



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending May 2, and we wish to offer our customary perspective on the data in the context of our forecast second quarter U.S. refinery balances. On balance, the crude oil and gasoline data were bearish, while the distillate draw was more constructive than consensus expectations.

Turning first to crude oil, inventories rose by 5.7 million barrels. Stocks now stand at 325.6 million barrels and retain a 12.2 million barrel deficit to last year at this time. Supplies in PAD II gained by 1.6 million barrels and included an increase at Cushing of 900,000 barrels. Stocks in PAD III rose by 2.1 million barrels. Adding up all other districts yields a net inventory gain of 1.8 million barrels.

Refinery crude oil runs fell by 99 MB/D on the week to average around 14.6 MMB/D. Gross crude oil imports rose by 413 MB/D and averaged more than 10.6 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by some 7.5 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories rose by 800,000 barrels. The aggregate increase included a decline in finished mogas supplies of 2.5 million barrels, more than offset by a 3.3 million barrel build in blendstocks. Gasoline inventories now total 211.9 million barrels and lie 14.9 million barrels above last year at this time.

Refinery production of finished gasoline dropped by 287 MB/D on the week and averaged about 8.7 MMB/D. Gross imports of total mogas rose by 109 MB/D to average almost 1.5 MMB/D.

Implied gasoline demand gained by 122 MB/D from the prior week and averaged more than 9.3 MMB/D. For the past four weeks implied gasoline demand is up by 0.3% over last year, while year to date has declined by 0.6% versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories fell by 100,000 barrels. The decline was composed of an 800,000 barrel fall in ultra low-sulphur diesel stocks, a 500,000 barrel gain in other diesel supplies, and a 100,000 barrel increase in heating oil inventories.

Refinery production of distillate fuel rose by only 1 MB/D on the week and averaged more than 4.2 MMB/D, while gross imports declined by 86 MB/D to average 187 MB/D.

Implied distillate demand gained by 52 MB/D from the prior period and averaged almost 4.2 MMB/D. Over the last four weeks implied distillate demand is down by 0.5%, while year to date demand has declined by 2.7% versus the comparable period in 2007.

Overall, the crude oil data remain consistent with our expectations of a seasonal build in crude oil inventories in advance of higher refinery runs as we move over the next two to three months. Gasoline inventories, while subject to a periodic draw, remain broadly in line with our expectations for the remainder of the second quarter.

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