



HORNSBY & COMPANY, INC.

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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 20, and we provide our customary thoughts on the numbers within the context of our forecast U.S. refinery balances.

Overall, the crude build was less than the market was looking for, while the gasoline draw was clearly bullish. Distillate stocks increased somewhat less than consensus expectations.

With regard to crude oil, inventories rose by 700,000 barrels. Stocks now stand at 351.3 million barrels and retain a 51.5 million barrel surplus relative to last year at this time.

Supplies in PAD II were unchanged on the week, but declined at Cushing by 400,000 barrels. Stocks in PAD III fell by 600,000 barrels. Adding up all other districts yields a net inventory increase of 1.4 million barrels.

Refinery crude oil runs declined by 207 MB/D from the previous week and averaged around 13.9 MMB/D. Gross crude oil imports eased by 24 MB/D to average less than 8.8 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by around 900,000 barrels.

Turning to refined products, the DOE reported that primary gasoline inventories dropped by 3.4 million barrels. Supplies now total 215.3 million barrels and retain a 17.6 million barrel deficit to last year. The aggregate stock decline included a 400,000 barrel fall in finished mogas supplies and a 2.9 million barrel drop in blendstocks.

Refinery output of finished motor gasoline rose by 172 MB/D from the prior period and averaged more than 8.9 MMB/D. Gross imports of total gasoline fell by 21 MB/D to average 805 MB/D.

Implied gasoline demand increased by 102 MB/D from the previous week and averaged about 9.0 MMB/D. Over the past four weeks implied demand has risen by 1.7% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil inventories increased by 800,000 barrels. Supplies now total 141.6 million barrels and stand some 20.3 million barrels above the comparable point in 2008.

The aggregate increase was composed of a 1.3 million barrel build in ultra low-sulphur diesel supplies, a 200,000 barrel decline in other diesel stocks, and a 300,000 barrel fall in heating oil inventories.

Refinery production of total distillate increased by 66 MB/D on the week to average more than 4.2 MMB/D. Gross distillate imports fell by 195 MB/D and averaged 282 MB/D.

Implied distillate demand fell by 371 MB/D from the prior period to average less than 4.0 MMB/D. Over the last four weeks implied distillate demand has declined by 1.6% versus the comparable period in 2008.

Overall, the stability in Cushing inventories is consistent with our Base Case scenario, but the market will need a string of stock stability and ultimately declines to convince itself that the price trough has arrived. The gasoline balance remains in line with our assumption of ongoing refinery yield management within the uncertain demand environment.

William H. Brown, III

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