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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending January 11, and we provide our usual perspective within the context of our forecast U.S. refinery balances. Relative to consensus expectations, the crude oil build was bearish, the distillate build was more constructive, while the rise in gasoline stocks was close to what the market was looking for.

Turning first to crude oil, stocks gained by 4.3 million barrels. Inventories now stand at 287.1 million barrels and retain a 28.9 million barrel deficit to last year. Stocks in PAD II fell by 100,000 barrels, but declined at Cushing by a larger 1.2 million barrels. Supplies in PAD III rose by 3.0 million barrels. Adding up all other districts yields a net inventory increase of 1.4 million barrels.

Refinery crude oil runs fell by 760 MB/D on the week to average 15.0 MMB/D. Gross crude oil imports rose by 583 MB/D and averaged almost 10.4 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" risen by some 2.7 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories gained by 1.1 million barrels. The aggregate increase was composed of a 900,000 barrel rise in ultra low-sulphur diesel stocks, unchanged other diesel supplies, and a 200,000 barrel increase in heating oil inventories.

Refinery production of distillate declined by 232 MB/D from the prior week and averaged under 4.3 MMB/D. Gross distillate imports rose by 178 MB/D to average 309 MB/D.

Implied distillate demand eased by 7 MB/D on the week and averaged around 4.2 MMB/D. For the last four weeks implied distillate demand is up by 2.1% over last year, continuing to reflect more seasonal temperatures compared to early 2007, more than offsetting what we believe to be a moderation in manufacturing activity and hence diesel demand.

Finally, the DOE reported that primary gasoline inventories increased by 2.2 million barrels to a total of 215.3 million barrels. The gain included a rise in finished mogas supplies of 1.3 million barrels and an increase in blendstocks of 900,000 barrels.

Refinery production of finished motor gasoline declined by 138 MB/D on the week to average about 9.0 MMB/D. Gross imports of total mogas fell by 82 MB/D and averaged 938 MB/D.

Implied gasoline demand declined by 188 MB/D from the prior period to average about 9.1 MMB/D. Over the past four weeks implied gasoline demand has gained by 1.2% versus the comparable period last year.

On balance, the crude oil inventory build is consistent with our seasonal expectations, and we should look for stocks to continue to increase, on average, over the next few months. Gasoline supplies are expected to be more than adequate prior to the onset of the summer driving season.

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