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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 September 5, and we offer our perspective on the data within the context of our forecast U.S. refinery balances. In terms of consensus expectations, the crude oil and gasoline draws were bullish, while the decline in distillate inventories was less than the market expected.

Looking first at crude oil, supplies declined by 5.9 million barrels. Standing at 298.0 million barrels, stocks retain a 21.3 million barrel deficit to last year. Supplies in PAD II dropped by 2.4 million barrels which included a draw at Cushing of 400,000 barrels. Stocks in PAD III rose by 1.8 million barrels. Adding up all other districts yields a net inventory decline of 5.1 million barrels.

Refinery crude oil runs fell by almost 1.8 MMB/D on the week to average less than 13.5 MMB/D. Gross crude oil imports declined by around 1.2 MMB/D and averaged under 8.6 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" fallen by some 5.7 million barrels.

Turning to refined products, the DOE reported that distillate fuel oil inventories declined by 1.2 million barrels. The draw was composed of a 1.1 million barrel drop in ultra low-sulphur diesel stocks, a 700,000 barrel fall in other diesel supplies, and a 700,000 barrel rise in heating oil inventories. Stocks now total 130.5 million barrels and lie 4.0 million barrels below the same point last year.

Refinery production of distillate fuel oil fell by 597 MB/D from the previous week to average about 3.9 MMB/D. Gross distillate imports rose by 24 MB/D and averaged 117 MB/D.

Implied distillate demand fell by 453 MB/D on the week to average around 3.9 MMB/D. Over the last four weeks implied distillate demand is down by 0.4% from last year, while year to date has declined by 2.9% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories declined by 6.5 million barrels. Stocks now stand at 187.9 million barrels and are 6.9 million barrels below last year. The inventory drop included a 3.9 million barrel fall in finished mogas supplies and a 2.5 million barrel decline in blendstocks.

Refinery production of finished gasoline fell by more than 1.0 MMB/D from the prior period to average less than 8.4 MMB/D. Gross imports of total gasoline rose by 238 MB/D and averaged more than 1.1 MMB/D.

Implied gasoline demand declined by 334 MB/D on the week to average less than 9.1 MMB/D. Over the past four weeks implied gasoline demand is off by 2.1% from last year, while year to date has declined by 2.0% versus the comparable period in 2007.

On balance, the data obviously reflect the bulk of the impact of hurricane Gustav. While the decline in crude stocks exceeded our expectations, the bulk of the draw fell outside the Gulf Coast. The numbers remain consistent with our belief that crude oil stocks will not decline materially below 300.0 million barrels for the remainder of the third quarter.

The declines in refined product stocks were limited by the fall in implied demand, reflecting a lack of stocking on down the supply chain that previously occurred in anticipation of storm-reduced supply at the primary, or refinery, level.

W.H. Brown, III

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