



HORNSBY & COMPANY, INC.

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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 February 1, and we wish to provide our analysis within the framework of our forecast U.S. refinery balances. Relative to consensus expectations the latest data were bearish across the board.

Looking first at crude oil, the DOE reported that stocks rose by 7.0 million barrels, now standing at 300.0 million barrels and retaining a deficit to last year of some 23.7 million barrels. Supplies in PAD II fell by 1.4 million barrels but gained at Cushing by 700,000 barrels. Stocks in PAD III increased by 6.8 million barrels. Adding up all other districts yields a net inventory increase of 1.8 million barrels.

Refinery crude oil runs declined by 126 MB/D on the week to average under 14.5 MMB/D. Gross crude oil imports rose by 458 MB/D and averaged more than 10.5 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" risen by more than 7.2 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories rose by 100,000 barrels. Stocks now total 127.1 million barrels and lie 12.4 million barrels below the same point in 2007. The aggregate inventory increase included a 500,000 barrel rise in ultra low-sulphur diesel stocks, a 700,000 barrel fall in other diesel supplies, and a 300,000 barrel gain in heating oil inventories.

Refinery production of distillate fuel oil rose by 143 MB/D from the prior period and averaged more than 4.0 MMB/D. Gross distillate imports rose by 94 MB/D to average 371 MB/D.

Implied distillate demand eased by 37 MB/D on the week, reflecting milder weather, and averaged under 4.2 MMB/D. For the last four weeks implied distillate demand has declined by 0.7% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories rose by 3.6 million barrels. Supplies now stand at 227.5 million barrels and are 400,000 barrels below last year. The gasoline stock gain was composed of a 1.5 million barrel rise in finished mogas supplies and a 2.1 million barrel increase in blendstocks.

Refinery production of finished gasoline declined by 148 MB/D from the previous week to average around 8.7 MMB/D. Gross imports of total mogas eased by 12 MB/D but still averaged more than 1.1 MMB/D.

Implied gasoline demand fell by 24 MB/D on the week and averaged about 8.9 MMB/D. Over the past four weeks implied gasoline demand is up by 1.0% versus the same period in 2007.

On balance, the crude oil stock build remains fully consistent with our forecast refinery balances through the end of the second quarter. The gasoline data continue to confirm our thesis that supplies will be ample in advance of the summer driving season.

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