



HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending August 8, and we provide our thoughts on the data in the context of our forecast U.S. refinery balances. Compared to consensus expectations, the numbers were bullish across the board.

Looking first at crude oil, stocks fell by 400,000 barrels. Supplies now stand at 296.5 million barrels and retain a 36.6 million barrel deficit to last year. Stocks in PAD II gained by 600,000 barrels, but declined at Cushing by 200,000 barrels. Supplies in PAD III fell by 3.0 million barrels. Adding up all other districts yields a net inventory build of 2.0 million barrels.

Refinery crude oil runs declined by 216 MB/D on the week to average around 14.8 MMB/D, in part reflecting precautionary reductions on the Gulf Coast in response to Edouard. Gross crude oil imports fell by 538 MB/D due to the same phenomenon and averaged less than 9.7 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks “should have” declined by about 200,000 barrels.

With regard to refined products, the DOE reported that primary gasoline inventories dropped by 6.4 million barrels. The aggregate decline included a 4.3 million barrel fall in finished mogas supplies and a 2.1 million barrel decline in blendstocks. Inventories now total 202.8 million barrels and lie 200,000 barrels above the same point in 2007.

Refinery output of finished gasoline declined by 209 MB/D from the prior period and averaged less than 8.9 MMB/D. Gross imports of total gasoline fell by 79 MB/D to average 785 MB/D.

Implied gasoline demand eased by 38 MB/D on the week and averaged about 9.4 MMB/D. Over the last four weeks implied gasoline demand is off by 1.9% from 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 fell by 1.7 million barrels. Stock now total 131.6 million barrels and are 300,000 barrels above last year. The decline was composed of a 1.1 million barrel drop in ultra low-sulphur diesel stocks, a 1.7 million barrel fall in other diesel supplies, and a 1.0 million barrel gain in heating oil inventories.

Refinery production of total distillate fuel declined by 289 MB/D from the previous week to average around 4.3 MMB/D. Gross distillate imports dropped by 156 MB/D and averaged 136 MB/D.

Implied distillate demand jumped by 254 MB/D on the week to average 4.4 MMB/D. Over the past four weeks implied distillate demand is up by 4.3% over last year, while year to date has declined by 1.9% versus the comparable period in 2007.

On balance, firm conclusions are unwise at this point due to the distortions largely created by Edouard. However, the crude oil position remains consistent with our Base Case that crude oil stocks will not decline materially below 300.0 million barrels in the third quarter.

The surprise distillate draw was primarily due to the jump in implied demand to “normalize” the recent trend, as well as some possible precautionary secondary stocking. We would still retain our target distillate stock peak of 145.0 million barrels, with last week’s decline allowing us to retain our original time frame for achievement of late in the third quarter or early in the fourth, and not advance the timing of the peak.

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