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Energy Risk  
Management Services

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**HIGHLY CONFIDENTIAL**

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**WEEKLY INVENTORY REVIEW**

The DOE released the latest Weekly Petroleum Status Report for the week ending February 6, and we provide our perspective on the data within the context of our forecast U.S. refinery balances. On balance, the crude oil build and distillate draw were somewhat bearish, while the gasoline stock decline exceeded market expectations.

With regard to crude oil, inventories rose by 4.7 million barrels. Now standing at 350.8 million barrels, stocks are 4.7 million barrels above last year. PAD II supplies rose by 100,000 barrels, but gained at Cushing by 600,000 barrels. Stocks in PAD III gained by 3.7 million barrels. Adding up all other districts yields a net inventory build of 800,000 barrels.

Refinery crude oil runs declined by 214 MB/D from the previous week and averaged around 14.1 MMB/D. Gross crude oil imports fell by 385 MB/D to average less than 9.7 MMB/D. Taking the DOE estimate of domestic crude oil supplies, total stocks “should have” increased by almost 6.0 million barrels.

Turning to refined products, the DOE reported that primary gasoline inventories fell by 2.6 million barrels. The decline was composed of a 2.4 million barrel drop in finished mogas supplies and a 300,000 barrel fall in blendstocks. Inventories total 217.6 million barrels and retain a 14.1 million barrel deficit to last year.

Refinery output of finished gasoline declined by 187 MB/D on the week to average under 8.5 MMB/D. Gross imports of total mogas jumped by 489 MB/D and averaged more than 1.3 MMB/D.

Implied gasoline demand eased by 9 MB/D from the prior period to average about 9.0 MMB/D. Over the last four weeks implied gasoline demand is up by 0.1% versus the comparable period last year.

Finally, the DOE reported that distillate fuel oil inventories fell by 1.0 million barrels. Supplies stand at 141.6 million barrels, some 14.2 million barrels above last year at this time. The stock decline included a 1.2 million barrel build in ultra low-sulphur diesel stocks, a 200,000 barrel fall in other diesel supplies, and a 2.1 million barrel drop in heating oil inventories.

Refinery production of total distillate fuel fell by 27 MB/D from the previous week and averaged around 4.1 MMB/D. Gross distillate imports declined by 31 MB/D to average 146 MB/D.

Implied distillate demand fell by 105 from the prior period and averaged close to 4.1 MMB/D. Over the past four weeks implied distillate demand has declined by 1.1% versus the comparable period in 2008.

Overall, in terms of crude oil we had previously suggested that stocks could exceed 350.0 million barrels, and thus far, in part helped by the landing of offshore storage, the timing of our outlook has been advanced. However, we believe we are within 5.0 million barrels or so of on-land shell storage capacity.

With regard to gasoline, while recent demand trends are encouraging, we must monitor the coming weeks closely, since February 2008 revised gasoline demand was particularly weak relative to

January and March. This also does not take into account the possibility of 2009 downward revisions once January and February data are available from the upcoming Petroleum Supply Monthlies.

William H. Brown, III

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