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Energy Risk
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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending July 10, and we wish to provide our thoughts on the numbers in the context of our forecast refinery balances. In a nutshell, the crude oil and distillate stats were constructive, while the gasoline build modestly exceeded consensus expectations.

Turning first to crude oil, stocks declined by 2.8 million barrels. Supplies now stand at 344.5 million barrels and lie some 48.9 million barrels above last year. Stocks in PAD II rose by 500,000 barrels, including a build at Cushing of 600,000 barrels. Supplies in PAD III fell by 1.7 million barrels. Adding up all other districts yields a net inventory draw of 1.7 million barrels.

Refinery crude oil runs rose by 139 MB/D on the week to average about 15.1 MMB/D. Gross crude oil imports increased by 325 MB/D and averaged more than 9.5 MMB/D. Taking the DOE estimate of domestic crude oil production averaging almost 5.2 MMB/D, total stocks "should have" declined by about 2.7 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories rose by 1.5 million barrels. Stocks total 214.6 million barrels and are 4.9 million barrels above last year at this time. The aggregate increase included a decline in finished mogas supplies of 700,000 barrels and a build in blendstocks of 2.2 million barrels.

Refinery output of finished mogas fell by 298 MB/D from the previous week to average less than 9.0 MMB/D. Gross imports of total gasoline dropped by 276 MB/D and averaged 931 MB/D.

Implied gasoline demand fell by 66 MB/D from the prior period to average under 9.2 MMB/D. Over the last four weeks implied gasoline demand is up by 0.6% from last year, while year to date has declined by 0.9% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil stocks rose by 600,000 barrels. Stocks now lie at 159.3 million barrels and are 34.9 million barrels above last year at this time. The total gain was composed of a 200,000 barrel fall in ultra low-sulphur diesel supplies, a 200,000 barrel rise in other diesel stocks, and a 500,000 barrel increase in heating oil inventories.

Refinery production of total distillate rose by 4 MB/D on the week to average over 4.0 MMB/D. Gross distillate imports fell by 62 MB/D and averaged 159 MB/D.

Implied distillate demand recovered by 400 MB/D from the previous week to average in excess of 3.4 MMB/D. Over the past four weeks implied distillate demand is off by 11.7% from last year, while year to date has declined by 9.5% versus the comparable period in 2008.

On balance, once again the crude oil stock draw remains fully consistent with our third quarter forecast U.S. refinery balances. We would also suggest there is a good chance that following weeks of incessant product stock builds in excess of consensus expectations, the builds should begin to moderate as refiners adjust once again to the current demand environment.

W.H. Brown, III

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