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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 20, and we wish to provide our thoughts on the data within the context of our forecast U.S. refinery balances. Relative to consensus expectations the data were bearish across the board.

Turning first to crude oil, stocks rose by 800,000 barrels. Stocks now stand at 301.8 million barrels and are 50.7 million barrels below last year. Supplies in PAD II fell by 600,000 barrels, but rose at Cushing by 100,000 barrels. Inventories in PAD III increased by 2.5 million barrels. Adding up all other districts yields a net stock decline of 1.0 million barrels.

Refinery crude oil runs declined by 181 MB/D on the week to average less than 15.3 MMB/D. Gross crude oil imports eased by 8 MB/D and averaged close to 10.3 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by almost 800,000 barrels.

With regard to refined products, the DOE reported that primary gasoline inventories declined by 100,000 barrels. At 208.8 million barrels, gasoline inventories lie 4.6 million barrels above last year. The stock fall was composed of a 100,000 barrel gain in finished mogas supplies and a 200,000 barrel drop in blendstocks.

Refinery production of finished gasoline rose by 92 MB/D from the prior period and averaged almost 9.1 MMB/D. Gross imports of finished mogas increased by 120 MB/D to average almost 1.2 MMB/D.

Implied gasoline demand rose by 83 MB/D from the previous week and averaged more than 9.3 MMB/D. Over the last four weeks implied gasoline demand is off by 2.1% from 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 2.8 million barrels. Supplies now total 119.4 million barrels and retain a 4.5 million barrel deficit to last year. The aggregate increase included a 700,000 barrel gain in ultra low-sulphur diesel stocks, a 700,000 barrel rise in other diesel supplies, and a 1.4 million barrel increase in heating oil inventories.

Refinery production of distillate fuel rose by 149 MB/D on the week to average almost 4.6 MMB/D. Gross imports of distillate dropped by 150 MB/D and averaged 107 MB/D.

Implied distillate demand fell by 30 MB/D from the prior week to average about 4.0 MMB/D. Over the past four weeks implied distillate demand has declined by 1.1% from last year, while year to date has fallen by 2.3% versus the comparable period in 2007.

On balance, the data remain fully consistent with our forecast that crude oil stocks will not decline materially below 300.0 million barrels. The latest import data reflect an arrival of incremental Saudi volumes placed on the water in May.

Gasoline stocks remain adequate given lower demand. The build in distillate fuel oil inventories suggests that our expectation of a third-quarter elimination of the stock deficit to last year remains reasonable.

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