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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending January 4, and we wish to offer our thoughts in the context of our forecast first quarter U.S. refinery balances. Relative to what the market anticipated, the crude oil draw was more constructive, while the distillate and gasoline builds exceeded consensus expectations.

Turning first to crude oil, stocks fell by 6.8 million barrels. Inventories stand at 282.8 million barrels and retain a 30.6 million barrel deficit to last year. Supplies in PAD II rose by 600,000 barrels, which included an increase at Cushing of 200,000 barrels. Stocks in PAD III dropped by 7.2 million barrels. Adding up all other districts yields a net inventory decline of 300,000 barrels.

Refinery crude oil runs rose by 389 MB/D from the prior week to average almost 15.8 MMB/D. Gross crude oil imports fell by 203 MB/D and averaged about 9.8 MMB/D. Taking the DOE estimate of domestic crude oil production, total crude oil inventories "should have" declined by almost 6.4 million barrels.

Turning to refined products, the DOE reported that distillate fuel oil inventories rose by 1.5 million barrels. The aggregate increase included a 3.5 million barrel gain in ultra low-sulphur diesel stocks, a 400,000 barrel rise in other diesel supplies, and a 2.3 million barrel fall in heating oil inventories. Distillate stocks now total 128.7 million barrels and are 14.6 million barrels below last year.

Refinery production of distillate fuel oil increased by 214 MB/D on the week and averaged almost 4.5 MMB/D. Gross distillate imports fell by 195 MB/D to average 131 MB/D.

Implied distillate demand declined by 117 MB/D on the week to average around 4.2 MMB/D. Over the past four weeks implied distillate demand gained by 4.9% versus the comparable period a year ago, largely reflecting more normal weather in contrast to the balmy temperatures of late 2006/early 2007.

Finally, the DOE reported that primary gasoline inventories increased by 5.3 million barrels. Inventories now stand at 213.1 million barrels and are only 300,000 barrels below last year at this time. The stock increase was composed of a 1.3 million barrel gain in finished mogas supplies and a 4.0 million barrel jump in blendstocks.

Refinery production of finished gasoline rose by 46 MB/D from the prior period to average about 9.1 MMB/D. Gross imports of total mogas declined by 131 MB/D and averaged around 1.0 MMB/D.

Implied gasoline demand gained by 18 MB/D from the previous week to average some 9.3 MMB/D. Over the last four weeks implied gasoline demand is up by 0.4% versus the comparable period last year.

On balance, the magnitude of last week's crude oil stock draw was consistent with historical experience for the week that bridges the end of one year and the beginning of another. The tendency from here, also based on seasonal refiner behavior, is for stocks to begin to rebuild, on average, through spring.

The magnitude of recent gasoline stock builds in the context of moderating demand remains consistent with our view that supplies should be ample this summer, barring any unexpected and prolonged refinery outages as we move toward the driving season.

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