

Highlights

World crude oil prices remained at notable high levels during the final month of 1999, ending a year that witnessed tremendous growth in rates for petroleum products. Beyond the dynamic atmosphere in major oil markets during recent months, political matters and fundamental market conditions animated December crude oil prices. Political issues dominated market activity early in the month, with prices pressured by a stalemate between the United Nations and Iraq. The Iraqi government declined to participate in two short-term extensions of the U.N.-sponsored “oil-for-food” program, citing the Security Council’s decision not to renew the program immediately for another six-month term. Iraq objected to the extensions, believing they were designed to help keep other Gulf War sanctions in place. However, by December 10 the Security Council approved a resolution that resumed the program for another 180-day period beginning on December 12. Shortly after that, the Council passed another resolution that lifted the monetary cap on Iraq’s crude oil exports included in previous phases of the program. As in recent months, the Organization of Petroleum Exporting Countries (OPEC)-sponsored production cuts agreements have been the focus of market interest. Data show crude oil stocks in major markets continue to decline and prices have reacted by sustaining significant increases. Comments by representatives of several participating nations during December quashed discussion of raising output before the expiration of the agreements on March 31, 2000. While market data suggest a supply shortfall when compared with global demand, participating producers believe conditions are not severe enough to warrant any changes to the current level of production. Nonetheless, early indications at the end of December pointed to a lower rate of compliance to the production quotas, dampening prices during the final days of the month.

While December prices for crude oil and finished products in the United States did not encounter the large increases seen last month, they remained within the highest range since the winter of 1996/97. The temporary cessation of Iraqi crude oil exports provided some support for product prices at the start of the month. Notably, warm temperatures during the same period led to some uneasiness about the coming winter season that helped to dampen distillate prices through the first few weeks of December. By mid-month, however, stocks reports indicated solid draw downs for major products. Monthly data show crude oil, finished gasoline, and distillate stocks sustained marked declines in December: 1.7 percent, 5.5 percent, and 11.8 percent, respectively. The declines were caused in part by refinery runs cuts, which in turn were driven by shrinking profit margins. The steeper rise in crude oil prices has pinched margins in relation to finished product prices.

