



HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending September 12, and we wish to offer our perspective on the data in the context of our forecast U.S. refinery balances. Relative to market expectations, the crude oil data were constructive, while the distillate and gasoline draws were less than the market was looking for.

Turning first to crude oil, stocks declined by 6.3 million barrels. PAD II supplies dropped by 2.2 million barrels which included a draw at Cushing of 1.6 million barrels. Stocks in PAD III declined by 4.1 million barrels. Adding up all other districts implies a net inventory draw of 100,000 barrels. Stocks now stand at 291.7 million barrels and retain a 25.4 million barrel deficit to last year at this time.

Refinery crude oil runs declined by 246 MB/D from the previous week and averaged about 13.2 MMB/D. Gross crude oil imports eased by 71 MB/D to average close to 8.5 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" declined by almost 5.2 million barrels.

With regard to refined products, distillate fuel oil inventories fell by 900,000 barrels. Supplies total 129.6 million barrels and lie some 4.8 million barrels below last year. The aggregate stock decline included a 100,000 barrel fall in ultra low-sulphur diesel supplies, a 500,000 barrel drop in other diesel stocks, and a 300,000 barrel decline in heating oil inventories.

Refinery production of distillate fuel oil fell by 121 MB/D from the prior period to average 3.8 MMB/D. Gross distillate imports gained by 14 MB/D and averaged 131 MB/D.

Implied distillate demand declined by 167 MB/D on the week to average around 3.7 MMB/D. Over the last four weeks implied distillate demand is off by 2.7% from last year, while year to date has declined by 3.1% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories dropped by 3.3 million barrels, with the decline composed of a 2.6 million barrel fall in finished mogas supplies and a 700,000 barrel drop in blendstocks. Inventories now total 184.6 million barrels and stand 11.6 million barrels below last year.

Refinery production of finished gasoline eased by 72 MB/D from the previous week to average about 8.3 MMB/D. Gross imports of total mogas declined by 144 MB/D and averaged 977 MB/D.

Implied gasoline demand fell by 183 MB/D on the week to average 8.9 MMB/D. Over the past four weeks implied gasoline demand has fallen by 2.6% from the same period last year, while year to date has declined by 2.1% versus the comparable period in 2007.

Overall, the crude oil stock position does not lead us to revise our outlook on crude oil supplies through the remainder of the year. We would still look for some recovery in imports leading to a modest recovery in stocks by the end of the month, with a subsequent reversal and decline through the fourth quarter reflecting normal year-end refiner behavior.

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