

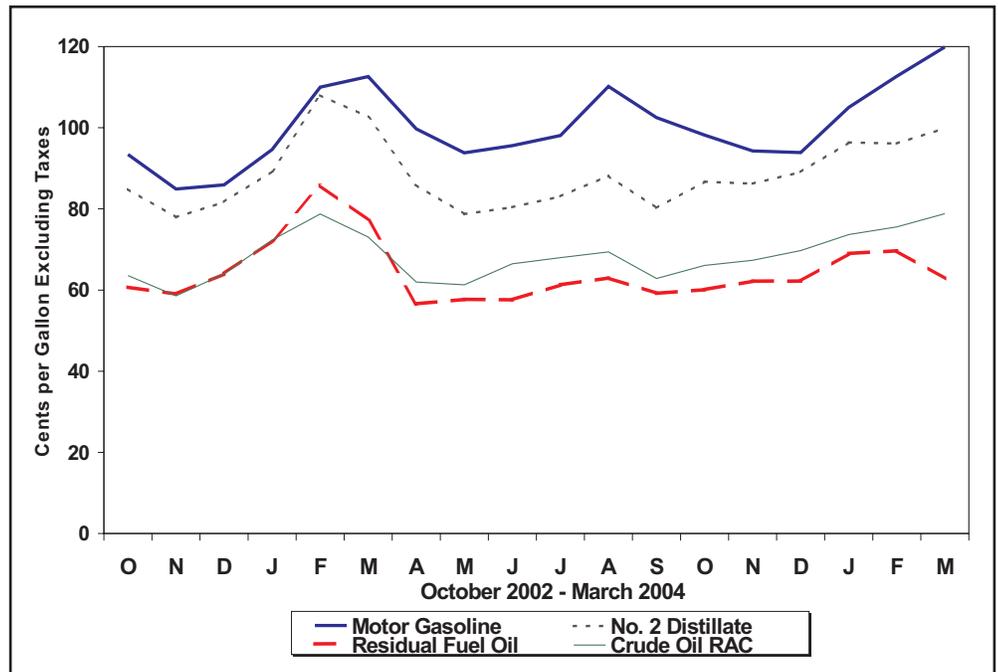
# Highlights

Though international crude oil prices eased during the latter part of March, values for benchmark streams remained at lofty levels throughout the month. The same issues that have underpinned market prices during the past several months remained in play in March: rising world demand for oil, particularly ongoing robust demand from China, low crude oil and gasoline inventories in the United States, an expected cut in production for the Organization of the Petroleum Exporting Countries (OPEC), and market technical factors. In addition, political unrest in Venezuela that began in late February continued through the beginning of March, adding to apprehension about crude oil supplies in the U.S. Although the OPEC reference basket price (an arithmetic average of seven crude oil streams) has remained above the price band mechanism \$28-per-barrel ceiling of for the year thus far, the group voted February 10 to set up a second cut in production levels, effective April 1. The group mostly based the cut on the perception that there would be an excess of supply during the second quarter of the year. Notably, the price band mechanism was devised to trigger production cuts or increases when the reference basket price moved outside a \$22- to \$28-per-barrel range for at least twenty consecutive days. However, the group asserts, because of the fluctuation in the value of the U.S. dollar against other currencies, the price band is not germane to current market conditions. That assessment, coupled with the perception that high U.S. gasoline prices and commodity market speculation by noncommercial investors were affecting world crude oil prices, led to a vote confirming the production cut during a quarterly meeting on March 31. In the meantime, increases in U.S. crude oil and product stocks, along with market technical factors caused

oil prices to retreat from the long-term highs seen at mid-month.

