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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending March 28, and we offer our perspective on the data in the context our forecast U.S. refinery balances. In comparison to consensus expectations, the crude oil data were bearish, the gasoline draw was bullish, while the distillate draw came in roughly on par.

Turning first to crude oil, stocks rose by 7.4 million barrels, above the market estimates as anticipated. Inventories now total 319.2 million barrels and stand some 10.9 million barrels below last year. Stocks in PAD II declined by 100,000 barrels, but rose at Cushing by 300,000 barrels. Supplies in PAD III gained by 4.5 million barrels. Adding up all other districts yields a net inventory increase of 2.9 million barrels.

Refinery crude oil runs rose by 72 MB/D from the previous week to average about 14.2 MMB/D. Gross crude oil imports recovered by almost 1.4 MMB/D and averaged around 10.3 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" risen by more than 8.0 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories dropped by 4.5 million barrels. The aggregate decline was composed of a 3.6 million barrel fall in finished mogas supplies and a 1.0 million barrel decline in blendstocks. Gasoline supplies now lie at 224.7 million barrels and retain a 21.7 million barrel surplus to last year at this time.

Refinery production of finished gasoline rose by 69 MB/D from the prior period and averaged about 8.6 MMB/D. Gross imports of total mogas eased by 19 MB/D to average 944 MB/D.

Implied gasoline demand increased by 214 MB/D from the previous week and averaged more than 9.3 MMB/D. Over the past four weeks implied gasoline demand is flat with the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories fell by 1.6 million barrels on the week to a total of 109.7 million barrels. Distillate stocks now retain a 10.4 million barrel deficit to last year. The stock decline included a 500,000 barrel rise in ultra low-sulphur diesel supplies, an 800,000 barrel fall in other diesel stocks, and a 1.3 million barrel decline in heating oil inventories.

Refinery production of distillate fuel oil was about unchanged on the week, averaging under 3.9 MMB/D. Gross distillate imports rose by 80 MB/D to average 322 MB/D.

Implied distillate demand rose by 5 MB/D from the previous period and averaged more than 4.2 MMB/D. Over the last four weeks implied distillate demand is off by 3.1% versus the comparable period in 2007.

On balance, the large recovery in gross crude oil imports is consistent with our estimated seasonal trend and confirms that inventories have scope to build further before peaking.

In terms of gasoline supplies, we have previously discussed our belief that a recovery in RBOB cracks and refining margins was premised on supply factors, and not a recovery in underlying demand. Thus far the data would continue to support our thesis.

William H. Brown, III

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