current levels. While quotas have been slashed, compliance is another issue. The Saudi Arabian Oil Minister was quoted saying that the previous cut had a compliance rate of 85%. (The compliance rate drops to 65-70% if the 'unofficial' 500,000 barrel per day cut in September is factored in.) If quotas remain at the current level throughout the first quarter, OPEC production would fall 15% compared to the first quarter of 2008 *if* member countries fully adhere to the quotas. At an 85% compliance

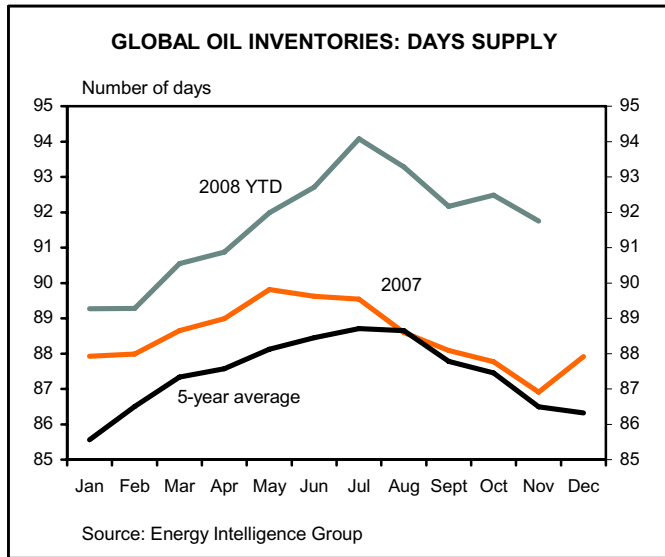


rate, OPEC output would be down 12%; a 70% compliance rate would push production down by 10%.

Despite this cut in output, the decline in demand has been, and will likely continue to be even greater, leaving the market in a position of excess supply. Including November's data, year-to-date global demand has slipped into negative territory at -0.3%. Supply growth for the same period is up 2.2%. As a result, the supply-demand balance is sitting at an average of 1.1 million barrels per day through the first 11 months of the year. And we expect to see a supply surplus hold in the 1-1.5 million barrel per day range in 2009.

What's more, global inventories, measured in days supply, remain well above their 5-year average (+5.3 days), and will continue to rise at least through the first half of 2009. Looking at the U.S., the inventory report released yesterday morning pointed to a 525,000 barrel build in crude





oil stocks in spite of a decrease in imports and domestic production. U.S. inventories are also sitting well above their 5-year average.

Prior to today's announcement, markets had priced in a 2 million barrel per day cut by OPEC. And after the announcement, prices slipped to a new 4½-year low of US\$ 39.88 per barrel, as the U.S. inventory report stirred up fears that this cut will be insufficient to prevent a supply glut. While prices are already more than US\$100 per barrel below the peak reached in July, we do expect crude oil prices to fall further by mid-2009 – to US\$30 per barrel – as global economic conditions deteriorate further.

OPEC has its next meeting scheduled for March 15th, but if prices continue to plummet, they will likely meet earlier.

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