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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending January 30, and we wish to provide our thoughts on the numbers within the context of our forecast U.S. refinery balances. In a nutshell, the crude oil build was bearish, while the product data were somewhat more constructive than the market was looking for.

Turning first to crude oil, inventories rose by 7.2 million barrels. Stocks now stand at 346.1 million barrels and are 50.3 million barrels above last year at this time. Supplies in PAD II rose by 1.3 million barrels which included a gain at Cushing of 800,000 barrels. Stocks in PAD III rose by 4.6 million barrels. Adding up all other districts yields a net inventory increase of 1.5 million barrels.

Refinery crude oil runs rose by 205 MB/D from the previous week and averaged around 14.3 MMB/D. Gross crude oil imports gained by 329 MB/D to average some 10.0 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks “should have” increased by about 6.5 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories declined by 1.4 million barrels. The fall included a 700,000 barrel drop in ultra low-sulphur diesel stocks, a 2.0 million barrel decline in other diesel supplies, and a 1.4 million barrel increase in heating oil inventories. Total stocks stand at 142.6 million barrels and are 12.8 million barrels above last year.

Refinery output of distillate was about flat from the previous week, averaging a shade under 4.2 MMB/D. Gross distillate imports declined by 87 MB/D and averaged 177 MB/D.

Implied distillate demand eased by 38 MB/D on the week to average about 4.2 MMB/D. Over the last four weeks implied demand has declined by 3.7% versus the comparable period in 2008.

Finally, the DOE reported that primary gasoline inventories rose by 300,000 barrels. Now totaling 220.2 million barrels, supplies retain a 10.2 million barrel deficit to last year. The aggregate increase was composed of a 1.6 million barrel decline in finished mogas supplies and a 2.0 million barrel build in blendstocks.

Refinery production of finished gasoline rose by 19 MB/D from the prior week to average almost 8.7 MMB/D. Gross imports of total mogas fell by 325 MB/D and averaged 829 MB/D.

Implied gasoline demand jumped by 365 MB/D from the previous period to average about 9.0 MMB/D. Over the past four weeks implied gasoline demand has declined by 0.5% versus the comparable period in 2008.

In terms of the crude oil data, the market had been assuming that the bearish but irreconcilable API data released yesterday afternoon would not be confirmed by the DOE data. However, the DOE reported a substantially higher level of gross imports which in combination with the other variables came up somewhat closer to reconciliation.

Although timing is always an issue, perhaps one other difference was that crude oil cargoes landed from floating offshore storage may be counted concurrently as imports by the DOE, whereas the API had previously booked such volumes as “landed”.

In any event, such cargoes remain what we have previously termed additional “shoes” to fall when trying to pick the peak in U.S. crude oil inventories this year.

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