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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending February 29, and we provide our thoughts on the numbers within the context of our forecast U.S. refinery balances. In a nutshell, the crude oil stock draw was bullish, the gasoline supply build was bearish, while the distillate inventory decline was within market expectations.

Turning first to crude oil, inventories declined by 3.1 million barrels. Stocks now stand at 305.4 million barrels and retain a 12.6 million barrel deficit to last year. PAD II supplies declined by 800,000 barrels, which included a draw at Cushing of 800,000 barrels. Stocks in PAD III rose by 500,000 barrels. Adding up all other districts yields a net inventory drop of 2.8 million barrels.

Refinery crude oil runs rose by 244 MB/D from the previous week to average almost 14.9 MMB/D. Gross crude oil imports dropped by 521 MB/D and averaged around 9.4 MMB/D. Taking the DOE estimate of domestic crude oil production, total crude oil stocks “should have” declined by about 2.7 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories fell by 2.4 million barrels. The stock decline was composed of a 500,000 barrel rise in ultra low-sulphur diesel stocks, a 700,000 barrel decline in other diesel supplies, and a 2.1 million barrel drop in heating oil inventories. Distillate stocks now total 117.6 million barrels and lie some 5.6 million barrels below the same point in 2007.

Refinery production of distillate fuel oil increased by 117 MB/D on the week and averaged about 4.0 MMB/D. Gross distillate imports eased by 8 MB/D to average 186 MB/D.

Implied distillate demand rose by 73 MB/D from the prior period and averaged more than 4.3 MMB/D. Over the past four weeks implied distillate demand has declined by 4.4% versus the comparable period last year.

Finally, the DOE reported that primary gasoline inventories rose by 1.7 million barrels. Stocks now stand at 234.3 million barrels, above last year by 19.3 million barrels. Current inventories represent the highest level since January 1994, and above the upper limit of the average range. The aggregate stock increase included a 1.3 million barrel gain in finished mogas supplies and a 400,000 barrel rise in blendstocks.

Refinery output of finished gasoline increased by 264 MB/D from the previous week to average over 9.0 MMB/D. Gross imports of total mogas dropped by 554 MB/D and averaged 800 MB/D.

Implied gasoline demand rose by 26 MB/D from the prior week and averaged almost 9.1 MMB/D. For the last four weeks implied gasoline demand is up by 0.4% versus the same period last year.

On balance, the crude oil stock draw reflected an off-trend decline in imports that corresponded to a rise in refinery crude oil runs. We would look for crude oil imports to recover back above 10.0 MMB/D, leading to a stock build.

The virtual collapse in implied distillate fuel oil demand in part reflects incremental exports to Europe, but after adjusting for exports and weather, it is clear that manufacturing activity is quite weak at the represent time. Despite this, however, fund money continues to pour into crude oil in response to OPEC “holding the line” and the draw in crude oil stocks.

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