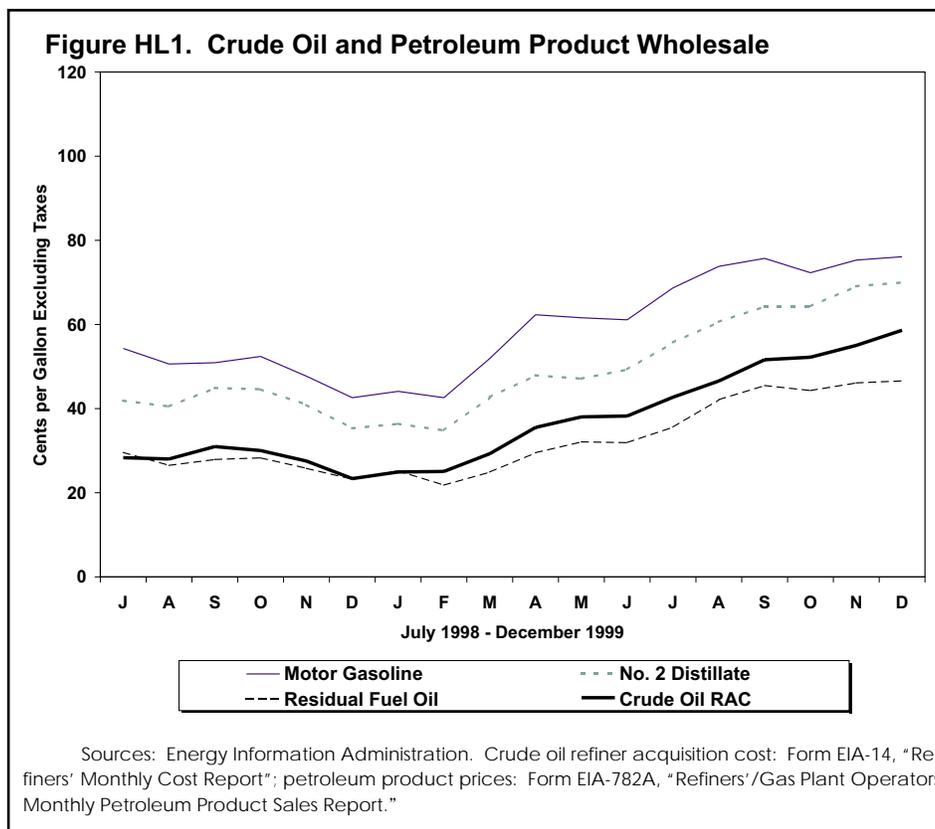


Table HL1. U.S. Refiner Prices and Volumes of Petroleum Products

(Prices: Cents per Gallon Excluding Taxes, Volumes: Million Gallons per Day)

Products	Sales to End Users						Sales for Resale					
	December 1999		November 1999		December 1998		December 1999		November 1999		December 1998	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	90.6	63.2	88.4	59.5	59.7	65.4	76.1	328.9	75.3	308.7	42.6	304.5
Conventional	88.6	36.8	86.4	34.4	55.5	39.1	73.0	212.9	72.7	198.9	37.8	200.0
Regular	84.9	26.4	82.7	24.6	51.0	26.5	71.1	166.8	70.7	155.3	35.6	150.0
Midgrade	94.9	5.7	92.7	5.4	61.4	6.4	77.6	15.6	77.0	14.7	42.2	15.5
Premium	102.0	4.7	99.5	4.5	68.9	6.3	81.4	30.5	80.9	29.0	45.7	34.5
Oxygenated	94.2	4.2	92.6	4.0	63.6	3.6	84.0	14.2	82.3	12.9	50.7	12.4
Regular	90.6	3.1	89.0	3.0	59.8	2.6	82.2	10.5	80.6	9.6	48.6	9.1
Midgrade	101.2	0.7	99.5	0.6	69.3	0.6	83.5	1.8	82.0	1.6	51.6	1.5
Premium	111.1	0.4	109.6	0.4	78.1	0.4	94.6	1.9	92.4	1.7	60.7	1.8
Reformulated	93.1	22.1	90.8	21.1	66.4	22.6	81.5	101.9	79.9	96.9	51.8	92.0
Regular	88.5	15.1	86.3	14.3	61.2	14.7	78.0	71.1	76.6	67.3	47.7	61.1
Midgrade	98.7	3.7	96.2	3.5	72.3	4.0	86.2	10.6	84.7	9.9	57.9	10.4
Premium	107.5	3.4	104.9	3.3	79.7	4.0	91.0	20.2	88.8	19.6	61.0	20.6
Aviation Gasoline	120.7	0.1	117.4	0.1	88.7	0.1	110.4	0.5	108.3	0.6	79.8	0.5
Kerosene-Type Jet Fuel	73.2	48.9	67.9	47.8	37.4	50.4	72.1	16.9	66.6	17.1	36.3	13.4
Propane (Consumer Grade)	57.8	4.1	52.1	3.7	36.2	4.4	41.7	45.8	42.6	35.0	25.7	44.0
Kerosene	86.0	0.3	81.1	0.2	42.4	0.7	76.4	4.2	73.3	1.8	38.7	3.2
No. 1 Distillate	82.4	0.5	81.6	0.3	50.1	0.7	80.3	4.3	79.8	2.6	43.5	4.0
No. 2 Distillate	74.2	25.4	72.3	24.9	42.0	23.7	70.0	126.4	69.1	122.9	35.2	124.4
No. 2 Fuel Oil	73.9	3.4	71.5	3.0	43.6	3.2	67.6	28.4	66.1	25.4	34.6	32.0
No. 2 Diesel Fuel	74.2	22.1	72.4	21.9	41.8	20.5	70.7	98.0	69.9	97.5	35.4	92.4
Low Sulfur	76.9	14.8	75.3	14.5	43.0	13.8	71.2	83.9	70.5	84.3	35.6	77.8
High Sulfur	68.8	7.3	67.0	7.4	39.3	6.7	67.8	14.1	65.8	13.1	34.2	14.6
No. 4 Fuel^a	63.7	0.4	57.7	0.3	39.4	0.4	60.2	0.2	63.7	0.1	30.2	0.2
Residual Fuel Oil	51.6	14.5	50.0	12.7	26.8	14.1	46.6	9.3	46.1	8.4	23.3	13.7
Sulfur Content not > 1 %	57.2	4.4	55.6	3.2	31.9	4.4	51.5	3.7	48.9	4.8	24.0	4.9
Sulfur Content > 1 %	49.2	10.2	48.1	9.4	24.5	9.7	43.5	5.7	42.6	3.7	23.0	8.9