Although prices for many products decreased during the second half of the month, crude oil and petroleum product prices remained at high levels across U.S. markets in March. Gasoline supplies continued to be at the center of attention as markets moved toward the transition to low-RVP gasoline, which is required for use during warm weather months. Federal regulations require suppliers to have a summer grade product at the terminal level by May 1 and at retail outlets by June 1. Typically, refinery inputs are comparatively higher when producing this product since certain components must be lowered or removed to meet the environmental standards. That, in essence, reduces the yield from the barrel and increases the cost of the final gasoline product. However, refinery inputs and utilization were running below the rates seen during this time in

**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					
	March 2004		February 2004		March 2003		March 2004		February 2004		March 2003	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
<b>Motor Gasoline</b> .....	133.8	59.0	125.6	58.3	130.0	61.0	119.9	308.5	112.7	293.8	112.6	289.1
<b>Conventional</b> .....	127.4	34.1	120.2	32.3	123.8	35.5	115.1	207.4	108.4	193.1	106.5	189.1
Regular .....	124.8	27.2	117.8	25.7	121.1	28.1	113.6	176.1	106.9	163.1	105.1	159.7
Midgrade .....	134.2	3.9	126.4	3.7	130.2	4.3	120.5	11.1	112.8	10.8	110.9	10.7
Premium .....	142.0	3.0	134.1	2.9	138.4	3.2	125.2	20.1	118.4	19.2	115.5	18.7
<b>Oxygenated</b> .....	135.5	2.1	127.0	3.2	130.8	2.2	124.0	8.9	114.4	10.5	120.5	8.8
Regular .....	133.4	1.7	124.9	2.5	128.8	1.8	122.7	7.1	113.0	8.4	119.8	7.0
Midgrade .....	140.9	0.2	130.0	0.5	134.2	0.3	124.4	1.1	115.6	1.1	117.0	1.1
Premium .....	151.1	0.1	140.5	0.3	148.1	0.1	136.4	0.7	124.9	1.0	133.9	0.6
<b>Reformulated</b> .....	143.2	22.9	133.0	22.8	139.5	23.3	130.3	92.2	121.7	90.2	124.5	91.3
Regular .....	139.7	16.9	129.2	16.6	136.5	17.5	127.7	72.8	119.1	70.2	122.1	71.3
Midgrade .....	148.8	2.7	139.2	2.8	145.0	2.8	136.7	5.5	127.5	5.6	132.2	6.0
Premium .....	156.9	3.3	146.6	3.4	151.8	2.9	141.3	13.9	131.8	14.4	133.1	13.9
<b>Aviation Gasoline</b> .....	W	W	W	W	W	W	148.9	0.6	143.6	0.4	135.8	0.5
<b>Kerosene-Type Jet Fuel</b> .....	102.7	47.3	101.3	46.8	104.4	44.0	101.4	10.0	100.0	11.6	101.7	14.7
<b>Propane (Consumer Grade)</b> .....	NA	3.9	87.7	3.1	67.3	2.1	62.0	41.1	70.1	46.1	69.1	32.3
<b>Kerosene</b> .....	102.7	0.6	93.9	1.4	138.7	0.3	104.3	2.0	114.6	3.5	110.3	2.4
<b>No. 1 Distillate</b> .....	116.2	0.3	109.2	0.5	112.5	0.3	113.4	0.8	108.0	2.5	120.8	1.0
<b>No. 2 Distillate</b> .....	106.4	18.2	102.6	17.9	111.4	20.1	99.9	135.5	96.1	131.4	102.6	129.9
No. 2 Fuel Oil .....	101.0	2.4	99.4	3.1	110.0	3.8	93.6	21.1	93.0	26.0	104.5	29.2
No. 2 Diesel Fuel .....	107.3	15.8	103.3	14.9	111.7	16.3	101.0	114.3	96.8	105.3	102.1	100.8
Low Sulfur .....	109.6	11.0	105.7	10.2	116.2	10.9	102.2	97.5	97.9	85.7	103.0	88.1
High Sulfur .....	101.9	4.7	98.1	4.7	102.8	5.5	94.3	16.8	92.2	19.7	96.0	12.7
<b>No. 4 Fuel<sup>a</sup></b> .....	87.2	0.4	91.4	0.5	105.1	0.4	90.9	0.1	95.1	0.1	85.1	0.1
<b>Residual Fuel Oil</b> .....	67.5	10.9	70.3	11.2	81.3	12.2	62.8	5.8	69.7	7.4	77.2	9.8
Sulfur Content not > 1 % .....	76.3	4.0	80.7	4.2	97.4	4.4	67.3	3.2	76.3	4.6	88.1	5.7
Sulfur Content > 1 % .....	62.5	7.0	64.0	7.0	72.3	7.9	57.1	2.5	59.3	2.9	62.5	4.2

NA = Not available.

