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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 25, and we wish to provide our customary thoughts within the context of our forecast U.S. refinery balances. Relative to consensus expectations, the data were on the bearish side across the board.

Turning first to crude oil, the DOE reported that inventories increased by 3.6 million barrels. Stocks now stand at 293.0 million barrels and retain a 28.1 million barrel deficit to last year at this time. PAD II inventories fell by 100,000 barrels but rose at Cushing by 100,000 barrels. Supplies in PAD III gained by 3.7 million barrels. Adding up all other districts yields a net inventory fall of 100,000 barrels.

Refinery crude oil runs declined by 302 MB/D on the week to average around 14.6 MMB/D. Gross crude oil imports declined by 100 MB/D and averaged about 10.1 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks “should have” increased by some 3.1 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories fell by 1.5 million barrels. The decline included an 800,000 barrel fall in ultra low-sulphur diesel stocks, a 600,000 barrel fall in other diesel supplies, and a 200,000 barrel drop in heating oil inventories. Distillate inventories now total 127.0 million barrels and stand 13.5 million barrels below the same point in 2007.

Refinery production of distillate fell by 210 MB/D from the previous week and averaged under 3.9 MMB/D. Gross distillate imports rose by 35 MB/D to average 277 MB/D.

Implied distillate demand declined by 141 MB/D on the week and averaged around 4.2 MMB/D. Over the past four weeks implied distillate demand is off by 0.4% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories rose by 3.6 million barrels to a total of 223.9 million barrels, now only 400,000 barrels below last year at this time. The aggregate inventory increase was composed of a 2.1 million barrel rise in finished mogas supplies and a 1.4 million barrel build in blendstocks.

Refinery production of finished gasoline declined by 78 MB/D from the prior period and averaged less than 8.9 MMB/D. Gross imports of total gasoline fell by 72 MB/D to average under 1.2 MMB/D.

Implied gasoline demand eased by 24 MB/D on the week and averaged around 8.9 MMB/D. Over the past four weeks the DOE reports that implied gasoline demand is up by 1.4% versus the comparable period in 2007.

On balance, the crude oil stock build remains consistent with our forecast refinery balances through the end of the first quarter. In terms of gasoline, the numbers continue to support our expectations that supplies will be ample prior to the onset of the summer driving season.

W.H. Brown, III

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