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**WEEKLY INVENTORY REVIEW**

The DOE released the latest Weekly Petroleum Status Report for the week ending June 12, and we provide our thoughts on the numbers within the context of our forecast refinery balances. Relative to consensus expectations, the crude oil and distillate data were constructive, while the gasoline stock build was larger than the market was looking for.

Turning first to crude oil, the DOE reported that stocks fell by 3.9 million barrels. Now totaling 357.7 million barrels, supplies lie some 57.9 million barrels above last year. Stocks in PAD II declined by 1.3 million barrels, but were unchanged at Cushing. Supplies in PAD III fell by 2.9 million barrels. Adding up all other districts yields a net inventory increase of 300,000 barrels.

Refinery crude oil runs eased by 73 MB/D on the week to average less than 14.7 MMB/D. Gross crude oil imports rose by 67 MB/D and averaged more than 9.0 MMB/D. Taking the DOE estimate of domestic crude oil production averaging about 5.3 MMB/D for the week, total stocks "should have" declined by around 2.6 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories rose by 3.4 million barrels. The aggregate increase was composed of a 500,000 barrel draw in finished mogas supplies and a 3.9 million barrel build in blendstocks. Stocks total 205.0 million barrels and retain a 3.3 million barrel deficit to last year.

Refinery output of finished gasoline rose by 180 MB/D from the prior period and averaged about 9.1 MMB/D. Gross imports of total gasoline gained by 218 MB/D to average almost 1.1 MMB/D.

Implied gasoline demand increased by 213 MB/D on the week and averaged almost 9.4 MMB/D. Over the last four weeks implied gasoline demand was up by 1.1% from last year, while year to date has declined by 0.8% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil inventories rose by 300,000 barrels, which included a 1.1 million barrel fall in ultra low-sulphur diesel stocks, a 700,000 barrel gain in other diesel supplies, and a 600,000 barrel increase in heating oil inventories. Distillate stocks total an even 150.0 million barrels and lie 34.2 million barrels above last year at this time.

Refinery production of distillate fuel eased by 18 MB/D on the week and averaged around 3.9 MMB/D. Gross distillate imports rose by 29 MB/D to average 191 MB/D.

Implied distillate demand dropped by 188 MB/D from the previous week and averaged less than 3.4 MMB/D. For the previous four weeks implied distillate demand was off by 8.9% from last year, while year to date has declined by 8.5% versus the comparable period in 2008.

On balance, in terms of crude oil, supplies continue on our anticipated decline path thus far, despite the existence of offshore storage in tankers which is likely now being reduced.

For gasoline, although likely subject to revision, implied demand has improved modestly over the last month versus last year. However, last week's data clearly demonstrated that the existence of spare refining capacity implies that stocks will remain adequate until demand improves substantially and/or some refining capacity is consolidated.

In terms of distillate, implied demand remains quite weak, confirming that our previously discussed "stretched u" type of economic picture has likely extended into June.

William H. Brown, III

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