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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 8, and we offer our perspective on the data in the context of our forecast U.S. refinery balances. In a nutshell, the crude oil and gasoline draws were bullish relative to consensus expectations, while the distillate build was bout in line.

Looking first at crude oil, stocks declined by 4.7 million barrels. Totaling 370.6 million barrels, supplies now stand some 55.4 million barrels above last year at this time. Stocks in PAD II fell by 1.3 million barrels, which included a draw at Cushing of 1.0 million barrels. Supplies in PAD III declined by 2.3 million barrels. Adding up all other districts yields a net inventory draw of 1.0 million barrels.

Refinery crude oil runs fell by 330 MB/D from the previous week and averaged around 14.4 MMB/D. Gross crude oil imports dropped by more than 1.2 million barrels to average some 8.7 MMB/D. Taking the DOE estimate of domestic crude oil production for the period, total crude stocks "should have" declined by almost 2.9 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories declined by 4.1 million barrels. The fall was composed of a 400,000 barrel decline in finished mogas supplies and a 3.8 million barrel drop in blendstocks. Supplies now total 208.3 million barrels and lie 1.1 million barrels below last year.

Refinery output of finished gasoline declined by 208 MB/D from the previous period and averaged close to 8.7 MMB/D. Gross imports of total mogas fell by 76 MB/D to average 747 MB/D.

Implied gasoline demand eased by 12 MB/D on the week and averaged around 8.9 MMB/D. Over the last four weeks implied gasoline demand is off by 1.2% from last year, while year to date has fallen by 0.9% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil inventories rose by 1.0 million barrels. Stocks are now at 147.5 million barrels and retain a 39.9 million barrel surplus over last year at this time. The aggregate increase included a 200,000 barrel gain in ultra low-sulphur diesel supplies, a 300,000 barrel fall in other diesel stocks, and a 1.0 million barrel build in heating oil inventories.

Refinery production of total distillate fell by 77 MB/D on the week and averaged around 4.1 MMB/D. Gross distillate imports gained by 41 MB/D to average 206 MB/D.

Implied distillate demand rose by 179 MB/D from the previous week and averaged more than 3.6 MMB/D. For the past four weeks implied distillate demand was off by 14.1% from last year, while year to date has declined by 8.0% versus the comparable period in 2008.

On balance, the crude oil draw remains consistent with our overall outlook, although we would caution that the low level of gross imports last week implies a recovery for the week ending May 15 to revert to the underlying mean.

In terms of distillate, implied demand has finally rebounded as expected, but the recovery thus far has been modest. The magnitude strikes us as suggesting the odds have increased that the U.S. economy may be "re-weakening" at least to a degree, consistent with disappointing April retain sales data released this morning.

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