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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending April 11, and we offer our perspective on the data in the context our forecast U.S. refinery balances. The numbers for crude oil and gasoline were bullish compared to expectations, while the small distillate build was less constructive than the market was looking for.

Turning first to crude oil, stocks fell by 2.3 million barrels. Inventories now stand at 313.7 million barrels and lie 20.0 million barrels below the same point in 2007. Supplies in PAD II fell by 700,000 barrels, but rose at Cushing by 900,000 barrels. Stocks in PAD III rose by 400,000 barrels. Adding up all other districts yields a net inventory decline of 1.9 million barrels.

Refinery crude oil runs fell by 113 MB/D from the previous week to average around 14.2 MMB/D. Gross crude oil imports eased by 33 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 about 1.8 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories fell by 5.5 million barrels. The aggregate drop included a 2.5 million barrel fall in finished gasoline supplies and a 3.0 million barrel decline in blendstocks. Total gasoline inventories now total 215.8 million barrels and are 16.0 million barrels above the comparable point in 2007.

Refinery production of finished mogas eased by 55 MB/D on the week and averaged about 8.8 MMB/D. Gross imports of total mogas rose by 43 MB/D to average 950 MB/D.

Implied gasoline demand gained by 52 MB/D from the prior period and averaged more than 9.3 MMB/D. Over the past four weeks, implied gasoline demand is up by 0.8% versus last year, while year to date is flat with the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories rose by 100,000 barrels. Supplies now stand at 106.1 million barrels and retain a 14.0 million-barrel deficit to last year. The modest stock gain was composed of a 1.0 million barrel increase in ultra low-sulphur crude oil supplies, an 800,000 barrel fall in other diesel stocks, and a 200,000 barrel decline in heating oil inventories.

Refinery production of distillate fuel oil rose by 39 MB/D from the previous week to average around 4.0 MMB/D. Gross distillate imports increased by 99 MB/D and averaged 260 MB/D.

Implied distillate demand dropped by 397 MB/D on the week and averaged under 4.1 MMB/D. Over the last four weeks implied distillate demand declined by 0.9% over last year, while year to date has fallen by 2.4% versus the comparable period in 2007.

On balance, while the continued low level of crude oil imports may reflect some impact from periodic port closures in Mexico, imports into PAD III recovered by 810 MB/D from the prior week. Imports dropped significantly in PAD I by 552 MB/D, marginally in PAD IV, and by 249 MB/D in PAD V.

While this all may still reflect a timing issue, the data may confirm a strategy on the part of at least some refiners to minimize incremental purchases under the expectation that refinery crude oil runs may remain somewhat lower for a more extended period of time until margins improve.

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