

---

# MONTHLY ENERGY OUTLOOK

---

October 30, 2007

Vol. 6, No. 10

## Contents

	<u>Page</u>
<b>1. Summary Oil Outlook</b>	2
<b>2. Summary Gas Outlook</b>	5
Our Henry Hub price outlook for 2008-2010 has increased for two reasons. The first reason is in response to our projection for higher crude prices. The second reason is that the global LNG balance for 2008 now appears tighter than we had expected, and higher oil prices tend to direct discretionary LNG cargoes preferentially to Asian and European markets.	
<b>3. Summary Investment Outlook</b>	8
We are upgrading our position on gas-oriented E&Ps from a recommended market-weight to a recommended over-weight. Even a mild November should not hurt the gas-oriented E&Ps if oil price nervousness continues – the market has come to expect mild Novembers. As U.S. gas supply increasingly depends on competing for LNG in global markets, a more direct linkage of LNG to crude in Asia will tend to discourage LNG from moving to the U.S. when oil prices are high.	
<b>4. World Oil Markets</b>	10
OPEC's September pledge to increase output by 0.5 mmbd has proved to be too little and too late. In our view one critical issue represents the heart of the recent oil price pressure. Rightly or wrongly the market has become increasingly skeptical that OPEC has any spare capacity for crude oils which are readily refinable. While this assessment may overstate the actual case, it is close enough to the point, given the level of global supply risk, that WTI in the \$70-\$75 range is beginning to look like a reasonable valuation point for 2008-2010.	
<b>5. Natural Gas Markets</b>	
Natural Gas Storage & Price Outlook	36
Natural Gas Production	39
Natural Gas Imports	43
Natural Gas Demand	56
Natural Gas Supply/Demand Balance	66
<b>6. E&amp;P Share Price Performance</b>	73
<b>7. Methodology &amp; Valuation</b>	76
<b>8. Appendix (separate Table of Contents)</b>	78

Includes: Valuation Summary Table and Summary Table for each Company

###

Copyright 2007, Stephen Smith Energy Associates

This report does not purport to be a complete statement of all material facts related to any particular company, industry or security mentioned. The material presented has been obtained from sources believed to be reliable, but is not guaranteed with respect to accuracy or completeness. The opinions expressed reflect our judgment at the time of publication of this report. They are subject to change without notice and may or may not be updated. The author may hold small positions in some securities of the companies discussed in this report. All references to future prices inferred from historical valuation ratios are subject to error. Any prospective investor acting on any information contained in this report does so entirely at his/her own risk.

**Subscription Information**

The *Monthly Energy Outlook* is published twelve times per year by **Stephen Smith Energy Associates**.

Information regarding this publication and our company is available at our website [www.StephenSmithEnergy.com](http://www.StephenSmithEnergy.com)

We would also welcome your calls (601-870-1970).