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Energy Risk
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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending January 23, and we offer our perspective on the data within the context of our forecast U.S. refinery balances. In a nutshell, the numbers were bearish for crude oil but more constructive for gasoline and distillate relative to market expectations.

Turning first to crude oil, inventories rose by 6.2 million barrels. Supplies now stand at 338.9 million barrels and are 45.5 million barrels above last year. Stocks in PAD II gained by 1.1 million barrels and included an increase at Cushing of 300,000 barrels. Supplies in PAD III rose by 4.1 million barrels. Adding up all other districts yields a net inventory increase of 900,000 barrels.

Refinery crude oil runs eased by 9 MB/D from the prior week and averaged around 14.1 MMB/D. Gross crude oil imports fell by 158 MB/D to average about 9.7 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by some 4.3 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories fell by 1.0 million barrels. The decline included a 200,000 barrel gain in ultra low-sulphur diesel stocks, a 700,000 barrel rise in other diesel supplies, and a 1.9 million barrel drop in heating oil inventories. Stocks now total 144.0 million barrels and are 13.2 million barrels above last year at this time.

Refinery production of distillate fuel rose by 17 MB/D from the previous week and averaged almost 4.2 MMB/D. Gross distillate imports fell by 98 MB/D to average 264 MB/D.

Implied distillate demand increased by 176 MB/D on the week and averaged almost 4.3 MMB/D. Over the last four weeks implied demand has declined by 3.0% versus the comparable period last year.

Finally, the DOE reported that primary gasoline inventories fell by 100,000 barrels, with inventories now standing at 219.9 million barrels and retaining a 7.5 million barrel deficit to last year. Finished mogas supplies rose by 1.3 million barrels while blendstocks declined by 1.4 million barrels.

Refinery output of finished gasoline fell by 69 MB/D on the week to average less than 8.7 MMB/D. Gross imports of total mogas were unchanged and averaged almost 1.2 MMB/D.

Implied gasoline demand rose by 9 MB/D from the previous week to average around 8.7 MMB/D. Over the past four weeks implied gasoline demand has fallen by 1.7% versus the same period a year ago.

On balance, the large crude oil build implies that despite refiner attempts to manage supplies under a reduced run environment, the continued market contango combined with periodic sales out of floating storage suggests the aggregate inventory build has not yet run its course, particularly since we are entering the period of seasonal stock builds to begin with.

It would not surprise us to see springtime crude oil supplies topping 350.0 million barrels, akin to the situation in 2007. Distillate stocks should, on balance, continue to decline in line with seasonal behavior, but supplies should remain ample given lower demand. Gasoline stocks are also expected to remain more than adequate over the next several months.

William H. Brown, III

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