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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 20, and we wish to provide our perspective on the data within the context of our forecast U.S. refinery balances.

Viewed in the aggregate, the crude oil stock build was less constructive than the market was looking for, while the gasoline and distillate draws exceeded consensus expectations.

With regard to crude oil, stocks rose by 3.3 million barrels and now stand at 356.6 million barrels, some 48.0 million barrels above last year. Supplies in PAD II gained by 1.2 million barrels, but fell at Cushing by 2.2 million barrels. Stocks in PAD III increased by 3.6 million barrels. Adding up all other districts yields a net inventory decline of 1.5 million barrels.

Refinery crude oil runs eased by 45 MB/D from the previous week and averaged around 14.1 MMB/D. Gross crude oil imports rose by 204 MB/D to average almost 9.4 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by almost 4.8 million barrels.

Turning to refined products, the DOE reported that primary gasoline supplies fell by 1.1 million barrels. Stocks now total 214.6 million barrels and retain an 11.5 million barrel deficit to last year. The decline was composed of a 1.3 million barrel fall in finished mogas supplies and a 200,000 barrel gain in blendstocks.

Refinery output of finished gasoline fell by 145 MB/D on the week and averaged around 8.7 MMB/D. Gross imports of total mogas fell by 13 MB/D to average some 1.1 MMB/D.

Implied gasoline demand recovered by 145 MB/D from the prior period and averaged 9.1 MMB/D. Over the last four weeks implied gasoline demand is up by 0.7% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil inventories fell by 1.6 million barrels. Supplies now stand at 143.9 million barrels and remain 32.9 million barrels above last year at this time.

Within the aggregate decline, ultra low-sulphur diesel stocks fell by 1.5 million barrels, while other diesel supplies dropped by 1.1 million barrels. Heating oil inventories increased by 1.0 million barrels.

Refinery production of total distillate declined by 381 MB/D from the prior week and averaged close to 3.7 MMB/D. Gross distillate imports jumped by 346 MB/D to average 449 MB/D.

Implied distillate demand rose by 207 MB/D on the week and averaged more than 3.9 MMB/D. Over the past four weeks implied distillate demand is off by 9.0% versus the comparable period last year.

On balance, with U.S. crude oil inventories now at the highest level since 1993 and around what we estimate to be current U.S. on-land shell capacity, we believe the odds of additional and consistent weekly gains in crude oil stocks are beginning to moderate.

Having said this, however, and despite the stock fall at Cushing last week, as previously discussed we would not look for a sustainable decline in total U.S. crude oil stocks until mid to late

second quarter, based on our assessment of likely refinery crude oil run rates and the volume of offshore storage that will yet be landed.

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