

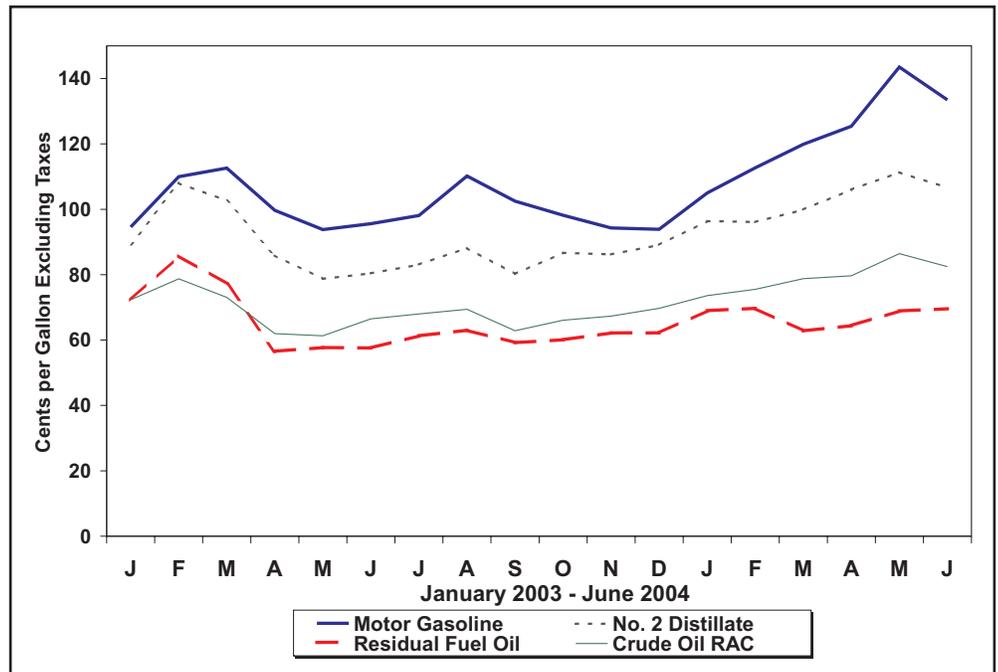
# Highlights

World crude oil prices fell from record-setting highs during June, as the issues that have influenced oil prices during the past several months changed. Shifts in market fundamentals provided much of the impetus for the decline in prices. More specifically, supply tightness began to ease as producers officially increased wellhead output while demand stepped down from the robust rates seen during the year thus far. Additionally, early data show oil inventories in key markets were being replenished to typical seasonal ranges. During its June 3 meeting in Beirut, Lebanon, the Organization of Oil Exporting Countries (OPEC) voted to raise production quotas to 25.5 million barrels per day starting July 1, and again on August 1 to 26.0 million barrels per day. Following the decision, the group stated the production increases were meant to bring about a greater sense of market stability while keeping prices at levels acceptable to both producers and consumers. The measure had a substantive effect on prices during the rest of the month, influencing purchasing decisions in both the physical and commodities markets as buyers waited to see the results of the production and ensuing supply increase. Refining activity also affected demand for crude oil. More specifically, while refining margins remained very attractive in U.S. and European markets, encouraging crude oil inputs at refineries, reports indicate that ongoing planned maintenance activities in Asian refining centers continued to dampen demand for crude oil in June. Potentially disruptive events including a general labor strike in Nigeria from June 11 to June 14, a week-long Norwegian oil workers' strike during the latter half of the month, and disruptions to Iraqi pipelines carrying oil to the port of Basra did not have an undue effect on prices. The absence

of a substantial reaction in market prices to these incidents was due in large part to the increase in OPEC production quotas and the evidence oil shipments from the Mideast had not suffered interruptions.

In the United States, improving fundamentals also led crude oil and petroleum product prices lower during June. Similar to the trend seen in international markets, the month opened with crude oil prices reaching record highs in reaction to news of an attack on foreign workers in Kobar, Saudi Arabia on May 31. Nonetheless, prices began to fall on overt indications that OPEC planned to increase wellhead production, and renewed attention to supply rates, inventory levels and other fundamental factors continued to influence market price trends throughout the month. More specifically, as inventories of the principal petroleum products registered increases, prices retreated from the recent high ranges, particularly during the first half of the month.

