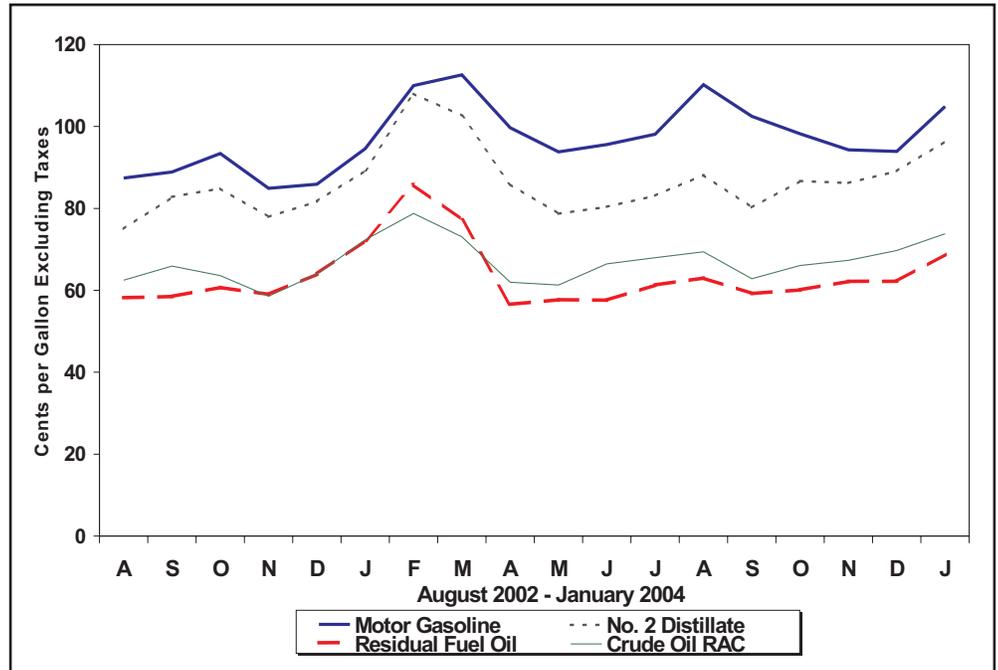


Highlights

Supported by a combination of fundamental and technical market factors, world crude oil prices began the new year at high levels. As is often the case, prices in international markets reacted to trends and events in the U.S. market, the largest oil consuming nation in the world. So when crude oil inventories in the United States dropped to their lowest level in decades during January, oil prices in other regional world markets were influenced by that development. Further, the effect of low stock levels on prices was amplified by cold weather in Atlantic basin markets, particularly in the Northeastern United States. In addition to the cues coming from the United States, an explosion at a refining complex in Algeria at mid-month added a note of tension, although short-lived, into an already unsettled market atmosphere and helped to keep prices within the higher range previously seen. From a longer term perspective, prices continued to be bolstered by solid demand from Asian markets, especially China. Despite the influence from these issues, prices for benchmark streams began to ease during the latter part of January. In addition to the many fundamental issues influencing crude oil prices, market speculation from noncommercial sources, which had contributed some degree of support to the recent robustness of oil prices, began to be less of a factor. More significantly, relatively warmer temperatures in the United States in conjunction with a more comfortable view of stock levels began to moderate prices. Further downward pressure came from speculation that the Organization of Petroleum Exporting Countries (OPEC) would not vote to cut existing production quotas at its next meeting on February 10.

In U.S. markets, crude oil and refined product prices were volatile during January. Lean supplies of gasoline and crude oil, refinery maintenance, and the arrival of very cold weather all affected price trends over the course of the month. Further, fuel switching by industrial users from natural gas to fuel oils when natural gas prices surged added more pressure on oil prices. Following a warm start to the 2003-2004 winter season, temperatures plummeted at the beginning of January, particularly in areas east of the Rocky Mountains. While weather forecasters predicted the cold spell to continue for several weeks, heating oil stocks were seen as adequate to meet demand through the end of the winter season, and prices reacted accordingly. With the industry beginning a heavy slate of refinery maintenance in January, weekly data put the four-week average utilization rate at 89.2 percent at the end of the month. Nevertheless, that rate is 2 percent above last year's average for January, and data reflecting produc-

Figure HL1. Crude Oil and Petroleum Product Wholesale Prices



Sources: Energy Information Administration. Crude oil refiner acquisition cost: Form EIA-14, "Refiners' Monthly Cost Report"; petroleum product prices: Form EIA-782A, "Refiners' /Gas Plant Operators' Monthly Petroleum Product Sales Report."

