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Energy Risk
Management Services

HIGHLY CONFIDENTIAL
July 22, 2009

WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending July 17, and we wish to offer our perspective on the data within the context of our forecast refinery balances. On balance, the crude oil draw was somewhat less than the market was looking for, while the gasoline build was about in line with consensus expectations. The build in distillate inventories fell a bit short of analysts' estimates.

With regard to crude oil, stocks fell by 1.8 million barrels. Now standing at 342.7 million barrels, supplies are 47.2 million barrels above last year. Stocks in PAD II fell by 300,000 barrels on the week, but were unchanged at Cushing. Supplies in PAD III rose by 1.6 million barrels. Adding up all other districts yields a net inventory decline of 3.1 million barrels.

Refinery crude oil runs declined by 326 MB/D from the previous week to average less than 14.8 MMB/D. Gross crude oil imports fell by 346 MB/D and averaged around 9.2 MMB/D. Taking the DOE estimate of domestic crude oil production for the week, total stocks "should have" declined by some 2.8 million barrels.

Turning to refined products, the DOE reported that primary gasoline inventories rose by 800,000 barrels. The aggregate increase was composed of a 100,000 barrel build in finished mogas supplies and a 700,000 barrel gain in blendstocks. Total gasoline inventories are now at 215.4 million barrels, 6.7 million barrels above last year at this time.

Refinery production of finished gasoline rose by 280 MB/D from the prior period and averaged more than 9.2 MMB/D. Gross imports of total gasoline recovered by 95 MB/D to average over 1.0 MMB/D.

Implied gasoline demand increased by 92 MB/D on the week and averaged almost 9.3 MMB/D. Over the last four weeks implied gasoline demand is up by 0.7% 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 inventories increased by 1.2 million barrels. Stocks now stand at 160.5 million barrels and lie 34.0 million barrels above last year. Last week's total stock increase included a 1.5 million barrel gain in ultra low-sulphur diesel stocks, a 600,000 barrel fall in other diesel supplies, and a 400,000 barrel rise in heating oil inventories.

Refinery output of distillate fuel rose by 18 MB/D from the previous week to average almost 4.1 MMB/D, while gross imports gained by 93 MB/D and averaged 252 MB/D.

Implied distillate demand rose by 16 MB/D from the prior period to approach 3.5 MMB/D. Over the past four weeks implied distillate demand is off by 11.0% from last year, while year to date has declined by 9.5% versus the comparable period in 2008.

Overall, we had previously suggested that assuming refinery runs would decline in an effort to manage product stocks, there would be a period of stabilization in crude oil stocks until later in the third quarter. Last week's relatively modest draw compared to the recent trend would help confirm our assumptions for summer.

As expected, implied distillate demand has stabilized over the last two weeks, but given the tenuous state of the economy we should reserve any conclusion with regard to manufacturing activity pending another week or two of data.

W.H. Brown, III

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