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**WEEKLY INVENTORY REVIEW**

The DOE released the latest Weekly Petroleum Status Report for the week ending July 3, and we offer our perspective on the data within the context of our forecast refinery balances. Overall, the crude oil draw was constructive relative to consensus expectations, while the builds in gasoline and distillate supplies once again were greater than the market was looking for.

Turning first to crude oil, stocks declined by 2.9 million barrels. Now standing at 347.3 million barrels, supplies are 52.6 million barrels above last year. Stocks in PAD II rose by 900,000 barrels, including a gain at Cushing of 1.6 million barrels. Supplies in PAD III fell by 2.1 million barrels. Adding up all other districts yields a net inventory decline of 1.5 million barrels.

Refinery crude oil runs eased by 26 MB/D on the week and averaged less than 15.0 MMB/D. Gross crude oil imports declined by 139 MB/D to average around 9.2 MMB/D. Taking the DOE estimate of domestic crude oil production averaging almost 5.2 MMB/D, total stocks "should have" declined by almost 4.0 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories rose by 1.9 million barrels. The aggregate increase included a gain in finished mogas and blendstocks each of 900,000 barrels. Supplies total 213.1 million barrels and are 3.6 million barrels above last year.

Refinery production of finished gasoline rose by 13 MB/D from the prior week to average almost 9.3 MMB/D. Gross imports of total mogas jumped by 228 MB/D and averaged more than 1.2 MMB/D.

Implied gasoline demand increased by 176 MB/D from the previous period to average in excess of 9.2 MMB/D. Over the last four weeks implied gasoline demand rose by 1.3% 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 gained by 3.7 million barrels. Stocks now stand at 158.7 million barrels and lie 37.0 million barrels above last year. The total increase was composed of a 1.3 million barrel rise in ultra low-sulphur diesel supplies, a 500,000 barrel gain in other diesel stocks, and a 2.0 million barrel build in heating oil inventories.

Refinery output of total distillate declined by 154 MB/D on the week and averaged close to 4.0 MMB/D. Gross imports increased by 56 MB/D to average 221 MB/D.

Implied distillate demand remained severely weak, declining by 218 MB/D to about 3.0 MMB/D, the lowest weekly average thus far this year. Over the past four weeks implied distillate demand has dropped by 12.3% from last year, while year to date has declined by 9.4% versus the comparable period in 2008.

On balance, once again the crude oil draw remains consistent with our refinery balances, while product stocks remain more than ample. At the current rate, distillate stocks should exceed 160.0 million barrels before the end of the month, barring a sudden resurgence of manufacturing activity in combination with a reduction in refinery runs and distillate yields.

W.H. Brown, III

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