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					
	January 2004		December 2003		January 2003		January 2004		December 2003		January 2003	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	117.3	57.1	106.5	63.4	106.0	60.4	104.9	288.5	93.9	311.2	94.6	290.2
Conventional	114.6	30.7	102.0	34.5	103.5	33.8	102.4	190.0	90.6	207.8	91.8	187.3
Regular	112.1	24.3	99.2	26.9	100.7	26.0	100.9	160.6	89.1	173.6	90.3	154.5
Midgrade	120.9	3.6	108.3	4.1	109.2	4.4	107.2	10.2	95.9	10.9	96.1	11.0
Premium	128.4	2.8	116.2	3.4	117.3	3.4	112.3	19.3	99.4	23.3	100.6	21.9
Oxygenated	119.6	3.6	109.2	3.9	106.1	3.6	106.9	11.0	97.5	12.1	93.2	11.4
Regular	116.9	2.7	106.2	3.0	102.5	2.7	105.6	8.7	96.0	9.5	91.6	8.8
Midgrade	124.2	0.5	114.7	0.6	113.9	0.5	108.1	1.2	98.9	1.4	94.9	1.4
Premium	134.1	0.3	124.4	0.4	124.1	0.3	116.3	1.1	107.2	1.2	103.4	1.2
Reformulated	120.5	22.8	112.2	25.0	109.7	23.1	110.2	87.5	100.9	91.3	100.6	91.4
Regular	116.2	16.4	107.7	18.0	105.6	16.6	107.5	67.7	98.1	70.2	97.7	68.6
Midgrade	127.9	2.9	119.0	3.2	116.9	3.0	115.4	5.5	106.3	5.8	106.9	6.5
Premium	134.8	3.5	127.4	3.9	123.8	3.4	120.7	14.3	111.5	15.3	110.0	16.3
Aviation Gasoline	W	W	146.6	0.1	139.7	0.1	135.3	0.4	124.4	0.4	124.9	0.2
Kerosene-Type Jet Fuel	99.8	44.2	92.8	44.4	91.5	43.1	99.9	12.9	90.7	13.0	89.5	13.3
Propane (Consumer Grade)	NA	3.0	61.3	3.1	57.4	2.9	71.9	52.1	64.8	50.7	60.5	49.2
Kerosene	132.5	0.4	NA	0.2	121.0	0.3	111.0	4.7	97.0	3.5	97.8	4.7
No. 1 Distillate	107.3	0.6	103.3	0.4	98.2	0.4	107.2	3.4	100.9	2.6	98.1	3.1
No. 2 Distillate	100.3	18.7	93.9	18.1	93.9	22.6	96.4	130.8	89.1	131.6	89.3	134.8
No. 2 Fuel Oil	102.5	3.3	94.5	2.8	96.3	4.5	97.0	27.5	88.6	24.0	89.5	38.1
No. 2 Diesel Fuel	99.9	15.5	93.8	15.3	93.3	18.0	96.2	103.3	89.2	107.5	89.2	96.7
Low Sulfur	101.4	10.8	96.3	10.3	95.0	12.4	96.8	82.8	89.8	88.0	89.5	84.6
High Sulfur	96.2	4.7	88.7	5.0	89.3	5.6	93.8	20.5	86.9	19.6	87.3	12.1
No. 4 Fuel^a	W	W	84.5	0.5	W	W	89.7	0.1	W	W	77.0	0.4
Residual Fuel Oil	71.3	11.1	66.8	10.8	75.4	12.1	68.8	7.7	62.2	9.9	72.2	9.0
Sulfur Content not > 1 %	83.7	3.9	79.3	3.5	86.1	3.5	75.4	4.9	66.5	6.3	79.5	5.2
Sulfur Content > 1 %	64.7	7.3	60.7	7.3	70.9	8.6	57.5	2.8	54.5	3.6	NA	3.7

NA = Not available.

