



HORNSBY & COMPANY, INC.

www.hornsbyco.com

Energy Risk
Management Services

HIGHLY CONFIDENTIAL

May 20, 2009

WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending May 15, and we wish to provide our thoughts on the numbers in the context of our forecast refinery balances. Overall, the data were constructive relative to market expectations.

With regard to crude oil, stocks declined by 2.1 million barrels, now standing at 368.5 million barrels, some 56.9 million barrels above last year at this time. Supplies in PAD II rose by 900,000 barrels, including a gain at Cushing of 800,000 barrels. Stocks in PAD III fell by 4.2 million barrels. Adding up all other districts yields a net inventory gain of 1.2 million barrels.

Refinery crude oil runs declined by 315 MB/D from the previous week and averaged 14.1 MMB/D. Gross crude oil imports rose by 83 MB/D to average almost 8.8 MMB/D. Taking the DOE estimate of domestic crude oil production which averaged around 5.4 MMB/D, total stocks “should have” risen by almost 240,000 barrels.

Turning to refined products, the DOE reported that primary gasoline inventories fell by 4.3 million barrels. The decline included a 2.3 million barrel drop in finished mogas supplies and a 2.0 million barrel fall in blendstocks. Inventories total 204.0 million barrels and retain a 4.8 million barrel deficit to last year.

Refinery output of finished gasoline rose by 25 MB/D from the prior period to average more than 8.7 MMB/D. Gross imports of total mogas increased by 191 MB/D and averaged 938 MB/D.

Implied gasoline demand rose by 321 MB/D on the week to average more than 9.2 MMB/D, reflecting pre-Memorial Day holiday secondary stocking. Over the past four weeks implied demand has declined by 1.2% from last year, while year to date has fallen by 0.8% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil inventories rose by 600,000 barrels. Stocks now stand at 148.1 million barrels and lie 39.0 million barrels above last year. The aggregate increase was composed of a 700,000 barrel gain in ultra low-sulphur diesel stocks, a 300,000 barrel fall in other diesel supplies, and a 300,000 barrel increase in heating oil inventories.

Refinery production of total distillate rose by 2 MB/D from the previous period and averaged in excess of 4.1 MMB/D. Gross distillate imports fell by 33 MB/D to average 173 MB/D.

Implied distillate demand gained by 16 MB/D on the week and averaged more than 3.6 MMB/D. Over the last four weeks implied distillate demand has dropped by 12.0% from last year, while year to date has declined by 7.9% versus the comparable period in 2008.

On balance, while the crude oil stock decline is consistent with our broad outlook for inventories through the remainder of the year, we would not be surprised to see some recovery in imports over the next week or two and revert average import levels back to our forecast mean for this time of year.

With regard to products, the major surplus of distillate supplies will likely lead to continued refiner management of overall output and runs, thus precluding gasoline stocks from recovering substantially despite lower demand.

Thus, stable to firmer gasoline prices would contribute to our Base Case forecast that WTI will peak in August or so at around \$70.00+ per barrel before easing back toward \$50.00-\$55.00 per barrel by the end of the year.

William H. Brown, III

Information contained herein is believed to be reliable but its accuracy cannot be guaranteed. Past performance is not indicative of future results and the risk of loss is substantial in futures trading. Hornsby & Company, Inc. and W.H. Brown may, from time to time, have positions in the futures market relative to these recommendations.