**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					
	June 2004		May 2004		June 2003		June 2004		May 2004		June 2003	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
<b>Motor Gasoline</b> .....	154.7	60.1	157.1	59.7	109.3	66.8	133.5	332.8	143.5	323.8	95.6	327.7
<b>Conventional</b> .....	148.1	34.7	152.1	34.4	104.7	38.4	127.9	226.5	139.2	219.6	91.3	219.9
Regular .....	145.7	28.6	150.0	28.3	101.8	29.9	126.6	196.5	137.7	190.8	89.8	184.5
Midgrade .....	155.7	3.5	158.5	3.5	110.9	4.7	133.7	10.5	146.2	10.5	95.9	11.5
Premium .....	164.2	2.7	166.0	2.6	118.9	3.8	138.3	19.5	150.8	18.3	101.0	23.9
<b>Oxygenated</b> .....	151.0	1.7	163.9	1.6	111.8	2.3	136.7	7.9	150.6	7.2	99.7	8.1
Regular .....	148.8	1.4	162.2	1.4	109.4	1.8	136.0	6.4	150.1	5.9	98.7	6.4
Midgrade .....	158.5	0.2	168.4	0.2	116.4	0.3	135.4	1.0	149.8	0.9	99.8	1.1
Premium .....	168.3	0.1	178.6	0.1	129.1	0.2	148.8	0.5	159.2	0.4	110.4	0.6
<b>Reformulated</b> .....	164.5	23.7	163.8	23.7	115.9	26.1	146.0	98.3	152.8	97.0	104.7	99.7
Regular .....	160.6	17.8	160.3	17.8	112.1	18.9	143.2	79.3	150.5	77.4	102.0	77.2
Midgrade .....	171.4	2.7	170.5	2.7	122.2	3.3	155.4	5.1	158.7	5.3	110.8	6.2
Premium .....	180.7	3.2	178.0	3.1	129.1	3.9	158.6	13.9	163.0	14.3	114.9	16.2
<b>Aviation Gasoline</b> .....	193.2	0.1	194.9	0.1	145.1	0.1	174.0	0.6	172.8	0.6	NA	0.8
<b>Kerosene-Type Jet Fuel</b> .....	110.3	48.7	117.0	46.1	76.8	44.8	108.5	15.3	115.1	13.4	77.0	12.0
<b>Propane (Consumer Grade)</b> .....	74.0	2.9	74.8	2.6	56.0	1.9	66.2	33.9	65.6	30.1	57.5	30.0
<b>Kerosene</b> .....	105.2	0.3	111.7	0.4	90.8	0.1	108.0	0.7	119.4	0.6	77.5	1.8
<b>No. 1 Distillate</b> .....	123.8	0.1	125.4	0.1	94.2	0.2	118.9	0.3	125.5	0.3	88.5	0.2
<b>No. 2 Distillate</b> .....	112.8	20.8	118.5	19.7	85.8	19.3	106.6	137.1	111.3	130.2	80.4	126.4
No. 2 Fuel Oil .....	104.9	2.3	107.2	2.3	81.5	2.5	101.9	15.0	102.9	14.7	76.8	20.2
No. 2 Diesel Fuel .....	113.8	18.5	120.0	17.4	86.5	16.8	107.2	122.2	112.4	115.6	81.1	106.2
Low Sulfur .....	116.1	12.1	122.6	11.9	88.5	11.5	107.9	104.1	113.3	100.9	81.4	93.2
High Sulfur .....	109.5	6.4	114.4	5.6	82.0	5.3	103.2	18.1	106.0	14.6	79.1	13.0
<b>No. 4 Fuel<sup>a</sup></b> .....	100.4	0.1	W	W	69.4	0.2	95.2	0.0	96.2	0.0	70.1	0.0
<b>Residual Fuel Oil</b> .....	73.9	10.6	72.8	10.0	63.9	11.9	69.6	5.1	68.9	7.1	57.6	6.8
Sulfur Content not > 1 % .....	78.7	3.4	79.1	3.1	71.9	3.9	75.7	2.7	76.4	3.2	62.4	2.7
Sulfur Content > 1 % .....	71.6	7.2	69.8	6.8	60.0	8.0	62.6	2.4	62.9	4.0	54.5	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."

