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Energy Risk
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HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending June 6, and we wish to provide our customary perspective on the numbers. On balance, the crude oil draw was more bullish than the market was looking for, while the gasoline and distillate stock builds were slightly higher than consensus expectations.

With regard to crude oil, stocks declined by 4.6 million barrels. Supplies now stand at 302.2 million barrels and are 47.3 million barrels below last year at this time. PAD II stocks fell by 800,000 barrels, which included a draw at Cushing of 500,000 barrels. Supplies in PAD III declined by 3.6 million barrels. Adding up all other districts yields a net inventory fall of 200,000 barrels.

Refinery crude oil runs eased by 161 MB/D from the previous week to average about 15.3 MMB/D. Gross crude oil imports declined by 98 MB/D and averaged less than 9.7 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" dropped by around 3.6 million barrels.

Turning to refined products, the DOE reported that primary gasoline inventories rose by 1.0 million barrels. The aggregate increase was composed of unchanged finished gasoline supplies and a 1.0 million-barrel build in blendstocks. Gasoline inventories total 210.1 million barrels and lie 6.9 million barrels above the same point in 2007.

Refinery production of finished mogas declined by 139 MB/D from the prior period to average under 9.0 MMB/D. Gross imports of total gasoline fell by 115 MB/D and averaged around 1.2 MMB/D.

Implied gasoline demand rose by 282 MB/D on the week to average about 9.4 MMB/D. Over the last four weeks implied gasoline demand has fallen by 1.3% 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 to total 114.0 million barrels. The latest stock position lies some 10.6 million barrels below the same point in 2007. The inventory increase included a 1.4 million barrel rise in ultra low-sulphur diesel stocks, a 200,000 barrel gain in other diesel supplies, and a 600,000 barrel increase in heating oil inventories.

Refinery production of distillate fuel oil eased by 31 MB/D from the previous week to average less than 4.5 MMB/D. Gross distillate imports declined by 84 MB/D and averaged 127 MB/D.

Implied distillate demand fell by 89 MB/D on the week and averaged around 4.0 MMB/D. For the last four weeks implied distillate demand is up by 0.7% over last year, while year to date has declined by 2.4% versus the comparable period in 2007.

Overall, refiners appear intent upon maintaining lower stock levels at current prices, but based on previous Arabian Gulf tanker activity and allowing for transit time, imports should recover slightly over the next month, precluding crude oil inventories from declining materially below 300.0 million barrels.

Gasoline inventories remain within our expected range, while the trend in distillate builds suggests that the current stock deficit to last year will be eliminated by year end, if not sooner, in line with our forecast balances.

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