



MODERATELY BULLISH

Refinery runs plunged by 725,000 b/d this week, helping to boost East of Rockies inventories by three million barrels. Gasoline and distillate inventories both fell very sharply, primarily in response to these lower throughputs. Although absolutely stock levels remain strong, these draws will likely generate bullish pressure for prices in the coming week. Stronger economic news is also boosting prices, with strong earning results on Wall Street boosting the Dow over 10,000 points. The continued plunge in the dollar has helped push WTI prices well over the \$75 per barrel resistance level. Prices should ease eventually as cooler heads prevail, but this week looks to be quite strong.

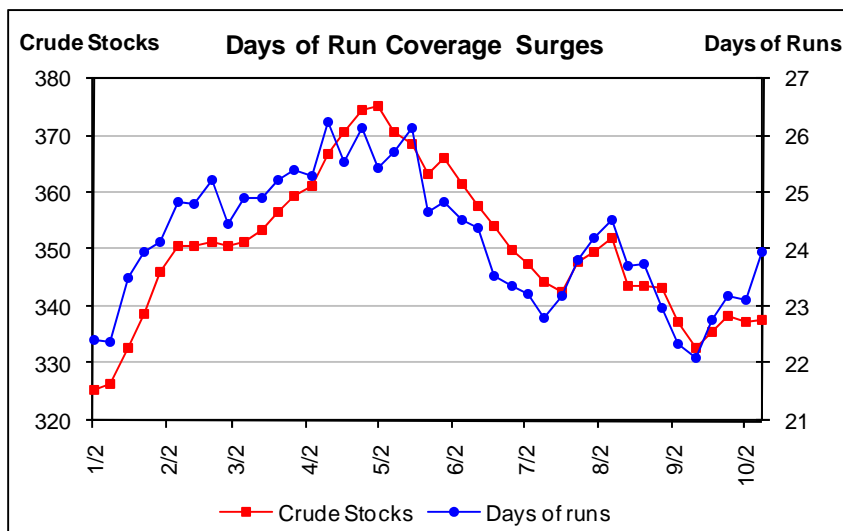
Factor	ESAI Score
U.S. Crude Fundamentals	-1
U.S. Gasoline Supply	4
U.S. Diesel/Heating Oil Supply	2
Political, Economic and other Market Factors	3
Bottom Line	8

NOTE: Each of the five drivers is assumed to have an equal weight — 20% — in influencing the price of crude oil. Thus, each may contribute up to 5 positive or negative points to the ESAI Crude Price Index. A bottom line score above zero is bullish, below zero is bearish.

CRUDE OIL PHYSICAL MARKET

U.S. Crude Fundamentals: SLIGHTLY BEARISH

While there was very little movement in total U.S. crude inventories this week, this number was somewhat distorted by a large draw on the isolated West Coast. Stock in Padd I-IV rose by three million barrels. U.S. refiners appear to have largely given up on weak product demand this season, as they have slashed their runs back by 500,000 b/d to just 14.1 million b/d. These lower runs more than compensated for a large drop in crude imports, which fell by over 350,000 b/d in the last week. Clearly refiners are tamping down their runs and imports, in the face of high distillate stocks on the eve of heating season. While absolute stocks showed little change, the days of run coverage climbed to 24 days, the highest level since early August. Runs will likely remain depressed during the shoulder season, which should keep bearish pressure on crude fundamentals.



The Fundamentals Update report is a review of the weekly U.S. Department of Energy reports and an analysis of internal market dynamics. ESAI does not endorse any particular trading strategy. The conclusions of this report are based on our judgment, and are subject to change without notice. This information is copyrighted and may not be redistributed without the written consent of ESAI. For questions about this publication, please contact Sander Cohan, scohan@esai.com.

U.S. Gasoline: BULLISH

A bullish week for gasoline as refiners respond to a month of weak gasoline margins with steep cuts. After building production over the past two weeks, refiners slashed back output by nearly 1 million b/d. Most of these cuts occurred in PADD III, which logged nearly 700,000 b/d of the decline. PADDs I and II also saw substantial declines, 75,000 and 250,000 b/d respectively. PADD IV and V saw mild gains. At the same time as domestic supply slowed, imports also retreated slightly. While finished gasoline imports returned to more typical levels, approximately 200,000 b/d, imports of blending components slid to just under 500,000 b/d. This lower supply had a dramatic effect on inventories, which fell by 5.3 million barrels overall. The largest declines were seen in PADD III.

Demand remained stronger than recent levels, averaging more than 9.2 million b/d. ESAI, however, does not expect this level to be sustainable. Over the coming weeks, demand should slide back slightly. In the meantime, the combination of strong supply cuts and reasonable strong demand gives a bullish outlook in the near term.

U.S. Distillate: MODERATELY BULLISH

Lower refinery runs translated to lower distillate production. Output fell back modestly, by approximately 175,000 b/d, led by cuts in PADD III. Declines were evenly split between heating oil and transport fuels. Imports fell back slightly, by 50,000 b/d, evenly split between fuel grades as well. In the end, inventories saw a mild draw, declining by 1.1 million barrels, concentrated in PADD I, II, III.

Despite the record cold in parts of the country, demand remained stable at last week's levels, 3.5 million b/d. Although refinery run cuts will add bullishness to the market, weak demand and high inventories will lower expectations and limit expectations to just a moderately bullish outlook.

