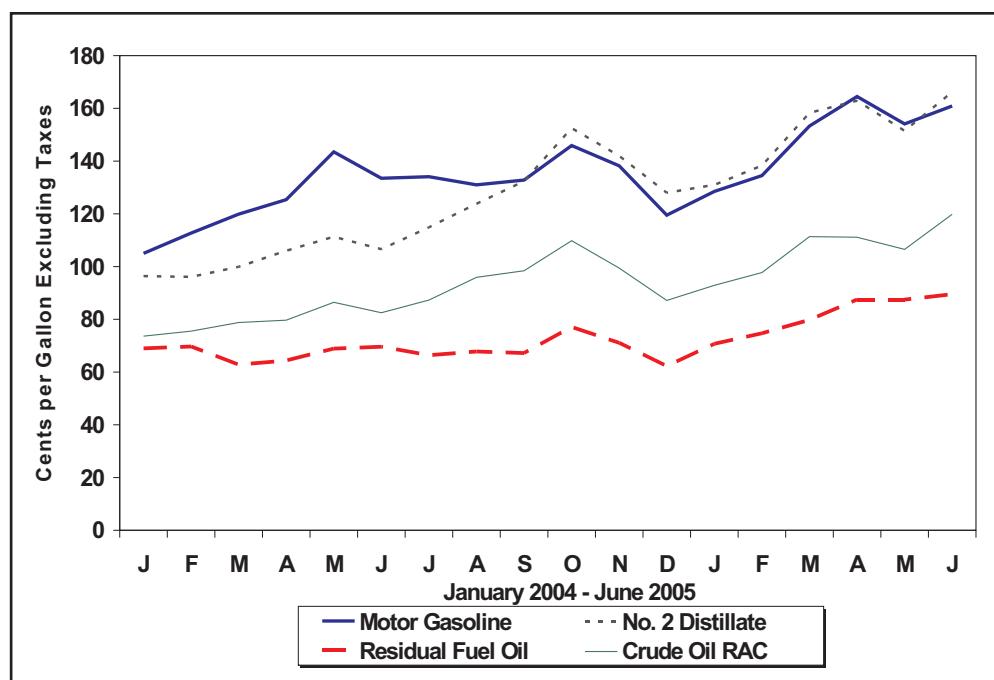


# Highlights

World crude oil prices experienced significant increases during June. In addition to technical issues, demand for gasoline and distillates in key markets underpinned rising crude oil prices. Some market watchers contend that the robust demand for crude oil in the face of growing inventory levels reflects the effort by refiners to hedge against high prices in the fourth quarter of the year by stockpiling now or purchasing futures contracts. Others believe that non-commercial speculation has contributed some upward pressure on prices. While the demand issue imparted pressure on prices throughout the month, they also reacted to other factors. Prices rose in response to the United States closing its embassy in Abuja, Nigeria along with its consulate in Lagos on June 16, due to reports of a terrorist threat from foreign Islamic militants. Britain, Russia, Italy, and Germany also closed their consulates in Lagos. While the diplomatic facilities were reopened on June 20, prices remained at high levels. Notably, the Organization of Petroleum Exporting Countries (OPEC) met in Vienna, Austria on June 15 and voted to raise the group's output by 500,000 barrels per day 28 million barrels per day officially. The president of OPEC had stated earlier in the month that the increase was essentially a pro forma move since the group was already pumping about 28 million barrels per day. Following the incident in Nigeria, market interest shifted back to robust demand for refined products and the issue of refining capacity, particularly in the United States. Prices for many key streams reached their high points during the last days of June, following the election of ultra-conservative Mahmoud Ahmadinejad as president of Iran and an increase in purchases of long-term futures contracts for crude oil in mercantile markets.

