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HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending December 28, and we provide our perspective in the context of our anticipated U.S. refinery balances. Relative to consensus expectations, the crude oil draw was more constructive once again, while the distillate and gasoline builds were somewhat larger than the market was looking for.

Looking first at crude oil, inventories declined by 4.0 million barrels. Stocks now stand at 289.6 million barrels and retain a 25.5 million barrel deficit to the same point in 2006. The aggregate draw was composed of a 1.4 million barrel decline in PAD II, although stocks at Cushing were unchanged on the week. Supplies in PAD III fell by 1.2 million barrels. Adding up all other districts yields a net inventory decline of 1.5 million barrels.

Refinery crude oil runs rose by 164 MB/D from the previous week to average almost 15.4 MMB/D. Gross crude oil imports recovered by 204 MB/D and averaged around 10.0 MMB/D. Taking the DOE estimate of domestic crude oil production total stocks "should have" declined by almost 2.1 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories rose by 600,000 barrels. The aggregate increase included a 1.6 million barrel rise in ultra low-sulphur diesel stocks, a 300,000 barrel increase in other diesel supplies, and a 1.4 million barrel draw in heating oil inventories. Distillate stocks now total 127.2 million barrels and lie 16.1 million barrels below last year.

Refinery production of distillate fuel oil eased by 19 MB/D on the week and averaged less than 4.3 MMB/D. Gross distillate imports rose by 183 MB/D to average 326 MB/D.

Implied distillate demand fell by 312 MB/D from the prior week and averaged about 4.3 MMB/D. For the past four weeks implied distillate demand is up by 5.7% over last year, while year to date has gained by 2.0% versus the comparable period in 2006.

Finally, the DOE reported that primary gasoline inventories rose by 1.9 million barrels. Stocks now stand at 207.8 million barrels and lie 3.0 million barrels below last year at this time. The inventory increased included an 800,000 barrel gain in finished mogas supplies and a 1.1 million barrel increase in blendstocks.

Refinery production of finished gasoline rose by 66 MB/D on the week and averaged almost 9.1 MMB/D. Gross imports of total mogas gained by 136 MB/D to average almost 1.2 MMB/D.

Implied gasoline demand dropped by 160 MB/D from the previous week and averaged less than 9.3 MMB/D. For the last four weeks implied gasoline demand is up by only 0.1% compared to last year, while year to date has increased by 0.6% versus the comparable period in 2006.

Looking ahead, we would expect crude oil imports to stabilize and recover in January in the aftermath of late-2007 draw downs reflecting tax minimization strategies. Over the next month or two the market will begin focusing on gasoline, and our balances suggest supplies will be more than adequate for the summer driving season under our conservative demand outlook.

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