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Energy Risk
Management Services

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending February 15, and we wish to offer our thoughts on the numbers in the context of our forecast U.S. refinery balances. Relative to consensus expectations, the crude oil build was bearish, the distillate draw was bullish, while the gasoline build was in line.

Turning first to crude oil, stocks rose by 4.2 million barrels. Inventories now stand at 305.3 million barrels and stand some 15.6 million barrels below last year. Supplies in PAD II rose by 1.3 million barrels, but declined at Cushing by 500,000 barrels. Stocks in PAD III increased by 3.0 million barrels. Adding up all other districts yields a net inventory decline of 100,000 barrels.

Refinery crude oil runs fell by 97 MB/D on the week to average less than 14.5 MMB/D. Gross crude oil imports rose by 365 MB/D and averaged 10.1 MMB/D, reflecting a recovery in PAD III following temporary weather-related reductions of the previous week. Taking the DOE estimate of domestic crude oil production, total stocks "should have" gained by around 4.7 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories fell by 4.5 million barrels. The aggregate decline was composed of a 2.8 million barrel fall in ultra low-sulphur diesel stocks, unchanged other diesel supplies, and a 1.5 million barrel drop in heating oil inventories. Distillate stocks total 122.5 million barrels and retain an 8.9 million barrel deficit to the same point in 2007.

Refinery production of distillate fuel oil eased by 81 MB/D from the prior period to average about 4.0 MMB/D. Gross distillate imports rose by 99 MB/D and averaged 381 MMB/D.

Implied distillate demand jumped by 629 MMB/D on the week to average more than 4.8 MMB/D. For the last four weeks implied distillate demand is off by 1.9% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories rose by 1.1 million barrels. The aggregate increase included a 100,000 barrel rise in finished mogas supplies and a 900,000 barrel gain in blendstocks. Inventories now stand at 230.3 million barrels and lie 8.9 million barrels above the same point last year.

Refinery production of finished gasoline declined by 69 MB/D from the previous week and averaged about 8.8 MMB/D. Gross imports of total mogas eased by 14 MB/D to average 827 MB/D.

Implied gasoline demand rose by 105 MB/D from the prior week and averaged more than 9.1 MMB/D. Over the past four weeks implied gasoline demand is up by 0.5% versus the comparable period in 2007.

On balance, the crude oil build remains fully consistent with our outlook for stocks over the next few months. The gasoline balance also remains in line with our conservative view of the summer driving season.

William H. Brown, III

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