



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

May 21, 2008

WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending May 16, and we wish to provide our thoughts on the numbers in the context of our forecast U.S. refinery balances. Relative to consensus expectations, the data were bullish across the board.

Turning first to crude oil, inventories declined by 5.4 million barrels. Stocks now stand at 320.4 million barrels and are 22.4 million barrels below last year at this time. Supplies in PAD II were unchanged on the week, but rose at Cushing by 200,000 barrels. Stocks in PAD III fell by 6.3 million barrels. Adding up all other districts yields a net inventory build of 200,000 barrels, and thus there were some inconsistencies in the week-to-week data.

Refinery crude oil runs rose by 29 MB/D from the prior period to average almost 15.1 MMB/D. Gross crude oil imports dropped by 696 MB/D and averaged around 9.2 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" declined by about 5.5 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories declined by 800,000 barrels. Stocks now total 209.4 million barrels and lie 9.7 million barrels above last year. The fall included a 300,000 barrel increase in finished mogas supplies more than offset by a 1.1 million barrel decline in blendstocks.

Refinery production of finished gasoline rose by 124 MB/D on the week to average about 9.0 MMB/D. Gross imports of total gasoline gained by 228 MB/D and averaged more than 1.1 MMB/D.

Implied gasoline demand rose by 16 MB/D from the previous week to average almost 9.4 MMB/D. Over the last four weeks implied gasoline demand declined by 0.4% from last year, while year to date implied demand has declined by 0.6% versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories rose by 700,000 barrels. Stocks now stand at 107.8 million barrels and retain a 15.0 million barrel deficit to last year. The aggregate increase was composed of a 100,000 barrel increase in ultra low-sulphur distillate supplies, a 300,000 barrel rise in other diesel stocks, and a 400,000 barrel gain in heating oil inventories.

Refinery production of distillate eased by 8 MB/D on the week and averaged less than 4.4 MMB/D. Gross distillate imports fell by 18 MB/D to average 198 MB/D.

Implied distillate demand rose by 61 MB/D from the prior period and averaged almost 4.2 MMB/D. Over the last four weeks implied demand is up by 0.7% over last year, while year to date has declined by 2.2% versus the comparable period in 2007.

On balance, at this point we believe the drop in gross crude oil imports was a timing issue, and we would look for imports to recover along with crude oil stocks over the next week or two.

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