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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 19, and we wish to offer our perspective on the data within the context of our forecast refinery balances. Compared to what the market was looking for, the crude oil draw was constructive, while the gasoline and distillate builds were bearish relative to consensus expectations.

Looking first at crude oil, stocks declined by 3.8 million barrels. Now standing at 353.9 million barrels, supplies are some 55.9 million barrels above last year. Stocks in PAD II fell by 1.1 million barrels, including a draw at Cushing of 800,000 barrels. Supplies in PAD III declined by 200,000 barrels. Adding up all other districts yields a net inventory draw of 2.4 million barrels.

Refinery crude oil runs rose by 354 MB/D on the week and averaged around 15.0 MMB/D. Gross crude oil imports increased by 247 MB/D to average almost 9.3 MMB/D. Taking the DOE estimate of domestic crude oil production averaging close to 5.3 MMB/D, total stocks "should have" declined by more than 3.4 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories rose by 3.9 million barrels. The aggregate increase included a 1.9 million barrel rise in finished mogas supplies and a 2.0 million barrel build in blendstocks. Inventories now total 208.9 million barrels and are 100,000 barrels above last year at this time.

Refinery production of finished gasoline rose by 93 MB/D from the previous week to average more than 9.2 MMB/D. Gross imports of total mogas fell by 119 MB/D and averaged 971 MB/D.

Implied gasoline demand declined by 225 MB/D from the prior period to average about 9.1 MMB/D. Over the last four weeks implied gasoline demand is up by 0.4% over 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 increased by 2.1 million barrels. Stocks total 152.1 million barrels and stand a full 34.3 million barrels above last year. The gain included a 2.4 million barrel build in ultra low-sulphur diesel supplies, a 200,000 barrel decline in other diesel stocks, and a 100,000 barrel fall in heating oil inventories.

Refinery output of distillate fuel oil rose by 154 MB/D from the previous week and averaged almost 4.1 MMB/D. Gross distillate imports increased by 98 MB/D to average 289 MB/D.

Implied distillate demand eased by 1 MB/D on the week and averaged less than 3.4 MMB/D. Over the past four weeks implied distillate demand is off by 9.3% from last year, while year to date has declined by 8.5% versus the comparable period in 2008.

The crude oil stock decline remains consistent with our forecast balances, and reveals that any landing of volumes stored offshore in tankers has been "orderly".

Product inventories remain more than ample, however, with distillate stocks on their way to 160.0 million barrels. Implied distillate demand remains quite weak, once again confirming our "stretched u" profile that characterizes current economic activity.

William H. Brown, III