



HORNSBY & COMPANY, INC.

www.hornsbyco.com

Energy Risk
Management Services

HIGHLY CONFIDENTIAL

June 4, 2008

WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending May 30, and we provide our thoughts on the data in the context of our forecast U.S. refinery balances. Relative to consensus expectations, the crude oil draw was bullish while the primary product builds were bearish.

Turning first to crude oil, inventories declined by 4.8 million barrels. Stocks now stand at 306.8 million barrels and retain a 40.9 million barrel deficit to last year at this time. Supplies in PAD II fell by 700,000 barrels, but rose at Cushing by 500,000 barrels. Stocks in PAD III dropped by 3.3 million barrels. Adding up all other districts yields a net inventory decline of 700,000 barrels.

Refinery crude oil runs increased by 183 MB/D on the week to average almost 15.5 MMB/D. Gross crude oil imports recovered by 827 MB/D and averaged around 9.8 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks “should have” declined by about 3.9 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories gained by 2.9 million barrels. The aggregate increase included a 1.8 million barrel rise in finished mogas supplies and a 1.2 million barrel gain in blendstocks. Gasoline inventories now total 209.1 million barrels and lie 6.6 million barrels above last year.

Refinery output of finished gasoline rose by 15 MB/D from the prior period to average more than 9.1 MMB/D. Gross imports of total gasoline increased by 287 MB/D and averaged about 1.3 MMB/D.

Implied gasoline demand fell by 244 MB/D from the previous week to average close to 9.1 MMB/D. Over the past four weeks implied gasoline demand is down by 1.4% from last year, while year to date has declined by 1.0% versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories rose by 2.3 million barrels. Stocks now stand at 111.7 million barrels and are 12.9 million barrels below last year. The distillate increase was composed of a 1.1 million barrel gain in ultra low-sulphur diesel stocks, a 1.2 million barrel rise in other diesel supplies, and unchanged heating oil inventories.

Refinery production of distillate fuel oil increased by 191 MB/D on the week and averaged around 4.5 MMB/D. Gross distillate imports declined by 39 MB/D to average 211 MB/D.

Implied distillate demand rose by 36 MB/D from the previous period and averaged more than 4.1 MMB/D. Over the last four weeks implied distillate demand is up by 1.6% over last year, while year to date has declined by 2.4% versus the comparable period in 2007.

On balance, we would look for a further recovery in crude oil imports as crude oil runs continue to rise, limiting any further inventory declines. Refined product inventories should be more than ample to meet our anticipated conservative view of both U.S. and world oil demand growth for the remainder of 2008.

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.