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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 August 1, and we wish to provide our perspective on the numbers within the context of our forecast U.S. refinery balances. Relative to consensus expectations, the crude oil and distillate builds were bearish, while the gasoline draw was much larger than the market was looking for.

With regard to crude oil, stocks rose by 1.7 million barrels. Inventories now lie at 296.9 million barrels and are 39.8 million barrels below last year. Supplies in PAD II increased by 1.1 million barrels, but drew at Cushing by 100,000 barrels. Stocks in PAD III gained by 1.5 million barrels. Adding up all other districts yields a net inventory decline of 1.1 million barrels.

Refinery crude oil runs eased by 123 MB/D on the week and averaged around 15.0 MMB/D. Gross crude oil imports rose by 188 MB/D to average almost 10.2 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by almost 2.3 million barrels.

Turning to refined products, the DOE reported that primary gasoline inventories fell by 4.4 million barrels. The drop was composed of a 2.9 million barrel decline in finished mogas supplies and a 1.4 million barrel fall in blendstocks. Gasoline supplies now total 209.2 million barrels and are 4.1 million barrels above the same point in 2007.

Refinery production of finished gasoline rose by 16 MB/D from the previous week and averaged almost 9.1 MMB/D. Gross imports of total mogas fell by 101 MB/D to average 864 MB/D.

Implied gasoline demand gained by 16 MB/D from the prior period and averaged almost 9.5 MMB/D. Over the past four weeks implied gasoline demand is off by 2.3% versus last year, while year to date has declined by 1.6% versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories rose by 2.8 million barrels. Stocks now stand at 133.3 million barrels and lie some 3.0 million barrels above last year. The aggregate inventory increase included a 400,000 barrel rise in ultra low-sulphur diesel supplies, a 1.4 million barrel increase in other diesel stocks, and a 1.1 million barrel gain in heating oil inventories.

Refinery production of total distillate fuel oil fell by 94 MB/D from the prior week and averaged about 4.6 MMB/D. Gross distillate imports increased by 171 MB/D to average 292 MB/D.

Implied distillate demand eased by 47 MB/D on the week and averaged less than 4.2 MMB/D. Over the last four weeks implied distillate demand is up by 3.5% over last year, while year to date has declined by 2.2% versus the comparable period in 2007.

Overall, once again the crude oil data remain consistent with our thesis that stocks are unlikely to decline materially below 300.0 million barrels during the third quarter. Gasoline supplies remain adequate as refiners continue to adjust to weaker demand, while distillate stocks remain on target to reach our forecast peak of 145.0 million barrels by year end.

W.H. Brown, III

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