



**HIGHLY CONFIDENTIAL**

**October 1, 2008**

**WEEKLY INVENTORY REVIEW**

The DOE released the latest Weekly Petroleum Status Report for the week ending September 26, and we offer our perspective on the numbers in the context of our forecast U.S. refinery balances for the fourth quarter. Relative to consensus expectations, the crude oil and gasoline data were bearish, while the distillate draw was somewhat larger than the market was looking for.

With regard to crude oil, supplies rose by 4.3 million barrels. Stocks now stand at 294.5 million barrels and retain an 18.2 million barrel deficit to last year. Supplies in PAD II were unchanged on the week, but declined at Cushing by 800,000 barrels. Stocks in PAD III rose by 6.2 million barrels. Adding up all other districts yields a net inventory draw of 2.0 million barrels.

Refinery crude oil runs recovered by 948 MB/D from the prior week and averaged almost 12.5 MMB/D. Gross crude oil imports also recovered, rising by more than 1.8 MMB/D to average around 9.0 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks “should have” increased by some 2.6 million barrels.

Turning to refined products, the DOE reported that distillate fuel oil inventories declined by 2.3 million barrels, composed of a 2.2 million barrel fall in ultra low-sulphur diesel stocks, a 1.5 million barrel draw in other diesel supplies, and a 1.3 million barrel gain in heating oil inventories. Stocks now total 123.1 million barrels and lie 11.2 million barrels below last year.

Refinery production of distillate fuel oil gained by 420 MB/D on the week to average almost 3.7 MMB/D. Gross distillate imports eased by 4 MB/D and averaged 195 MB/D.

Implied distillate demand increased by 156 MB/D from the previous week to average nearly 3.9 MMB/D. Over the last four weeks implied distillate demand is off by 8.4% from last year, while year to date has declined by 3.4% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories rose by 900,000 barrels. Stocks now total 179.6 million barrels and remain some 19.4 million barrels below last year. The aggregate stock increase included a 900,000 barrel rise in finished mogas supplies and a 100,000 barrel gain in blendstocks.

Refinery production of finished gasoline increased by 736 MB/D from the prior week to average almost 8.7 MMB/D. Gross imports of total mogas rose by 50 MB/D and averaged around 1.3 MMB/D.

Implied gasoline demand fell by 11 MB/D from the previous week to average about 8.7 MMB/D. Over the past four weeks implied gasoline demand has declined by 4.5% from last year, while year to date is down by 2.3% versus the comparable period in 2007.

Overall, the post-hurricane recovery in crude oil and gasoline stocks has come about one week sooner than we estimated, but we saw nothing in the numbers that would lead us to alter our Base Case for the fourth quarter.

Crude oil supplies, following our expected recovery to around 300.0 million barrels or so, should subsequently decline over the next three months due to normal seasonal factors as well as the impacts of the credit crisis which may in some cases reduce the ability to hold desired levels of

inventory. Gasoline supplies should be adequate, while distillate stocks will be ample as we move into winter.

W.H. Brown, III

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