Crude oil imports continued the rise first seen in May, and continued at a rate generally believed as needed to keep stocks in a stable range (roughly around 10.0 million barrels per day). Gasoline prices also dropped precipitously in markets across the country as demand for the product slowed and inventories rose. At New York Harbor, the price moved within a range that varied by 25 cents per gallon, with a significant portion of the decline registered in the first week of the month. On the West Coast however, gasoline prices surged again during the second half of June as news of problems at two refineries in the San Francisco Bay area. By the end of the month, gasoline prices were in retreat again as concern about operations at those units and inventories in the region abated. Notably, distillate prices did not experience a similar degree of decline seen in other products' prices. Part of difference can be attributed to the volatility of crude oil and gasoline based on short sup-

plies and robust demand in recent months. However, demand for distillates, particularly diesel fuel, continued to rise during June, and remained significantly above demand at this time last year. In response, it appears, producers began to focus more on distillate production as the month wore on, with data regarding production and stock levels showing gradual increases throughout June. Overall, the volatile price trends seen in the petroleum products marketplace during recent months were mostly absent in June, mostly due to product inventories registering regular increases and to several potentially the month of June appeared to be a period of respite from influential international political issues being quickly concluded.

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

## Crude Oil

Because of changing market fundamentals, the daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma decreased during June. The price opened the month at \$39.90 per barrel, but after marking the month's high of \$42.33 per barrel on June 1, it entered an extended period of decline. Rising inventories of crude oil and petroleum products along with less emphasis on geopolitical issues contributed to the price's descent during the following weeks. The low for the month, \$35.60 per barrel, was reached on June 29. The price closed June at \$36.92 per barrel, nearly \$3.00 lower than where it began the month.

- June monthly average crude oil prices decreased in all sales categories. The average domestic crude oil first purchase price fell \$1.54 (4.3 percent), to \$34.53 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil declined \$2.14 (6.4 percent), to \$31.54 per barrel. The average landed cost of foreign crude oil decreased \$1.47 (1.8 percent), to \$33.56 per barrel.
- The average refiner acquisition cost for domestic crude oil fell 67 cents (1.8 percent), to \$36.56 per barrel. The average cost of imported crude oil to U.S. refiners declined \$2.24 (6.3 percent), to \$33.58 per barrel, while the composite refiner acquisition cost for crude oil decreased \$1.67 (4.6 percent), to \$34.64 per barrel.

## Petroleum Products

### *Motor Gasoline*

During June, the daily spot price for regular gasoline at New York Harbor retreated from the long-term highs reached in May. After opening June at its highest point, \$1.355 per gallon, the price fell more than 20 cents per gallon during the first week of the month amid reports of rising gasoline inventories. While it seesawed moderately during the following weeks, the price remained well above \$1.00 per gallon. After reaching its low of \$1.074 per gallon on June 29, the price closed the month at \$1.119 per gallon, a striking 23.6 cents below its opening level.

- National average gasoline prices decreased in June. The average price for retail sales of motor gasoline by refiners fell 2.4 cents to \$1.547 per gallon, while the average wholesale price dropped 10.0 cents to \$1.335 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets declined 3.0 cents to \$1.524 per gallon. The average wholesale price for gasoline fell 10.2 cents to \$1.331 per gallon. The average dealer tank wagon (DTW) price decreased 7.9 cents to \$1.404 per gallon, while the average rack price fell 13.2 cents to \$1.306 per gallon. The average bulk sale price declined 5.3 cents to \$1.232 per gallon. Reformulated gasoline prices topped conventional gasoline prices by 14.8 cents at retail and 13.7 cents at wholesale. Oxygenated gasoline prices were 1.6 cents higher than conventional gasoline prices at retail, and 7.1 cents more at wholesale.
- Refiner sales of motor gasoline increased moderately in most categories during June. Total sales rose 9.4 million gallons per day (2.5 percent), to an average of 392.9 million gallons per day. Retail sales rose 400,000 gallons per day (0.7 percent), while wholesales increased 9.0 million gallons per day (2.8 percent). Rack sales accounted for 67.5 percent of wholesales, while DTW and bulk sales made up 16.3 percent and 16.2 percent, respectively. Reformulated gasoline accounted for 31.1 percent of total motor gasoline sales, while oxygenated gasoline made up 2.4 percent of sales.

