



**HIGHLY CONFIDENTIAL**

August 27, 2008

**WEEKLY INVENTORY REVIEW**

The DOE released the latest Weekly Petroleum Status Report for the week ending August 22, and we provide our customary assessment of the data in the context of our forecast U.S. refinery balances for the remainder of this year. Relative to consensus expectations, the crude oil and distillate data were constructive, while the gasoline stock draw was less than the market was looking for.

Turning first to crude oil, stocks declined by 100,000 barrels. Inventories now total 305.8 million barrels and retain a 20.0 million barrel deficit to last year. Supplies in PAD II fell by 700,000 barrels, including a similar decline at Cushing. Stocks in PAD III rose by 200,000 barrels. Adding up all other districts yields a net inventory build of 500,000 barrels.

Refinery crude oil runs rose by 300 MB/D from the previous week and averaged around 15.1 MMB/D. Gross crude oil imports dropped, as anticipated, by some 1.0 MMB/D to average less than 10.0 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" declined by almost 1.6 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories fell by 1.2 million barrels. The decline included an 800,000 barrel drop in finished mogas supplies and a 300,000 barrel fall in blendstocks. Gasoline inventories now stand at 195.4 million barrels and lie 2.2 million barrels below last year at this time.

Refinery production of finished gasoline rose by 86 MB/D on the week and averaged almost 9.2 MMB/D. Gross imports of total mogas recovered by 574 MB/D to average around 1.4 MMB/D.

Implied gasoline demand eased by 12 MB/D from the prior period and averaged about 9.4 MMB/D. For the last four weeks implied gasoline demand is off by 1.6% from last year, while year to date has declined by an equal 1.6% versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories were unchanged on the week. Stocks still total 132.1 million barrels and are 1.1 million barrels below last year. Supplies of ultra low-sulphur diesel fuel rose by 200,000 barrels, stocks of other diesel fuel declined by 600,000 barrels, while heating oil inventories gained by 500,000 barrels.

Refinery output of total distillate fell by 10 MB/D on the week to average less than 4.4 MMB/D. Gross distillate imports increased by 50 MB/D and averaged 123 MB/D.

Implied distillate demand rose by 101 MB/D from the prior week to average almost 4.2 MMB/D. Over the last four weeks implied distillate demand increased by 2.2% over last year, but has declined year to date by 1.8% versus the comparable period in 2007.

On balance, the drop in crude oil imports fully reflected a reversion to the mean, as we expected. The resultant modest crude oil decline remains fully consistent with our third quarter balances, with further draws leading to stocks standing at less than 290.0 million barrels still reserved for the fourth quarter.

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