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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

March 26, 2008

WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending March 21, and we wish to provide our customary thoughts on the numbers within the context of our forecast U.S. refinery balances. Overall, the inventory data were once again more constructive than consensus expectations.

With regard to crude oil, stocks were unchanged on the week. Inventories total 311.8 million barrels and retain a 15.2 million barrel deficit to last year at this time. Stocks in PAD II rose by 1.4 million barrels but declined at Cushing by 300,000 barrels. Supplies in PAD III fell by 2.3 million barrels. Adding up all other districts yields a net inventory build of 1.0 million barrels.

Refinery crude oil runs declined by 292 MB/D from the previous week to average around 14.1 MMB/D. Gross crude oil imports fell by 570 MB/D and averaged less than 8.9 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks “should have” declined by more than 900,000 barrels.

Turning to refined products, primary gasoline inventories fell by 3.3 million barrels. The decline included a 2.5 million barrel drop in finished mogas supplies and a 700,000 barrel fall in blendstocks. Total gasoline supplies now stand at 229.2 million barrels and lie some 23.1 million barrels above last year.

Refinery production of finished gasoline declined by 139 MB/D from the prior period to average about 8.5 MMB/D. Gross imports of total gasoline rose by 62 MB/D and averaged 963 MB/D.

Implied gasoline demand gained by 45 MB/D on the week to average more than 9.1 MMB/D. For the last four weeks implied gasoline demand is off by 0.3% versus last year, a modest acceleration in decline from recent trends.

Finally, the DOE reported that distillate fuel oil inventories declined by 2.2 million barrels. Stocks now total 111.3 million barrels and retain a 9.6 million barrel deficit to last year at this time. The aggregate stock draw was composed of a 1.1 million barrel drop in ultra low-sulphur diesel stocks, a 200,000 barrel rise in other diesel supplies, and a 1.3 million barrel fall in heating oil inventories.

Refinery production of distillate fuel oil rose by 47 MB/D from the prior week and averaged almost 3.9 MMB/D. Gross distillate imports fell by 52 MB/D to average 242 MB/D.

Implied distillate demand declined by 115 MB/D on the week and averaged around 4.2 MMB/D. Over the past four weeks implied distillate demand has declined by 4.0% versus the comparable period in 2007.

Overall, crude oil imports remained inordinately low for the second week in a row, and we see nothing in the global balance that would suggest a tightening of availability. Therefore, the odds would still favor a recovery in imports and therefore crude oil inventories over the next few weeks. The gasoline supply picture remains in line with our Base Case, i.e. declining demand in 2008, but a refiner response to this weaker demand though a reduction in yields.

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