



HORNSBY & COMPANY, INC.

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Energy Risk  
Management Services

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**HIGHLY CONFIDENTIAL**

**December 31, 2008**

**WEEKLY INVENTORY REVIEW**

The DOE released the latest Weekly Petroleum Status Report for the week ending December 26, and we wish to provide our perspective within the context of our forecast U.S. refinery balances. The crude oil stock build in the aggregate was on the bearish side, although constructive in PADs II and III. The product builds were smaller than consensus expectations.

With regard to crude oil, inventories rose by 500,000 barrels. Stocks now stand at 318.7 million barrels and lie some 30.0 million barrels above last year. Supplies in PAD II declined by 500,000 barrels, which included a fall at Cushing of 600,000 barrels. Stocks in PAD III eased by 200,000 barrels. Adding up all other districts yields a net inventory increase of 1.3 million barrels.

Refinery crude oil runs fell by 321 MB/D on the week and averaged less than 14.2 MMB/D. Gross crude oil imports rose by 131 MB/D to average more than 9.2 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by about 266,000 barrels.

With regard to refined products, the DOE reported that distillate fuel oil supplies rose by 700,000 barrels. The aggregate increase included a 100,000 barrel fall in ultra low-sulphur diesel stocks, a 700,000 barrel rise in other diesel supplies, and unchanged heating oil inventories. Distillate stocks total 136.0 million barrels and are now 1.9 million barrels above last year.

Refinery production of distillate fuel rose by 138 MB/D from the previous period and averaged more than 4.5 MMB/D. Gross distillate imports declined by 90 MB/D to average 150 MB/D.

Implied distillate demand increased by 208 MB/D from the prior week and averaged around 4.3 MMB/D. Over the last four weeks implied demand is off by 3.3% from last year, while year to date has declined by 5.7% versus the comparable period in 2007.

Finally, the DOE reported that primary gasoline inventories gained by 800,000 barrels, which was composed of a 1.0 million barrel decline in finished mogas supplies and a 1.8 million barrel build in blendstocks. Inventories stand at 208.1 million barrels and retain a 7.4 million barrel deficit to last year.

Refinery output of finished gasoline fell by 151 MB/D from the previous week to average about 8.9 MMB/D. Gross imports of total mogas declined by 109 MB/D and averaged around 1.1 MMB/D.

Implied gasoline demand rose by 239 MB/D on the week to average about 9.1 MMB/D. Over the past four weeks implied gasoline demand has fallen by 2.2% from last year, while year to date has declined by 3.3% versus the comparable period in 2007.

Overall, we would look for a modest rebound in crude oil supplies as we enter 2009 reflecting typical year-to-year behavior as cargoes held offshore to reduce tax liability are landed. Refined product supplies remain in line with our expectations of ample stocks given weaker demand.

William H. Brown, III