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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 July 11, and we provide our customary perspective on the numbers in the context of our forecast U.S. refinery balances. In a nutshell, relative to consensus expectations the data were bearish across the board.

Looking first at crude oil, inventories rose by 3.0 million barrels. Stocks now stand at 296.9 million barrels and lie 52.6 million barrels below last year. Supplies in PAD II fell by 600,000 barrels which included a draw at Cushing of 500,000 barrels. Stocks in PAD III rose by 2.1 million barrels. Adding up all other districts yields a net inventory build of 1.4 million barrels.

Refinery crude oil runs eased by 21 MB/D on the week to average less than 15.5 MMB/D. Gross crude oil imports recovered by more than 1.2 MMB/D and averaged almost 10.8 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by some 3.2 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories gained by 2.4 million barrels. The aggregate increase included a 500,000 barrel rise in finished mogas supplies and a 1.9 million barrel gain in blendstocks. Gasoline supplies total 214.2 million barrels and are 9.3 million barrels above last year.

Refinery production of finished gasoline rose by 128 MB/D from the previous period and averaged almost 9.1 MMB/D. Gross imports of total mogas declined by 147 MB/D to average around 1.0 MMB/D.

Implied gasoline demand eased by 3 MB/D on the week and averaged about 9.3 MMB/D. Over the last four weeks implied gasoline demand is down by 2.1% from last year, while year to date has declined by 1.5% versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories gained by 3.2 million barrels. Supplies now lie at 125.7 million barrels and are now only 100,000 barrels below last year at this time. The total stock increase was composed of a 1.2 million barrel gain in ultra low-sulphur diesel stocks, a 700,000 barrel rise in other diesel supplies, and a 1.3 million barrel increase in heating oil inventories.

Refinery production of distillate fuel rose by 95 MB/D from the previous week and averaged more than 4.7 MMB/D. Gross distillate imports rose by 8 MB/D to average 150 MB/D.

Implied distillate demand fell by 146 MB/D on the week and averaged around 4.1 MMB/D. Over the past four weeks implied distillate demand is up by 2.5% versus last year, while year to date has declined by 2.1% versus the comparable period in 2007.

On balance, the recovery in crude oil stocks remains consistent with our Base Case that supplies will not fall materially below 300.0 million barrels. Gasoline stocks remain ample as expected. The elimination of the distillate inventory deficit to last year will come even sooner in the third quarter than we had assumed, with stocks well exceeding last year by the end of 2008.

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