



**HIGHLY CONFIDENTIAL**

**October 22, 2008**

**WEEKLY INVENTORY REVIEW**

The DOE released the latest Weekly Petroleum Status Report for the week ending October 17, and we wish to offer our thoughts on the data within the context of our forecast U.S. refinery balances. In nutshell, the crude oil and gasoline builds were slightly more constructive than consensus expectations, while the distillate build was bearish.

Looking first at crude oil, supplies rose by 3.2 million barrels. Stocks in PAD II gained by 800,000 barrels, which included a rise at Cushing of 500,000 barrels. Supplies in PAD III increased by 1.6 million barrels. Adding up all other districts yields a net inventory gain of 800,000 barrels. Stocks now stand at 311.4 million barrels and lie 2.3 million barrels above last year.

Refinery crude oil runs rose by 447 MB/D on the week to average almost 14.6 MMB/D. Gross crude oil imports increased by 239 MB/D and averaged 10.4 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks “should have” gained by almost 3.3 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories rose by 2.2 million barrels. The aggregate increase included a 1.4 million barrel build in ultra low-sulphur diesel stocks, a 100,000 barrel fall in other diesel supplies, and an 800,000 barrel gain in heating oil inventories. Supplies now total 124.3 million barrels, retaining a 10.0 million barrel deficit to last year.

Refinery production of distillate fuel oil increased by 255 MB/D from the prior period and averaged more than 4.4 MMB/D. Gross distillate imports rose by 90 MB/D to average 181 MB/D.

Implied distillate demand fell by 28 MB/D on the week and averaged less than 4.0 MMB/D. Over the past four weeks implied distillate demand is off by 5.8% from last year, while year to date has declined by 4.8% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories increased by 2.7 million barrels. Standing at 196.5 million barrels, stocks lie 2.8 million barrels below last year at this time. The inventory gain last week was composed of a 500,000 barrel rise in finished mogas supplies and a 2.2 million barrel gain in blendstocks.

Refinery production of finished gasoline declined by 203 MB/D from the previous week, averaging less than 9.0 MMB/D. Gross imports of total mogas dropped by 390 MB/D and averaged less than 1.1 MMB/D.

Implied gasoline demand rose by 171 MB/D from the prior period to average almost 9.1 MMB/D. Over the last four weeks implied gasoline demand has declined by 4.3% from last year, while year to date has fallen by 2.8% versus the comparable period in 2007.

On balance, the refined product builds remain consistent with our outlook that supplies will be adequate to more than adequate given lower demand. The key lies with crude oil.

Given the current credit situation and the fact that we are close to the end of the hurricane-induced data distortions, we would expect the weekly numbers to begin to normalize and, along with the incentive to minimize stocks, believe that we should be close to the peak in crude oil inventories for the year.

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