HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending April 18, and we wish to provide our customary thoughts on the data within the context our forecast U.S. refinery balances. Relative to consensus expectations, the crude oil build was less constructive, while the gasoline and distillate draws were bullish.

Turning first to crude oil, stocks rose by 2.4 million barrels. Supplies now stand at 316.1 million barrels and retain an 18.9 million barrel deficit to last year at this time. Stocks in PAD II were unchanged on the week, but rose at Cushing by 700,000 barrels. Supplies in PAD III were also unchanged. Adding up all other districts yields a net inventory increase of 2.3 million barrels.

Refinery crude oil runs rose by 591 MB/D from the prior period and averaged more than 14.8 MMB/D. Gross crude oil imports recovered by almost 1.2 MMB/D to average around 10.0 MMB/D. Taking the DOE estimate of domestic crude oil production, total crude oil stocks "should have" increased by some 2.2 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories fell by 3.2 million barrels. Supplies now total 212.6 million barrels and lie 13.9 million barrels above last year. The aggregate decline included a 600,000 barrel fall in finished mogas supplies and a 2.6 million barrel drop in blendstocks.

Refinery production of finished motor gasoline rose by 26 MB/D on the week to average almost 8.9 MMB/D. Gross imports of total gasoline increased by 56 MB/D and averaged about 1.0 MMB/D.

Implied gasoline demand fell by 123 MB/D on the week to average close to 9.2 MMB/D. Over the past four weeks, implied gasoline demand is up by 0.9% versus last year, while year to date is unchanged versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories fell by 1.4 million barrels. The decline was composed of 2.9 million barrel drop in ultra low-sulphur diesel stocks, a 1.0 million barrel gain in other diesel supplies, and a 700,000 barrel increase in heating oil inventories. Distillate stocks now stand at 104.7 million barrels and retain a 15.7 million barrel deficit to last year.

Refinery production of distillate increased by 87 MB/D from the previous week and averaged more than 4.1 MMB/D. Gross distillate imports rose by 1 MB/D to average 261 MB/D.

Implied distillate demand increased by 292 MB/D from the prior week and averaged almost 4.4 MMB/D. For the last four weeks implied distillate demand is up by 0.5% versus last year, but year to date has declined by 2.0% versus the comparable period in 2007.

On balance, the recovery in crude oil imports confirms to us that while some refiners may be employing a strategy of minimizing stocks to adjust to lower demand, timing issues played some role in previous weeks. Overall, therefore, we would not look for U.S. crude oil days supply to fall materially below the average range of this decade for the remainder of the second quarter.

For gasoline, primary stocks now stand at the lower end of our outlook, but we believe as refinery crude oil runs increase they will begin to stabilize.

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