W = Withheld to avoid disclosure of individual company data.

^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."

tion of the major finished products shows output to be ahead of this time last year. Notably, January marked the beginning of new federal and state regulations governing gasoline. January 1 marked the beginning of the phase-in period for federal Tier 2 gasoline sulfur standards (with regulations to be fully in place by 2007.) Lowering the sulfur content of gasoline allows both catalytic converters in motor vehicles to work more effectively at reducing other pollutants and reduces tail-pipe emissions of sulfur compounds. However, market watchers note that gasoline from foreign sources, particularly Venezuela, typically contain sulfur at levels well above the new standards. U. S. imports of gasoline run roughly between 600,000 and 1

million barrels per day. At the state level, California, New York, and Connecticut implemented laws requiring the use of ethanol-blended gasoline in place of products using the component MTBE, which has been found to contaminate groundwater. Spot market prices for gasoline in California markets were spurred higher at mid-month as refinery maintenance influenced the supply outlook ahead of the February switch to lower-RVP product. As an indication of those supply concerns, the Los Angeles spot market price for reformulated regular gasoline reached \$1.115 per gallon on January 20 and closed the month at \$1.125 per gallon.

Additional January 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 was volatile during January. Against the backdrop of low inventories and cold temperatures, the price opened the new year at its lowest level, \$32.51 per barrel, then rose firmly during the initial half of the month following forecasts for, and the arrival of very cold temperatures in regions east of the Rocky Mountains. The price reached the high for the month on January 20, when it hit \$36.21 per barrel. During the second half of January, the price declined steadily. A combination of factors fueled the decrease, including rising stock levels, technical factors, and a decline in the price for No. 2 heating oil. Closing January at \$33.16 per barrel, the price was 65 cents higher than where it began the month.

- Monthly average crude oil prices show moderate increases in all categories of sales again in January. The average domestic crude oil first purchase price rose \$1.78 (6.2 percent), to \$30.32 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil increased \$1.06 (4.0 percent), to \$27.88 per barrel. The average landed cost of foreign crude oil climbed \$1.61 (5.6 percent), to \$30.35 per barrel.
- The average refiner acquisition cost for domestic crude oil increased \$1.78 (5.9 percent), to \$32.05 per barrel. The average cost of imported crude oil to U.S. refiners rose \$1.75 (6.1 percent), to \$30.38 per barrel, while the composite refiner acquisition cost for crude oil increased \$1.73 (5.9 percent), to \$31.01 per barrel.

Petroleum Products

Motor Gasoline

At New York Harbor, the daily spot price for regular gasoline was in an unsettled mode during January. Opening at 94.5 cents per gallon, the price followed the upward trend seen throughout the complex in response to crude oil supply concerns and very cold temperatures across much of the country. While the price experienced a period of decline after inventory reports showed an increase in refined product stock levels, it reverted to a rising path at mid-month following reports of unplanned refinery outages. The price reached

its high of \$1.066 on January 22. After retreating during the final portion of the month as supply concerns eased again, the price closed January at 99.1 cents per gallon, 4.6 cents higher than where it began the month.

- Following the small changes seen in December, national average gasoline prices rose significantly in January. The average price for retail sales of motor gasoline by refiners climbed 10.8 cents to \$1.173 per gallon, while the average wholesale price increased 11.0 cents to \$1.049 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets rose 10.7 cents to \$1.169 per gallon. The average wholesale price increased 10.8 cents to \$1.054 per gallon. The average dealer tank wagon (DTW) price rose 9.6 cents to \$1.097 per gallon, while the average rack price jumped 11.3 cents to \$1.044 per gallon. The average price for bulk sales increased 10.8 cents to 95.3 cents per gallon. The difference between reformulated gasoline and conventional gasoline prices declined again in January, with margins dropping to 5.9 cents at retail and 6.9 cents at wholesale. Oxygenated gasoline prices were 4.0 cents higher than conventional gasoline prices at retail, and 4.3 cents more at wholesale.
- Sales of motor gasoline by refiners declined in January. Total sales fell 29.0 million gallons per day (7.7 percent), to an average of 345.6 million gallons per day. Retail sales decreased 6.3 million gallons per day (9.9 percent), while wholesales fell 22.7 million gallons per day (7.3 percent). Rack sales accounted for 68.7 percent of wholesales, while DTW and bulk sales made up 19.2 percent and 12.1 percent, respectively. RFG accounted for 31.9 percent of total motor gasoline sales, while oxygenated gasoline explained 4.2 percent of sales.

