



HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending October 10, and we offer our customary perspective on the numbers in the context of our forecast U.S. refinery balances. Overall, the crude oil and gasoline data were bearish, while the distillate draw was a bit larger than consensus expectations.

Turning first to crude oil, stocks rose by 5.6 million barrels and now stand at 308.2 million barrels, only 1.8 million barrels below last year. Supplies in PAD II gained by 1.6 million barrels, which included an increase at Cushing of 500,000 barrels. Stocks in PAD III rose by 2.4 million barrels. Adding up all other districts yields a net inventory increase of 1.7 million barrels.

Refinery crude oil runs rose by 91 MB/D on the week to average more than 14.1 MMB/D. Gross crude oil imports fell by 185 MB/D and averaged less than 10.2 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks “should have” increased by more than 4.3 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories declined by 500,000 barrels, composed of a 1.3 million barrel drop in ultra low-sulphur diesel stocks, a 1.2 million barrel gain in other diesel supplies, and a 200,000 barrel fall in heating oil inventories. Stocks lie at 122.1 million barrels and retain a 12.2 million barrel deficit to last year.

Refinery production of distillate fuel oil rose by 155 MB/D from the previous week to average almost 4.2 MMB/D. Gross distillate imports dropped by 74 MB/D and averaged 91 MB/D.

Implied distillate demand rose by 76 MB/D on the week to average around 4.0 MMB/D. Over the last four weeks implied distillate demand is off 6.9% from last year, while year to date has declined by 4.7% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories rose by 7.0 million barrels. The aggregate increase included a 4.2 million barrel build in finished mogas supplies and a 2.8 million barrel gain in blendstocks. Total supplies now stand at 193.8 million barrels and are 5.8 million barrels below the same point last year.

Refinery output of finished gasoline rose by 228 MB/D from the prior period and averaged almost 9.2 MMB/D. Gross imports of total mogas gained by 18 MB/D to average more than 1.4 MMB/D.

Implied gasoline demand increased by 203 MB/D from the previous week and averaged almost 8.9 MMB/D. Over the past four weeks implied gasoline demand has dropped by 5.2% from last year, while year to date has declined by 2.8% versus the comparable period in 2007.

On balance, we still believe that crude oil stocks will experience a net decline in the fourth quarter, but we are in the process of reviewing our balances. Gasoline supplies remain in line with our expectations of ample availability assuming lower demand, while distillate stocks should be more than adequate assuming a normal winter and a conservative economic outlook.

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