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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 8, and we offer our customary perspective in the context of our forecast U.S. refinery balances. In a nutshell, the crude oil build was less bearish, while the distillate stock draw was not as constructive as consensus expectations. The gasoline stock build was roughly in line with what the market was looking for.

With regard to crude oil, inventories rose by 1.1 million barrels. Stocks now stand at 301.1 million barrels and retain a 21.2 million barrel deficit to last year. Stocks in PAD II gained by 900,000 barrels which included a build at Cushing of 700,000 barrels. Supplies in PAD III fell by 1.0 million barrels. Adding up all other districts yields a net inventory increase of 1.1 million barrels.

Refinery crude oil runs rose by 69 MB/D from the previous week to average almost 14.6 MMB/D. Gross crude oil imports fell by 777 MB/D and averaged around 9.7 MMB/D. Taking the latest DOE estimate of domestic crude oil production, total stocks "should have" increased by about 1.5 million barrels.

In terms of refined products, the DOE reported that distillate fuel oil inventories declined by 100,000 barrels. The decline was composed of a 100,000 barrel gain in ultra low-sulphur diesel stocks, a 900,000 barrel fall in other diesel supplies, and a 600,000 barrel increase in heating oil inventories. Distillate stocks now total 127.0 million barrels and remain 8.5 million barrels below the same point in 2007.

Refinery production of distillate fuel oil rose by 54 MB/D from the prior period and averaged almost 4.1 MMB/D. Gross distillate imports fell by 89 MB/D to average 282 MB/D.

Implied distillate demand gained by 27 MB/D on the week and averaged around 4.2 MMB/D. For the past four weeks implied distillate demand has declined by 2.8% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories gained by 1.7 million barrels. The aggregate increase included a 1.0 million barrel rise in finished mogas supplies and an 800,000 barrel gain in blendstocks. Total stocks now stand at 229.2 million barrels and lie some 4.5 million barrels above the same point last year.

Refinery production of finished gasoline rose by 170 MB/D from the previous week and averaged about 8.9 MMB/D. Gross imports of total mogas dropped by 303 MB/D to average 841 MB/D.

Implied gasoline demand gained by 104 MB/D from the prior week and averaged 9.0 MMB/D. For the last four weeks implied gasoline demand is up by 0.4% versus the same period in 2007.

On balance, the crude oil stock build remains consistent with our outlook, with adverse Gulf Coast weather likely reflected in temporarily lower imports into PAD III last week, which should recover. In terms of gasoline, as we have anticipated primary stocks are now above last year, and we continue to believe that supplies will be ample prior to the upcoming driving season.

William H. Brown, III