



HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending October 3, and we wish to provide our thoughts on the data within the context of our forecast U.S. refinery balances. In a nutshell, relative to consensus expectations the numbers were bearish across the board.

With regard to crude oil, stocks recovered by 8.1 million barrels. Now standing at 302.6 million barrels, supplies lie 8.3 million barrels below last year. Stocks in PAD II rose by 100,000 barrels, but declined at Cushing by a similar volume. Inventories in PAD III recovered by 6.8 million barrels. Adding up all other districts yields a net supply gain of 1.1 million barrels.

Refinery crude oil runs jumped by almost 1.6 MMB/D from the prior period to average around 14.0 MMB/D. Gross crude oil imports increased by nearly 1.4 MMB/D and averaged more than 10.3 MMB/D. Taking the DOE estimate of domestic crude oil production which recovered on the week by 583 MB/D to average about 4.4 MMB/D, total crude oil stocks “should have” increased by some 5.2 million barrels.

Turning to refined products, the DOE reported that distillate fuel oil inventories fell by 500,000 barrels. The decline included a 1.3 million barrel drop in ultra low-sulphur diesel stocks, a 300,000 barrel rise in other diesel supplies, and a 400,000 barrel gain in heating oil inventories. Stocks total 122.6 million barrels and retain an 11.6 million barrel deficit to the same point in 2007.

Refinery production of distillate rose by 351 MB/D from the previous week to average about 4.0 MMB/D. Gross distillate imports eased by 30 MB/D and averaged 165 MB/D.

Implied distillate demand rose by 40 MB/D from the prior period to average more than 3.9 MMB/D. Over the last four weeks implied distillate demand has declined by 8.3% from last year, while year to date implied demand has fallen by 4.7% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories rose by 7.2 million barrels. Stocks now stand at 186.8 million barrels and lie 13.1 million barrels below last year. The aggregate inventory increase was composed of a 4.0 million barrel gain in finished mogas supplies and a 3.1 million barrel build in blendstocks.

Refinery production of finished gasoline recovered by 246 MB/D on the week and averaged over 8.9 MMB/D. Gross imports of total mogas rose by 173 MB/D to average in excess of 1.4 MMB/D.

Implied gasoline demand declined by 39 MB/D from the previous week and averaged less than 8.7 MMB/D. Over the past four weeks implied gasoline demand has fallen by 5.3% from last year, while year to date has declined by 2.8% versus the comparable period in 2007.

On balance, despite the hefty crude oil stock build the data remain broadly consistent with our view that following a recovery in crude stocks not totaling materially in excess of 300.0 million barrels, supplies will witness a net decline during the fourth quarter for normal seasonal and operating reasons.

The gasoline data support our view that supplies will be more than adequate given lower demand, while we also envision sufficient distillate supplies to handle normal weather under our belief that consumers will conserve even more than last winter.

W.H. Brown, III

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