^a Includes No. 4 fuel oil and No. 4 diesel fuel.

Notes: Motor gasoline averages and totals prior to October 1993 include leaded gasoline.

Notes: Values shown for the current month are preliminary. Values shown for previous months are revised. Data are final upon publication in the *Petroleum Marketing Annual*.

Source: Energy Information Administration Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

The contrast between year-on-year spot market prices for major products at New York Harbor continued to be striking. The monthly average price for West Texas Intermediate crude oil at Cushing, Oklahoma was \$11.35 per barrel in December 1998 and \$26.28 in December 1999. The same disparity is reflected in the prices for regular gasoline, 30.7 cents per gallon versus 70.3 cents per gallon, and No. 2 heating oil 31.3 cents per gallon compared to 67.1 cents per gallon.

Additional December market and sales activity for crude oil and the principal petroleum products are summarized in the following sections.

Crude Oil

The daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma fluctuated throughout December, but remained within a higher average range than seen in November. Opening at \$24.87 per barrel, amid turbulence surrounding Iraq's decision to halt exports, the price rose sharply over the coming week until the political tensions eased. Shifting direction during the rest of the month, the price reached the high of \$26.81 per barrel on December 28. While the price closed at \$25.76 per barrel, only 89 cents higher than where it began the month, the average price for December was \$26.10 per barrel.

- December monthly average crude oil prices increased in all categories of sales. The average domes-

tic crude oil first purchase price rose \$1.20 (5.6 percent), to \$22.55 per barrel.

- The average free-on-board (f.o.b.) cost of imported crude oil increased 30 cents (1.3 percent), to \$22.70 per barrel. The average landed cost of foreign crude oil rose 86 cents (3.7 percent), to \$23.86 per barrel.
- The average refiner acquisition cost for domestic crude oil climbed \$1.73 (7.5 percent), to \$24.80 per barrel. The average cost of imported crude oil to U.S. refiners increased \$1.35 (5.8 percent), to \$24.80 per barrel. The composite refiner acquisition cost for crude oil rose \$1.51 (6.5 percent), to \$24.62 per barrel.

Petroleum Products

Motor Gasoline

At New York Harbor, the daily spot price for unleaded regular gasoline followed a varied path during December. Opening at 69.2 cents per gallon, the price began to move higher over the coming week. The suspension of Iraqi oil exports in addition to reported refinery problems created increasing pressure on market prices during that period. After reaching the high of 73.9 cents per gallon on December 8, the price meandered during rest of the month as both fundamental and technical factors buffeted price trends. The low of 65.3 cents per gallon was struck on the closing day of month, nearly four cents below its opening value.

