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Energy Risk
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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending April 25, and we provide our perspective on the numbers within the context of our forecast second quarter U.S. refinery balances. Overall, the crude oil and distillate builds were less constructive than the market was looking for, while the gasoline draw was bullish relative to consensus expectations.

With regard to crude oil, stocks rose by 3.8 million barrels. Inventories now stand at 319.9 million barrels and retain a 16.4 million barrel deficit to last year. Supplies in PAD II increased by 1.1 million barrels, including a build at Cushing of 200,000 barrels. Stocks in PAD III gained by 1.0 million barrels. Adding up all other districts yields a net inventory increase of 1.8 million barrels.

Refinery crude oil runs eased by 79 MB/D on the week to average around 14.7 MMB/D. Gross crude oil imports rose by 174 MB/D and averaged about 10.2 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by almost 4.0 million barrels.

Turning to refined products, the DOE reported that primary gasoline inventories fell by 1.5 million barrels. The aggregate decline included a 500,000 barrel rise in finished gasoline supplies and a 2.0 million barrel drop in blendstocks. Gasoline inventories total 211.1 million barrels and lie 13.4 million barrels above last year at this time.

Refinery production of finished gasoline gained by 97 MB/D from the prior period to average almost 9.0 MMB/D. Gross imports of total mogas jumped by 379 MB/D and averaged almost 1.4 MMB/D.

Implied gasoline demand declined by 26 MB/D on the week and averaged under 9.2 MMB/D. Over the past four weeks implied gasoline demand is up by 0.4% over last year, although given the consistent downward DOE data revisions, recent implied demand is likely overstated in the context of rising retail pump prices. Year to date, the DOE reports that implied gasoline demand was flat versus the comparable period in 2007.

Finally, the DOE reported that distillate inventories rose by 1.1 million barrels. Stocks now stand at 105.8 million barrels and retain a 14.9 million barrel deficit to last year. The aggregate stock increase was composed of a 1.7 million barrel rise in ultra low-sulphur diesel supplies, a 100,000 barrel fall in other diesel stocks, and a 500,000 barrel decline in heating oil inventories.

Refinery production of distillate fuel oil increased by 122 MB/D from the previous week and averaged more than 4.2 MMB/D. Gross imports of distillate rose by 12 MB/D to average 273 MB/D.

Implied distillate demand dropped by 224 MB/D on the week and averaged around 4.1 MMB/D. Over the past four weeks implied distillate demand is up by 0.7% versus last year, while year to date is down 2.0% versus the comparable period in 2007.

On balance, the crude oil import data confirm to us that the industry is likely to experience a seasonal inventory pattern somewhat closer to the historical average than the early April experience of extremely low imports would have implied.

We would look for further net gains in crude oil stocks over the weeks ahead, although it would not surprise us to see a temporary, timing-related decline in the next week or so.

William H. Brown, III

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