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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 18, and we wish to provide our perspective on the data within the context of our forecast U.S. refinery balances. Relative to consensus estimates, the crude oil draw was bullish, while the product stock builds exceeded market expectations.

With regard to crude oil, inventories fell by 1.6 million barrels. Stocks now stand at 295.3 million barrels and lie some 50.6 million barrels below last year. Supplies in PAD II fell by 1.5 million barrels and included a draw at Cushing of 400,000 barrels. Stocks in PAD III rose by 300,000 barrels. Adding up all other districts yields a net inventory decline of 400,000 barrels.

Refinery crude oil runs dropped by 355 MB/D on the week and averaged about 15.1 MMB/D. Gross crude oil imports declined by 985 MB/D to average 9.8 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" fallen by almost 1.0 million barrels.

Turning to refined products, primary gasoline inventories rose by 2.9 million barrels. The aggregate increase included a build in finished mogas supplies of 1.0 million barrels and a gain in blendstocks of 1.8 million barrels. Stocks now total 217.1 million barrels and are 12.2 million barrels above the same point in 2007.

Refinery production of finished gasoline gained by 153 MB/D from the previous week to average around 9.2 MMB/D. Gross imports of total mogas increased by 129 MB/D and averaged more than 1.1 MMB/D.

Implied gasoline demand was roughly unchanged on the week and averaged more than 9.3 MMB/D. Over the last four weeks implied gasoline demand declined by 2.4% from last year, while year to date has fallen by 1.5% versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories rose by 2.4 million barrels. Stocks now stand at 128.1 million barrels and are 700,000 barrels above last year. Supplies of ultra low-sulphur diesel fuel gained by 600,000 barrels, while stocks of other diesel fuel increased by 700,000 barrels. Heating oil inventories rose by 1.2 million barrels.

Refinery production of total distillate fuel oil declined by 111 MB/D from the prior period and averaged more than 4.6 MMB/D. Gross distillate imports fell by 48 MB/D to average 102 MB/D.

Implied distillate demand declined by 49 MB/D on the week and averaged less than 4.1 MMB/D. Over the past four weeks implied distillate demand rose by 3.6% over last year, while year to date demand has declined by 1.9% versus the comparable period in 2007.

Overall, the crude oil draw remains consistent with our forecast third quarter refinery balances, while gasoline stocks also remain in line with our forecast that supplies will be ample. Distillate stocks now lie above last year, reaching our expectations even earlier than we had assumed, but at this point we retain our year-end target of about 145.0 million barrels.

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