



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 June 5, and we wish to offer our perspective on the data within the context of our forecast refinery balances. In a nutshell, the numbers were constructive across the board relative to market expectations.

With regard to crude oil, inventories declined by 4.4 million barrels, now standing at 361.6 million barrels, some 59.9 million barrels above last year. Supplies in PAD II fell by 600,000 barrels, which included a draw at Cushing of 900,000 barrels. Stocks in PAD III dropped by 2.9 million barrels. Adding up all other districts yields a net inventory decline of 800,000 barrels.

Refinery crude oil runs rose by 25 MB/D and averaged 14.75 MMB/D. Gross crude oil imports fell by 676 MB/D to average under 9.0 MMB/D. Taking the DOE estimate of domestic crude oil production averaging 5.358 MMB/D, total stocks "should have" declined by almost 3.0 million barrels.

Turning to refined products, the DOE reported that primary gasoline inventories fell by 1.6 million barrels. The decline included a 600,000 barrel drop in finished mogas supplies and a 1.0 million barrel fall in blendstocks. Inventories now total 201.6 million barrels and retain a 6.1 million barrel deficit to last year.

Refinery production of finished gasoline rose by 150 MB/D from the prior week and averaged almost 9.0 MMB/D. Gross imports of total mogas fell by 77 MB/D to average 872 MB/D.

Implied gasoline demand increased by 121 MB/D from the previous period and averaged more than 9.1 MMB/D. Over the last four weeks implied gasoline demand rose by 0.4% from last year, while year to date has declined by 1.0% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil stocks declined by 300,000 barrels. The fall was composed of an 800,000 barrel gain in ultra low-sulphur diesel supplies, a 300,000 barrel drop in other diesel stocks, and an 800,000 barrel decline in heating oil inventories. Stocks now stand at 149.7 million barrels and lie 35.8 million barrels above last year.

Refinery output of distillate fuel fell by 119 MB/D from the previous week and averaged close to 3.9 MMB/D. Gross distillate imports declined by 46 MB/D to average 162 MB/D.

Implied distillate demand rose by 117 MB/D on the week and averaged almost 3.6 MMB/D. For the past four weeks implied distillate demand has fallen by 8.4% from last year, while year to date has declined by 8.5% versus the comparable period in 2008.

On balance, the crude oil draw is consistent with our outlook for the summer, although we are researching to confirm what if any impact the recent flattening of the curve has had on offshore tanker storage strategies.

While implied distillate demand has recovered somewhat, the overall picture still suggests, as we have previously discussed, a "stretched u" type of economic configuration at the present time.

For gasoline, the last four weeks reveal a modest rise in implied gasoline demand for the first time in several months. While invariably the data will be revised, most likely down, the overall trend is consistent with our Base Case that the decline in implied demand will moderate to a degree in the second half of the year.

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