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Energy Risk  
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**HIGHLY CONFIDENTIAL**

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**WEEKLY INVENTORY REVIEW**

The DOE released the latest Weekly Petroleum Status Report for the week ending April 17, and we wish to provide our thoughts on the data in the context of our forecast U.S. refinery balances. Overall, the numbers were bearish relative to consensus expectations.

With regard to crude oil, stocks rose by 3.9 million barrels. Supplies now stand at 370.6 million barrels and are 54.5 million barrels above last year. Stocks in PAD II rose by 300,000 barrels, including a gain at Cushing of an equal volume. Stocks in PAD III gained by 4.9 million barrels. Adding up all other districts yields a net inventory draw of 1.4 million barrels.

Refinery crude oil runs rose by 529 MB/D from the previous week and averaged more than 14.5 MMB/D. Gross crude oil imports increased by 464 MB/D to average almost 9.9 MMB/D. Taking the DOE estimate of domestic crude oil production averaging about 5.4 MMB/D, total stocks "should have" increased by more than 5.3 MMB/D.

Turning to refined products, the DOE reported that primary gasoline inventories rose by 800,000 barrels. The aggregate increase was composed of a 300,000 barrel fall in finished mogas supplies and a 1.1 million barrel gain in blendstocks. Gasoline inventories now total 217.3 million barrels and are 2.1 million barrels above last year at this time.

Refinery output of finished gasoline rose by 175 MB/D on the week to average almost 9.1 MMB/D. Gross imports of total mogas increased by 464 MB/D and averaged around 1.1 MMB/D.

Implied gasoline demand gained by 372 MB/D from the prior period to average more than 9.1 MMB/D. Over the last four weeks implied gasoline demand fell by 0.4% from last year, while year to date has declined by 0.1% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil inventories increased by 2.7 million barrels, now standing at 142.3 million barrels, some 35.7 million barrels above the same point in 2008. The rise included a 2.4 million barrel gain in ultra low-sulphur diesel stocks, a 400,000 barrel rise in other diesel supplies, and a 100,000 barrel fall in heating oil inventories.

Refinery production of total distillate increased by 185 MB/D from the previous period and averaged more than 4.1 MMB/D. Gross distillate imports rose by 48 MB/D to average 192 MB/D.

Implied distillate demand fell by 317 MB/D on the week and averaged less than 3.5 MMB/D. For the past four weeks implied distillate demand is down by 9.4% versus last year, while year to date has declined by 6.2% versus the comparable period in 2008.

Overall, last week we witnessed the impact of a recovery in crude oil runs as we move into the gasoline season, while product demand remains weak. At this point it would be premature to assume that the rise in crude oil imports signals a new trend, and thus stocks may finally begin to stabilize.

However, an improvement in the overall balance is fully dependent upon some recovery in product demand, which our Base Case does not assume until the second half of the year.

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