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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 27, and we offer our thoughts on the numbers in the context of our forecast U.S. refinery balances. Overall the data were less constructive than the market was looking for.

Turning first to crude oil, supplies rose by 2.8 million barrels. Stocks now stand at 359.4 million barrels and are 48.2 million barrels above last year. Stocks in PAD II eased by 100,000 barrels, which included a draw at Cushing of 800,000 barrels. Supplies in PAD III gained by 2.8 million barrels. Adding up all other districts yields a net inventory increase of 100,000 barrels.

Refinery crude oil runs rose by 23 MB/D from the previous week and averaged almost 14.2 MMB/D. Gross imports of crude oil increased by 170 MB/D to average close to 9.6 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" gained by more than 6.1 million barrels and therefore last week's survey appears to be faulty and/or incomplete, or the previous week's survey contained errors.

With regard to refined products, the DOE reported that primary gasoline inventories increased by 2.2 million barrels, now totaling 216.8 million barrels and retaining a 6.4 million barrel deficit to last year. The aggregate increase included a 1.5 million barrel fall in finished mogas supplies and a 3.7 million barrel build in blendstocks.

Refinery production of finished gasoline rose by 10 MB/D from the prior period and averaged more than 8.7 MMB/D, while gross imports of total gasoline increased by 75 MB/D to average around 1.2 MMB/D.

Implied gasoline demand gained by 25 MB/D on the week and averaged over 9.1 MMB/D, while over the last four weeks implied demand has declined by 0.2% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil inventories increased by 300,000 barrels. Stocks now stand at 144.2 million barrels and lie some 35.4 million barrels above last year. The gain was composed of a 400,000 barrel rise in ultra low-sulphur diesel stocks, a 500,000 barrel fall in other diesel supplies, and a 300,000 barrel increase in heating oil inventories.

Refinery output of total distillate rose by 169 MB/D from the prior week and averaged almost 3.9 MMB/D. Gross imports of distillate fuel declined by 186 MB/D to average 263 MB/D.

Implied distillate demand fell by 275 MB/D on the week and averaged less than 3.7 MMB/D. Over the past four weeks implied demand has declined by 9.1% versus the comparable period last year.

As we suspected, the crude oil data still have not provided evidence that stocks are poised for a decline in the aggregate, although the 2.7 million barrel draw at Cushing over the last four weeks is encouraging.

Our balances suggest the turning point in U.S. crude oil stocks may not come until the end of this month, suggesting that it will not be May before the market realizes that supplies are finally declining if our outlook is close to the mark. We would assume that from a price standpoint, however, the turn is likely to come somewhat sooner given the market's tendency to discount.

William H. Brown, III

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