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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 13, and we offer our customary perspective on the data. Relative to consensus expectations, the crude oil draw was slightly less than anticipated, while the distillate build exceeded market estimates. In contrast, gasoline stocks fell in contrast to forecasts of a modest build.

With regard to crude oil, stocks declined by 1.2 million barrels. Supplies now stand at 301.0 million barrels and retain a 50.0 million barrel deficit to last year. Stocks in PAD II fell by 900,000 barrels and included a draw at Cushing of 700,000 barrels. Supplies in PAD III declined by 800,000 barrels. Adding up all other districts yields a net inventory increase of 400,000 barrels.

Refinery crude oil runs rose by 120 MB/D on the week to average more than 15.4 MMB/D. Gross crude oil imports recovered by 571 MB/D and averaged almost 10.3 MMB/D. Taking the DOE estimate of domestic crude oil production suggests that crude oil stocks "should have" fallen by only 245,000 barrels.

Turning to refined products, the DOE reported that primary gasoline inventories declined by 1.2 million barrels, which was composed of a 600,000 barrel gain in finished mogas supplies and a 1.8 million barrel drop in blendstocks. Gasoline inventories now total 208.9 million barrels and lie 5.2 million barrels above last year at this time.

Refinery production of finished gasoline eased by 9 MB/D from the prior period and averaged less than 9.0 MMB/D. Gross imports of total mogas declined by 153 MB/D to average close to 1.0 MMB/D.

Implied gasoline demand fell by 160 MB/D from the previous week and averaged less than 9.3 MMB/D. For the past four weeks implied gasoline demand is off by 1.8% versus last year, while year to date has declined by 1.1% versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories rose by 2.6 million barrels. Stocks now lie at 116.6 million barrels and are 7.7 million barrels below last year. The aggregate increase included a 1.0 million barrel rise in ultra low-sulphur diesel supplies, a 300,000 barrel gain in other diesel stocks, and a 1.4 million barrel increase in heating oil inventories.

Refinery production of distillate fuel oil fell by 36 MB/D on the week to average around 4.4 MMB/D. Gross distillate imports recovered by 130 MB/D and averaged 257 MB/D.

Implied distillate demand rose by 45 MB/D from the prior week to average almost 4.1 MMB/D. Over the last four weeks implied distillate demand is off by 0.4% from last year, while year to date has declined by 2.3% versus the comparable period in 2007.

Looking ahead, we would expect that crude oil inventories will begin to stabilize, and not decline materially below 300.0 million barrels, now that the data appear to reflect the arrival of incremental Saudi imports that were loaded in May. Future data should reflect the buildup of Thunder Horse production.

In terms of distillate, after adjusting for incremental exports implied demand reflects weak domestic manufacturing activity, and despite lower refinery runs our balances continue to imply that the current stock deficit to last year will reverse into an "overage" within the next few months.

William H. Brown, III

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