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Energy Risk
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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending March 7, and we wish to offer our perspective in the context of our forecast U.S. refinery balances. In a nutshell, data were universally less constructive than consensus expectations.

With regard to crude oil, the DOE reported that stocks rose by 6.2 million barrels. Supplies now stand at 311.6 million barrels and retain a 9.1 million barrel deficit to last year. Stocks in PAD II gained by 2.7 million barrels, including an increase at Cushing of 2.8 million barrels. Supplies in PAD III rose by 2.8 million barrels. Adding up all other districts yields a net inventory increase of 500,000 barrels.

Refinery crude oil runs declined on the week by 246 MB/D to average around 14.6 MMB/D. Gross crude oil imports recovered by about 1.1 MMB/D and averaged more than 10.5 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by almost 7.2 million barrels.

Turning to refined products, the DOE reported that distillate fuel oil inventories declined by 1.2 million barrels. The fall was composed of a 1.3 million barrel rise in ultra low-sulphur diesel stocks, an 800,000 barrel drop in other diesel supplies, and a 1.7 million barrel decline in heating oil inventories. Distillate inventories total 116.4 million barrels and are 6.1 million barrels below last year at this time.

Refinery production of distillate eased by 114 MB/D from the prior period and averaged less than 3.9 MMB/D. Gross distillate imports fell by 53 MB/D to average 133 MB/D.

Implied distillate demand dropped by 302 MB/D from the previous week and averaged about 4.0 MMB/D. Over the past four weeks implied distillate demand is down by a full 4.2% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories increased by 1.7 million barrels. Supplies now total 236.0 million barrels and stand 23.7 million barrels above last year. The aggregate increase included a 900,000 barrel gain in finished mogas supplies and an 800,000 barrel rise in blendstocks.

Refinery production of finished gasoline eased by 12 MB/D on the week and averaged about 9.0 MMB/D. Gross imports of total mogas declined by 55 MB/D from the prior week to average 745 MB/D, reflecting weak domestic prices which have reduced the import arbitrage.

Implied gasoline demand rose by 60 MB/D from the previous week and averaged over 9.1 MMB/D. For the past four weeks implied gasoline demand is up by 0.4% versus the comparable period last year.

On balance, as we anticipated gross crude oil imports recovered from the below-trend average of the previous week, and our balances suggest that further net inventory gains are likely in the weeks ahead. The implied distillate demand data continue to confirm to us that, after adjusting for weather, exports, and secondary stocking, domestic manufacturing activity appears quite weak.

William H. Brown, III

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