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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 March 14, and we provide our customary perspective within the context of our forecast U.S. refinery balances. In a nutshell, the data were universally more constructive than consensus expectations.

Looking first at crude oil, stocks rose by only 200,000 barrels. Stocks now stand at 311.8 million barrels and retain a 12.0 million barrel deficit to last year. Stocks in PAD II fell by 500,000 barrels, but declined a larger 1.4 million barrels at Cushing. Supplies in PAD III rose by 1.7 million barrels. Adding up all other districts yields a net inventory decline of 900,000 barrels.

Refinery crude oil runs fell by 195 MB/D on the week to average around 14.4 MMB/D. Gross crude oil imports dropped by 1.08 MMB/D and averaged under 9.5 MMB/D. Taking the DOE estimate of domestic crude oil production, total crude oil inventories “should have” increased by almost 1.0 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories fell by 3.5 million barrels. The decline included a 1.5 million barrel drop in finished mogas supplies and a 2.0 million barrel fall in blendstocks. Gasoline stocks now total 232.5 million barrels and lie some 23.3 million barrels above last year at this time.

Refinery production of finished gasoline fell by 352 MB/D from the prior week and averaged less than 8.7 MMB/D. Gross gasoline imports rose by 156 MB/D from the prior week to average 901 MB/D.

Implied gasoline demand eased by 60 MB/D on the week and averaged less than 9.1 MMB/D. For the past four weeks implied gasoline demand is off by 0.1% versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories declined by 2.9 million barrels. Stocks now stand at 113.5 million barrels and are 8.2 million barrels below last year. The decline was composed of unchanged ultra low-sulphur diesel stocks, a 300,000 barrel rise in other diesel supplies, and a 3.2 million barrel fall in heating oil inventories.

Refinery production of distillate fuel eased by 80 MB/D on the week to average about 3.8 MMB/D. Gross distillate imports rose by 161 MB/D and averaged 294 MB/D.

Implied distillate demand increased by 322 MB/D from the previous week to average in excess of 4.3 MMB/D. Over the past four weeks implied distillate demand has declined by 5.4% versus the comparable period in 2007.

On balance, the inordinate decline in crude oil imports relative to the underlying trend suggests a recovery next week, implying a larger stock build than experienced last week. While it may be an aberration due to conversion unit downtime, the large gasoline stock draw may reflect an adjustment in yields to help work off inventories that have been the highest in 15 years. William H. Brown, III