



HORNSBY & COMPANY, INC.

www.hornsbyco.com

Energy Risk
Management Services

HIGHLY CONFIDENTIAL

April 15, 2009

WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending April 10, and we offer our perspective on the numbers within the context of our forecast U.S. refinery balances. Overall the crude oil data were bearish relative to consensus expectations, while the gasoline and distillate draws were somewhat larger than the market was looking for.

Turning first to crude oil, stocks rose by 5.6 million barrels. Supplies now stand at 366.7 million barrels and lie some 51.9 million barrels above last year. Stocks in PAD II rose by 1.3 million barrels, but declined at Cushing by 800,000 barrels. Supplies in PAD III increased by 700,000 barrels. Adding up all other districts yields a net inventory build of 3.7 million barrels.

Refinery crude oil runs dropped by 300 MB/D from the previous week and averaged less than 14.0 MMB/D. Gross crude oil imports rose by 59 MB/D to average almost 9.4 MMB/D. Taking the DOE estimate of domestic crude oil production averaging almost 5.5 MMB/D, total stocks "should have" risen by around 6.2 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories fell by 900,000 barrels to 216.5 million barrels, retaining a 1.3 million barrel deficit to last year at this time. The decline was composed of a 1.3 million barrel gain in finished mogas supplies and a 2.2 million barrel drop in blendstocks.

Refinery production of finished mogas eased by 53 MB/D on the week to average about 8.9 MMB/D. Gross imports of total gasoline rose by 68 MB/D and averaged almost 1.1 MMB/D.

Implied gasoline demand fell by 80 MB/D from the prior period to average under 9.0 MMB/D. Over the last four weeks implied gasoline demand declined by 0.4% from last year, while year to date has fallen by 0.1% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil inventories declined by 1.2 million barrels. Supplies now total 139.6 million barrels and stand 32.8 million barrels above last year. Ultra low-sulphur diesel stocks fell by 800,000 barrels, other diesel supplies rose by 200,000 barrels, while heating oil inventories declined by 700,000 barrels.

Refinery output of total distillate rose by 33 MB/D from the previous week and averaged almost 4.0 MMB/D. Gross imports of total distillate fell by 17 MB/D to average 144 MB/D.

Implied distillate demand declined by 296 MB/D from the prior period and averaged less than 3.8 MMB/D. Over the past four weeks implied distillate demand has fallen by 6.7% from last year, while year to date has declined by 5.5% versus the comparable period in 2008.

Despite the ongoing stock decline at Cushing, the latest crude oil data suggest it will be an extended road to lower supplies, but our balances still imply lower inventories over the next few months. Over the near term, however, it would also suggest that as we approach May contract expiration, prompt WTI will likely have a difficult time rallying much above \$50.00 per barrel, particularly if the S&P 500 remains in a trading range.

William H. Brown, III

Information contained herein is believed to be reliable but its accuracy cannot be guaranteed. Past performance is not indicative of future results and the risk of loss is substantial in futures trading. Hornsby & Company, Inc. and W.H. Brown may, from time to time, have positions in the futures market relative to these recommendations.