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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 27, and we wish to provide our customary perspective on the data within the context of our forecast U.S. refinery balances. In sum, the draw in crude stocks was bullish, but the gasoline and distillate stock builds were less constructive than the market was looking for.

Turning first to crude oil, stocks declined by 700,000 barrels. Supplies now stand at 350.6 million barrels and are 49.6 million barrels above last year at this time. Stocks in PAD II rose by 200,000 barrels, but declined at Cushing by 500,000 barrels. Supplies in PAD III fell by 3.3 million barrels. Adding up all other districts yields a net inventory increase of 2.2 million barrels.

Refinery crude oil runs rose by 409 MB/D from the previous week and averaged more than 14.3 MMB/D. Gross crude oil imports increased by 259 MB/D to average around 9.0 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" gained by a bit less than 400,000 barrels.

With regard to refined products, the DOE reported that primary gasoline inventories rose by 200,000 barrels. The aggregate increase included a 1.9 million barrel decline in finished mogas supplies and a 2.0 million barrel increase in blendstocks. Inventories now total 215.5 million barrels and retain an 18.0 million barrel deficit to last year.

Refinery output of finished gasoline increased by 66 MB/D from the prior period and averaged about 9.0 MMB/D. Gross imports of finished mogas rose by 365 MB/D to average almost 1.2 MMB/D.

Implied gasoline demand rose by 194 MB/D from the previous week and averaged 9.2 MMB/D. For the last four weeks implied gasoline demand was reported to be up by 2.2% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil stocks increased by 1.7 million barrels. Supplies total 143.3 million barrels and stand 25.0 million barrels above last year. The gain was composed of unchanged ultra low-sulphur diesel stocks, an 800,000 barrel rise in other diesel supplies, and a 900,000 barrel increase in heating oil inventories.

Refinery production of distillate dropped by 125 MB/D on the week and averaged less than 4.1 MMB/D. Gross distillate imports rose by 12 MB/D to average 294 MB/D.

Implied distillate demand fell by 224 MB/D from the prior week and averaged under 3.8 MMB/D. Over the past four weeks implied distillate demand is off by 4.5% versus the comparable period in 2008.

Overall, the aggregate crude oil stock draw is consistent with our Base Case which calls for a peak and progressive decline in U.S. crude oil stocks by the end of the second quarter.

For refined products, however, as previously discussed the existence of excess refining capacity in a weaker demand environment implies an effective "lid" on margins, since any improvement in demand can readily be accommodated by incremental refinery output and/or higher imports.

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