W = Withheld to avoid disclosure of individual company data.

<sup>a</sup> 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."

recent years. With implied demand for gasoline rising 2 percent from last month's level and nearly 4 percent from this time last year, already trim stocks declined again. March finished gasoline stock levels were 2.8 percent lower than in February, and 8.3 percent below the March 2003 level. Consequently, in spot markets across the country, gasoline prices did not experience the decrease that prices for crude oil and other petroleum products saw during the latter half of the month. At New York Harbor, the monthly average spot price for regular gasoline was \$1.091 per gallon in March 2004, while the average price last year at this time was 95.5 cents per gallon. Prices in other major regional markets show similar trends, with prices remaining well above \$1.00 per gallon throughout the month. Crude oil prices, which underwent steady increases

last month, began to ease at mid-month, as inventory levels continued to rise. For the month overall, stocks rose 2.4 percent from February's level and were 7.5 percent higher than in March 2003. Despite the increase in supply, the price for benchmark WTI crude oil reached \$38.21 on March 17, its highest point in more than thirteen years. On average, the WTI price at Cushing, Oklahoma was \$36.74 per barrel in March 2004 compared with \$34.68 per barrel last month and \$33.51 per barrel in March 2003. Distillate prices also saw decreases during March as cold temperatures abated, and demand for heating oil declined.

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

## Crude Oil

Supported by a number of fundamental factors, the daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma remained within a high range during March. More specifically, concern about crude oil and gasoline inventory levels in the face of impending cuts in OPEC wellhead production underpinned the price during the coming weeks. After opening at \$36.08 per barrel, the price moved to the month's high—and its highest level since 1990—on March 17 when it reached \$38.21 per barrel. Easing during the final week of the month, due in part to some uncertainty whether OPEC would proceed with planned production cut, the price dropped to the month's low of \$35.41 per barrel on March 29. Closing the month at \$35.75 per barrel, the price was 33 cents below March's opening level.

- Monthly average crude oil prices show increases in all categories again in March. The average domestic crude oil first purchase price rose \$1.64 (5.3 percent), to \$32.85 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil increased \$1.08 (3.8 percent), to \$29.55 per barrel. The average landed cost of foreign crude oil rose 69 cents (2.2 percent), to \$31.78 per barrel.
- The average refiner acquisition cost for domestic crude oil increased \$1.39 (4.2 percent), to \$34.57 per barrel. The average cost of imported crude oil to U.S. refiners climbed \$1.47 (4.8 percent), to \$32.24 per barrel, while the composite refiner acquisition cost for crude oil rose \$1.38 (4.4 percent), to \$33.10 per barrel.

## Petroleum Products

### *Motor Gasoline*

The daily spot price for regular gasoline at New York Harbor stayed within a high range during March, as the market continued to react to persistent low inventory levels. Opening at \$1.089, the price fell to the month's low of \$1.011 on March 9, primarily due to technical factors. Quickly recouping, it remained robust through the end of the month, chiefly due to concerns about production and supply levels. The month's high, \$1.130 was reached on March 30.

Closing at \$1.104, the price was less than 2 cents above its opening level.

- In March, national average gasoline prices increased again. The average price, excluding taxes, for retail sales of motor gasoline by refiners climbed 8.2 cents to \$1.338 per gallon, while the average wholesale price rose 7.2 cents to \$1.199 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets increased 7.5 cents to \$1.316 per gallon. The average wholesale price for gasoline climbed 7.2 cents to \$1.198 per gallon. The average dealer tank wagon (DTW) price rose 8.2 cents to \$1.261 per gallon, while the average rack price increased 6.8 cents to \$1.179 per gallon. The average bulk sale price rose 5.9 cents to \$1.082 per gallon. Reformulated gasoline prices exceeded conventional gasoline prices by 13.5 cents at retail and 12.8 cents at wholesale. Oxygenated gasoline prices were 6.4 cents higher than conventional gasoline prices at retail, and 7.4 cents more at wholesale.
- Refiner sales of motor gasoline increased again during March. Total sales climbed 15.4 million gallons per day (4.4 percent), to an average of 367.5 million gallons per day. Retail sales increased 700,000 gallons per day (1.2 percent), while wholesales rose 14.7 million gallons per day (5.0 percent). Rack sales formed 69.0 percent of wholesales, while DTW and bulk sales accounted for 18.2 percent and 12.9 percent, respectively. RFG made up 31.3 percent of total motor gasoline sales, while oxygenated gasoline accounted for 3.0 percent of sales.

