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Energy Risk  
Management Services

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**HIGHLY CONFIDENTIAL**

February 19, 2009

**WEEKLY INVENTORY REVIEW**

The DOE released the latest Weekly Petroleum Status Report for the week ending February 13, and we wish to offer our thoughts on the numbers within the context of our forecast U.S. refinery balances. The aggregate crude oil stock draw was constructive relative to market expectations. The gasoline build was the opposite of estimates of a decline, however. The distillate data were modest bullish compared to analysts' estimates.

Turning first to crude oil, stocks fell by 200,000 barrels. Supplies now stand at 350.6 million barrels, some 52.1 million barrels above last year. Stocks in PAD II declined by 700,000 barrels, but were unchanged at Cushing. Supplies in PAD III rose by 2.0 million barrels. Adding up all other districts yields a net inventory fall of 1.5 million barrels.

Refinery crude oil runs rose by 16 MB/D from the previous week and averaged more than 14.1 MMB/D. Gross crude oil imports fell by 859 MB/D to average less than 8.8 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" declined by almost 200,000 barrels.

With regard to refined products, the DOE reported that primary gasoline inventories rose by 1.1 million barrels. The aggregate increase was composed of a 1.0 million barrel fall in finished mogas supplies and a 2.1 million barrel build in blendstocks. Inventories total 218.7 million barrels and retain a 13.6 million barrel deficit to last year.

Refinery output of finished gasoline rose by 273 MB/D from the prior period and averaged almost 8.8 MMB/D. Gross imports of total mogas dropped by 492 MB/D to average 826 MB/D.

Implied gasoline demand eased by 98 MB/D on the week and averaged about 8.9 MMB/D. Over the last four weeks implied demand is up by 0.8% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil inventories fell by 800,000 barrels. Supplies now total 140.8 million barrels and lie 16.4 million barrels above last year. The aggregate decline included unchanged ultra low-sulphur diesel stocks and other diesel supplies, and a 700,000 barrel fall in heating oil inventories.

Refinery production of total distillate rose by 5 MB/D from the prior week and averaged more than 4.1 MMB/D. Gross distillate imports surged by 331 MB/D to average 477 MB/D.

Implied distillate demand gained by 244 MB/D on the week and averaged almost 4.4 MMB/D. Over the past four weeks implied distillate demand is up by 0.3% versus the comparable period last year.

On balance, while the slight decline in crude oil stocks is encouraging, we believe it is a bit premature to assume that U.S. crude oil inventories have finally peaked for the year. Given the uncertainty of the magnitude of offshore crude stored in tankers that may yet be landed, we need another couple weeks of data to gain confidence in the turning point.

William H. Brown, III

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