



**HIGHLY CONFIDENTIAL**

September 24, 2008

**WEEKLY INVENTORY REVIEW**

The DOE released the latest Weekly Petroleum Status Report for the week ending September 19, and we provide our customary thoughts on the data in the context of our forecast U.S. refinery balances. The refined product stock draws were constructive relative to consensus expectations, while the crude oil draw would be considered moderately bullish, particularly since the decline in PAD III alone was greater than the market was looking for in the aggregate.

With regard to crude oil, stocks declined by 1.5 million barrels. Supplies now stand at 290.2 million barrels and retain a 24.7 million barrel deficit to last year. Stocks in PAD II rose by 400,000 barrels, but declined at Cushing by 800,000 barrels. Inventories in PAD III fell by 3.2 million barrels. Adding up all other districts yields a net stock build of 1.4 million barrels.

Refinery crude oil runs dropped by more than 1.7 MMB/D on the week to average only 11.5 MMB/D. Gross crude oil imports declined by almost 1.4 MMB/D and averaged around 7.1 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" declined by some 3.0 million barrels.

Turning to refined products, the DOE reported that distillate fuel oil inventories fell by 4.2 million barrels. The decline included a 3.4 million barrel drop in ultra low-sulphur diesel stocks, a 1.0 million barrel fall in other diesel supplies, and a 300,000 barrel gain in heating oil inventories. Stocks total 125.4 million barrels and lie 9.0 million barrels below the same point in 2007.

Refinery production of distillate fuel oil declined by 542 MB/D from the previous week and averaged less than 3.3 MMB/D. Gross

distillate imports rose by 68 MB/D to average 199 MB/D.

Implied distillate demand rose by 4 MB/D from the prior period and averaged about 3.7 MMB/D. Over the last four weeks implied distillate demand is off by 5.5% from last year, while year to date has declined by 3.3% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories declined by 5.9 million barrels. Stocks now total 178.7 million barrels and are 18.9 million barrels below last year. The supply drop was composed of a 3.4 million barrel fall in finished mogas supplies and a 2.6 million barrel drop in blendstocks.

Refinery production of finished gasoline declined by 372 MB/D from the prior week and averaged under 8.0 MMB/D. Gross imports of total gasoline increased by 234 MB/D to average more than 1.2 MMB/D.

Implied gasoline demand fell by 166 MB/D on the week and averaged around 8.7 MMB/D. Over the past four weeks implied gasoline demand has declined by 3.5% from last year, while year to date has declined by 2.2% versus the comparable period in 2007.

Overall, prior to our expected fourth quarter net decline in crude oil stocks we would look for a temporary recovery back toward 300.0 million barrels. Our year-end U.S. crude oil stock target stands at some 280.0-285.0 million barrels.

In terms of products, the data imply a recent acceleration in the decline in implied demand from last year. While there is a good chance that economic activity has weakened further, we believe the data also reflect data

distortions and product shortages due to recent hurricane activity.