No. 2 Distillate

The daily spot price for No. 2 fuel oil at New York Harbor was volatile during January as very cold weather settled in across the country. Opening at 88.8 cents per gallon, the price rose swiftly at the beginning of January as temperatures plummeted, particularly in the Northeast. As the perception that product stores were adequate to meet heavy demand began to take hold in the market, the price gave back most of its gains during the second week of the month. The price experienced another fast, sharp increase as a spate of unplanned refinery outages occurred. Along with continued cold weather across the country, the price rose to its high of \$1.036 on January 21. The price eased during the final

few weeks of January as supply concerns abated. Closing the month at 93.7 cents per gallon, the price was 4.9 cents above January's opening level.

- Increases in monthly average prices intensified in January for No. 2 distillates. The national average residential sales price for No. 2 distillate rose 7.9 cents to \$1.420 per gallon. The average wholesale price climbed 7.2 cents to 97.1 cents per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets increased 6.5 cents, while the average No. 2 diesel fuel wholesale price rose 7.1 cents. The difference between low- and high-sulfur diesel fuel prices was 2.0 cents at retail and 3.2 cents at wholesale.
- While overall refiner sales of No. 2 distillates remained flat in January, sales of No. 2 fuel oil increased. More specifically, total sales remained at 149.6 million gallons per day. Sales of No. 2 fuel oil climbed 4.0 million gallons per day (14.9 percent), while sales of No. 2 diesel fuel fell 4.0 million gallons per day (3.3 percent). Low-sulfur diesel fuel accounted for 78.8 percent of all refiner diesel fuel sales, and 62.6 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Residual fuel oil prices increased in January. Refiner prices for low-sulfur residual fuel oil rose 4.4 cents to 83.7 cents per gallon at retail, and 8.9 cents to 75.4 cents per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil increased 4.0 cents to 64.7 cents per gallon, while the wholesale price rose 3.0 cents to 57.5 cents per gallon. Including data reported by a sample of residual fuel oil

marketers, the average price for low-sulfur residual fuel oil increased 4.3 cents to 80.8 cents per gallon at retail, and 7.4 cents to 74.2 cents per gallon at wholesale. The retail price for high-sulfur residual fuel oil rose 3.0 cents to 63.8 cents per gallon, while the wholesale price increased 2.8 cents to 62.8 cents per gallon.

- Residual fuel sales by refiners dropped in January. Total sales fell 1.9 million gallons per day (9.2 percent) to 18.8 million gallons per day. Low-sulfur residual fuel sales declined 1.0 million gallons per day (10.2 percent), while high-sulfur residual fuel oil sales fell 800,000 gallons per day (7.3 percent).

Other Products

- Monthly average prices for products included in this section generally increased in January. The refiner wholesale price for propane rose 7.1 cents per gallon. Including data from a sample of propane marketers, the average residential propane price increased 7.4 cents per gallon. The average retail price increased 9.4 cents per gallon, while the average wholesale propane price climbed 7.3 cents per gallon. Prices for kerosene-type jet fuel, kerosene, and No. 1 distillate rose at both levels, while the wholesale price for aviation gasoline also increased.
- Refiner sales of these products were mixed in January. Sales of kerosene and No. 1 distillate rose at both levels, while sales of kerosene-type jet fuel did just the opposite. Propane sales fell at retail, but increased at wholesale. Sales of aviation gasoline declined again at the wholesale level in January.