### *No. 2 Distillate*

With warmer temperatures beginning to arrive, the daily spot price for No. 2 fuel oil at New York Harbor moved along a somewhat unsettled path during March. Opening at its highest level, 96.3 cents per gallon, the price moved to the month's low of 87.5 cents per gallon on March 10 on comfortable supply levels. During the latter half of the month, the price experienced some volatility due to changes in inventories and trends for other products in the complex. The price closed at 89.3 cents per gallon, 7 cents lower than where it began March.

- With the exception of the national average residential sales price, March monthly average prices for No. 2 distillates increased moderately. The above-mentioned average price for No. 2 distillate residential sales fell 2.0 cents to \$1.412 per gallon.

The average wholesale price increased 3.4 cents to \$1.001 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets climbed 4.6 cents, while the average No. 2 diesel fuel wholesale price rose 4.0 cents. The difference between low- and high-sulfur diesel fuel prices was 3.1 cents at retail and 6.8 cents at wholesale.

- In total, refiner sales of No. 2 distillates declined in March. Total sales fell 1.1 million gallons per day (0.7 percent), to 153.6 million gallons per day. Sales of No. 2 fuel oil tumbled, falling 6.7 million gallons per day (22.2 percent), while sales of No. 2 diesel fuel rose 5.6 million gallons per day (4.5 percent). Low-sulfur diesel fuel made up 83.4 percent of all refiner diesel fuel sales, and 70.6 percent of all refiner No. 2 distillate sales.

### *Residual Fuel Oil*

- Residual fuel oil prices declined in March. Refiner prices for low-sulfur residual fuel oil dropped 4.4 cents to 76.3 cents per gallon at retail, and by 9.0 cents to 67.3 cents per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil fell 1.5 cents to 62.5 cents per gallon, while the wholesale price declined 2.2 cents to 57.1 cents per gallon. Including data reported by a sample of residual fuel oil marketers, the average price for low-sulfur residual fuel oil decreased 3.7 cents to 73.5 cents per gallon at retail, and 10.4 cents to 64.4 cents per gallon at wholesale. The retail price for high-sulfur residual fuel oil fell 1.5 cents to 61.5 cents

per gallon, while the wholesale price decreased 0.9 cent to 59.3 cents per gallon.

- Refiner residual fuel oil sales fell during March. Total sales decreased 1.9 million gallons per day (10.2 percent). Low-sulfur residual fuel oil sales dropped 1.6 million gallons per day (18.2 percent), while high-sulfur residual fuel oil sales declined 400,000 gallons per day (4.0 percent).

### *Other Products*

- The direction of monthly average prices for products included in this section was mixed in March. Refiner prices for propane plummeted 15.9 cents per gallon at retail, while the wholesale price declined 8.1 cents per gallon. Including data from a sample of propane marketers, the average residential propane price fell 1.9 cents per gallon, while the average retail price decreased 7.0 cents per gallon. The average wholesale propane price fell 8.0 cents per gallon. Prices for kerosene-type jet fuel rose and No. 1 distillate rose at both levels, while No. 4 distillate prices did just the opposite. Prices for kerosene increased at retail, but fell at wholesale, while the wholesale price rose for aviation gasoline.
- Refiner sales of these products largely declined in March. Sales of kerosene-type jet fuel, kerosene, No. 1 distillate, and No. 4 distillate decreased at both the retail and wholesale levels. Sales of propane increased at retail but fell at wholesale, while aviation gasoline sales rose at wholesale.