



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 9, and we provide our thoughts on the numbers within the context of our forecast second quarter U.S. refinery balances. In a nutshell, the crude oil and gasoline data were bullish, while the distillate build was less constructive than the market was looking for.

With regard to crude oil, inventories rose by 200,000 barrels. Supplies now stand at 325.8 million barrels and retain a 14.5 million barrel deficit to last year. Stocks in PAD II increased by 300,000 barrels and included a gain at Cushing of 200,000 barrels. Supplies in PAD III rose by 1.4 million barrels. Adding up all other districts yields a net inventory decline of 1.3 million barrels.

Refinery crude oil runs rose by 405 MB/D on the week to average more than 15.0 MMB/D. Gross crude oil imports declined by 695 MB/D and averaged around 9.9 MMB/D. Taking the DOE estimate of domestic production, total crude oil stocks "should have" increased by some 49,000 barrels.

Turning to refined products, the DOE reported that primary gasoline inventories fell by 1.7 million barrels. Stocks now total 210.2 million barrels and are 11.8 million barrels above the same point in 2007. The decline included a 1.9 million barrel drop in finished mogas supplies and a 200,000 barrel rise in blendstocks.

Refinery production of finished gasoline rose by 227 MB/D from the prior week and averaged about 8.9 MMB/D. Gross imports of total mogas dropped by 579 MB/D to average 915 MB/D.

Implied gasoline demand rose by 32 MB/D on the week and averaged more than 9.3 MMB/D. Over the last four weeks implied gasoline demand fell by 0.2% from 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 increased by 1.4 million barrels. Stocks stand at 107.1 million barrels and retain a 14.8 million barrel deficit to last year. The aggregate increase was composed of a 1.3 million barrel gain in ultra low-sulphur diesel supplies, a 300,000 barrel decline in other diesel stocks, and a 400,000 barrel rise in heating oil inventories.

Refinery production of total distillate increased by 113 MB/D from the previous week and averaged almost 4.4 MMB/D. Gross distillate imports rose by 29 MB/D to average 216 MB/D.

Implied distillate demand fell by 64 MB/D on the week and averaged around 4.1 MMB/D. For the last four weeks implied distillate demand is up by 0.8% over last year, but year to date has declined by 2.4% versus the comparable period in 2007.

Overall, despite the decline in crude oil imports which was expected, our balances imply a continued net build in crude oil inventories through the second quarter. As refinery runs continue to rise, we would look for the beginning of the normal seasonal build, on average, in distillate inventories, with stable to declining gasoline supplies.

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