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Energy Risk
Management Services

<u>HIGHLY CONFIDENTIAL</u>

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending January 9, and we wish to provide our thoughts on the data within the context of our forecast U.S. refinery balances. The crude oil build in the aggregate was somewhat more constructive than the market was looking for, while the distillate and gasoline builds were bearish relative to consensus expectations.

With regard to crude oil, inventories rose by 1.2 million barrels. Stocks now stand at 326.6 million barrels and lie 37.8 million barrels above last year. Supplies gained in PAD II by 1.4 million barrels, including another rise at Cushing of 800,000 barrels. Stocks in PAD III increased by 3.5 million barrels. Adding up all other districts yields a net inventory draw of 3.8 million barrels.

Refinery crude oil runs rose by 64 MB/D on the week and averaged almost 14.6 MMB/D. Gross crude oil imports dropped by 756 MB/D to average around 9.7 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks “should have” increased by about 420,000 barrels.

Turning to refined products, the DOE reported that distillate fuel oil supplies rose by 6.4 million barrels to 144.2 million barrels, standing 11.4 million barrels above last year. The aggregate increase was composed of a 5.8 million barrel gain in ultra low-sulphur diesel stocks, a 300,000 barrel rise in other diesel supplies, and a 300,000 barrel increase in heating oil inventories.

Refinery output of distillate fuel rose by 116 MB/D from the prior period and averaged almost 4.7 MMB/D. Gross distillate imports fell by 92 MB/D to average 215 MB/D.

Implied distillate demand dropped by 664 MB/D from the previous week and averaged less than 3.7 MMB/D. Over the last four weeks implied demand has declined by 2.4% versus last year.

Finally, the DOE reported that primary gasoline inventories increased by 2.1 million barrels. Stocks total 213.5 million barrels and retain an 8 million barrel deficit to last year. The supply gain included a 200,000 barrel rise in finished mogas supplies and a 1.8 million barrel build in blendstocks.

Refinery production of finished gasoline declined by 302 MB/D on the week and averaged about 8.8 MMB/D. Gross imports of total mogas fell by 55 MB/D to average 797 MB/D.

Implied gasoline demand declined by 232 MB/D from the prior week and averaged less than 8.8 MMB/D. Over the past four weeks implied gasoline demand has fallen by 2.1% versus the comparable period last year.

Overall, the contango stocking at Cushing has not quite run its course, and although our balances still suggest a stability and subsequent decline in U.S. crude oil supplies, the inflection point may not come for a few more weeks.

We would emphasize, however, that reduced OPEC sales destined for the United States, particularly from Saudi Arabia, will ultimately have the effect in combination with higher seasonal refinery runs to trim supplies below current levels by the end of the second quarter. Products, as expected, will remain well supplied given lower demand.

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