### *No. 2 Distillate*

Continuing the general trend seen in May, the daily spot price for No. 2 fuel oil at New York Harbor remained noticeably less volatile than other prices in the complex throughout June. Opening at 99.9 cents per gallon, the price reached its high of \$1.062 on June 1 on market jitters following the terrorist attack in Kobar, Saudi Arabia. Like other products' prices, the No. 2 fuel oil price retreated firmly after that point. The month's low of 94.8 cents per gallon was struck on June 8. While it regained some ground during the coming weeks, the price closed June at \$1.004 per gallon, only half a cent higher than its opening level.

- No. 2 distillate prices declined in June. The national average residential sales price fell 1.1 cents to \$1.409 per gallon. The average wholesale price decreased 4.6 cents to \$1.075 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets fell 3.4 cents, while the average No. 2 diesel fuel

wholesale price dropped 5.1 cents. The difference between low- and high-sulfur diesel fuel prices was 3.3 cents at retail and 3.8 cents at wholesale.

- Refiner sales of No. 2 distillates increased during June. Total sales rose 8.0 million gallons per day (5.3 percent), to 158.0 million gallons per day. Sales of No. 2 fuel oil increased 300,000 gallons per day (1.8 percent), while sales of No. 2 diesel fuel climbed 7.7 million gallons per day (5.8 percent). Low-sulfur diesel fuel accounted for 82.6 percent of all refiner diesel fuel sales, and 73.5 percent of all refiner No. 2 distillate sales.

### *Residual Fuel Oil*

- June residual fuel oil prices show modest changes from May levels. Refiner prices for low-sulfur residual fuel oil dropped 0.4 cent to 78.7 cents per gallon at retail, and 0.7 cent to 75.7 cents per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil increased 1.8 cents to 71.6 cents per gallon, while the wholesale price decreased 0.3 cent to 62.6 cents per gallon. Including data reported by a sample of residual fuel oil marketers, the average price for low-sulfur residual fuel oil inched up 0.1 cent to 77.9 cents per gallon at retail, and 1.1 cents to 74.8 cents per gallon at wholesale. The retail price for high-sulfur residual fuel oil rose 1.0 cent to 71.1 cents per gallon, while the wholesale price rose 0.8 cent to 67.1 cents per gallon.

Sales of residual fuel oil by refiners decreased in June. Total sales fell 1.4 million gallons per day (8.2 percent). Low-sulfur residual fuel oil sales declined 200,000 gallons per day (3.2 percent), while high-sulfur residual fuel oil sales dropped 1.2 million gallons per day (11.1 percent).

### *Other Products*

- June monthly average prices for the remaining surveyed products show an assortment of changes. Refiner prices for propane decreased 0.8 cent per gallon at retail, but increased 0.6 cent per gallon at wholesale. Including data from a sample of propane marketers, the average residential propane price rose 3.3 cents per gallon, while the average retail price declined 0.3 cent per gallon. The average wholesale propane price inched up 0.7 cent per gallon. Prices for kerosene-type jet fuel, kerosene and No. 1 distillate decreased at both levels. Aviation gasoline prices fell at retail but rose at wholesale, and the wholesale price for No. 4 distillate decreased.
- Refiner sales of the products included in this section generally increased during June. Sales of propane, kerosene-type jet fuel, aviation gasoline, and No. 1 distillate climbed at both the retail and wholesale levels. Sales of kerosene fell at retail but increased at wholesale, while sales of No. 4 distillate also rose at the wholesale.