- National average gasoline prices continued to rise in December, showing moderate increases in all categories of sales. For retail sales of motor gasoline by refiners, the average price climbed 2.2 cents to 90.6 cents per gallon, while the average wholesale price rose 0.8 cent to 76.1 cents per gallon. Including data reported by a sample of motor gasoline marketers, the national average retail price at company-operated retail outlets increased 1.9 cents to 89.3 cents per gallon. The average wholesale price rose 0.9 cent to 76.4 cents per gallon. The average dealer tank wagon (DTW) price increased 1.5 cents to 84.5 cents per gallon, while the average rack price inched up 0.3 cent to 74.1 cents per gallon. The average price for bulk sales increased 1.8 cents to 67.0 cents per gallon. Reformulated gasoline prices outstripped conventional gasoline prices by 4.4 cents at retail and 7.2 cents at wholesale. The difference be-

tween conventional and oxygenated gasoline prices was 6.7 cents at retail and 9.6 cents at wholesale.

- Refiner gasoline sales rose solidly in December. Total sales jumped 23.9 million gallons per day (6.5 percent), to an average of 392.1 million gallons per day. Retail sales climbed 3.7 million gallons per day (6.2 percent), while wholesales jumped 20.2 million gallons per day (6.5 percent). Rack sales formed 63.4 percent of wholesales, while DTW and bulk sales accounted for 23.0 percent and 13.6 percent, respectively. Reformulated gasoline (RFG) comprised 31.6 percent of total motor gasoline sales, while oxygenated accounted for 4.7 percent.

No. 2 Distillate

The December daily spot price for No. 2 heating oil at New York Harbor experienced less volatility than prices for other major products. Opening at 64.0 cents per gallon, the price dipped after the settlement over the terms of the latest installment of U. N.-Iraq "oil-for-food" deal. The price rose steadily during the rest of the month, reaching the high of 70.7 cents per gallon on December 28. Closing at 69.8 cents per gallon, the price was 5.8 cents higher than where it began the month.

- Monthly average No. 2 distillate prices generally rose during December. The national average residential price showed the largest increase, rising 4.2 cents to \$1.042 per gallon. The average wholesale price increased 1.1 cents to 70.1 cents per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets rose 1.0 cent, while the average wholesale price increased 2.4 cents. The difference between low- and high-sulfur diesel fuel prices was 5.4 cents at retail and 3.5 cents at wholesale.
- During December, refiner sales of No. 2 distillates rose, particularly sales of No. 2 fuel oil. Total sales of No. 2 distillate increased 4.1 million gallons (2.8 percent), to 151.9 million gallons per day. Sales of No. 2 fuel oil climbed 3.4 million gallons per day (12.0 percent), while sales of No. 2 diesel fuel rose 700,000 gallons per day (0.6 percent). Low-sulfur diesel fuel accounted for 82.2 percent of all refiner diesel fuel sales and 65.0 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Average residual fuel oil prices generally rose during December. Refiner prices for low-sulfur residual fuel increased 1.6 cents to 57.2 cents per gallon at retail, and 2.6 cents to 51.5 cents per gallon at wholesale. The average high-sulfur residual fuel wholesale price increased 1.1 cents to 49.2 cents per gallon. Including data reported by the sample of residual fuel oil marketers, the average low-sulfur price rose 1.7 cents to 54.2 cents per gallon at retail, and 2.3 cents to 51.5 cents per gallon at wholesale. The average retail price for high-sulfur residual fuel oil increased 1.5 cents to 50.0 cents per gallon.
- December residual fuel oil sales by refiners climbed from November levels. Total sales rose 2.7 million gallons per day (12.8 percent), to 23.8 million gallons per day. Low-sulfur residual fuel sales increased 100,000 gallons per day (1.3 percent), while high-sulfur

residual fuel oil rose 2.8 million gallons per day (21.4 percent).

Other Products

- Price trends for other products were varied during December. Refiner propane prices rose 5.7 cents per gallon at retail, but fell 0.9 cent per gallon at wholesale. Including data from a sample of propane marketers, the average residential propane price barely changed, declining 0.2 cent per gallon. The average retail price for propane increased 3.1 cents, while the average wholesale price fell 0.8 cent per gallon. Prices for kerosene-type jet fuel, aviation gasoline, kerosene, and No. 1 distillate increased at both retail and wholesale. The price for No. 4 distillate rose at retail, but fell at wholesale.