At the beginning of the summer driving season, prices for crude oil and refined products underwent sizeable increases in the United States. Robust demand, supply concerns, refinery problems, and inclement weather all contributed to the rise in prices during June. Last month, the National Weather Service released a report predicting an above-normal hurricane season for the North Atlantic Ocean region. The prediction was a source of concern in oil markets, in light of last year's storms that inflicted a considerable amount of damage to oil production facilities in the Gulf of Mexico. Early in June, Tropical Storm Arlene led to the evacuation of platforms in the same region. Arlene made landfall on June 11 along the Florida Panhandle, but caused little damage to oil industry infrastructure. Nonetheless, the storm helped to underpin rising prices. Prices were also spurred by robust demand for oil products, particularly for gasoline and distillates. While weekly data show demand for gasoline running moderately above

**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 2005		May 2005		June 2004		June 2005		May 2005		June 2004	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
<b>Motor Gasoline</b> .....	172.1	63.4	171.2	60.9	154.7	60.1	160.9	343.2	154.1	333.5	133.5	332.1
<b>Conventional</b> .....	168.0	36.1	165.1	35.2	148.1	34.7	158.1	230.5	150.2	222.6	127.9	226.4
Regular .....	165.8	30.0	162.5	29.2	145.7	28.5	156.8	198.1	148.9	191.5	126.6	196.4
Midgrade .....	174.1	3.4	172.7	3.4	155.7	3.5	161.7	12.6	152.9	11.8	133.7	10.5
Premium .....	184.7	2.7	183.7	2.6	164.2	2.7	169.4	19.8	161.8	19.3	138.3	19.5
<b>Oxygenated</b> .....	171.7	2.0	164.1	2.0	151.0	1.7	159.9	9.2	154.2	8.4	136.7	7.9
Regular .....	170.0	1.7	161.8	1.7	148.8	1.4	158.8	7.5	153.2	6.9	136.0	6.4
Midgrade .....	176.0	0.2	172.6	0.2	158.5	0.2	159.9	1.1	151.5	0.9	135.4	1.0
Premium .....	184.6	0.1	179.8	0.1	168.3	0.1	173.5	0.7	171.6	0.6	148.8	0.5
<b>Reformulated</b> .....	177.9	25.3	180.8	23.8	164.5	23.7	167.1	103.5	162.7	102.5	146.2	97.8
Regular .....	174.2	19.2	176.8	18.0	160.6	17.8	164.8	84.3	160.1	83.8	143.3	79.0
Midgrade .....	185.1	2.9	188.6	2.8	171.4	2.7	172.6	4.7	170.6	4.6	155.4	5.1
Premium .....	194.1	3.2	197.5	3.0	180.7	3.2	179.0	14.5	175.7	14.1	159.2	13.7
<b>Aviation Gasoline</b> .....	212.1	0.1	212.8	0.1	193.2	0.1	195.7	0.7	195.0	0.5	174.0	0.6
<b>Kerosene-Type Jet Fuel</b> .....	164.8	49.7	157.3	44.2	110.3	48.5	164.4	15.5	155.9	17.9	108.5	15.3
<b>Propane (Consumer Grade)</b>	98.2	2.4	99.3	2.2	71.5	3.2	82.6	31.2	81.7	28.9	66.1	33.4
<b>Kerosene</b> .....	W	W	NA	NA	105.2	0.3	169.0	0.7	154.7	0.6	108.0	0.7
<b>No. 1 Distillate</b> .....	175.6	0.1	164.6	0.1	123.8	0.1	175.3	0.4	160.7	0.3	118.9	0.3
<b>No. 2 Distillate</b> .....	168.6	21.4	156.6	20.3	112.9	20.7	166.2	141.8	151.5	137.0	106.6	137.1
No. 2 Fuel Oil .....	166.6	1.9	148.8	1.9	104.9	2.3	160.2	16.7	144.4	15.8	101.9	15.0
No. 2 Diesel Fuel .....	168.8	19.5	157.4	18.4	113.9	18.4	167.1	125.1	152.4	121.2	107.2	122.2
Low Sulfur .....	171.3	13.1	161.2	12.3	116.2	12.0	167.8	109.8	153.4	105.7	107.9	104.1
High Sulfur .....	163.7	6.4	149.4	6.0	109.5	6.4	161.5	15.3	145.5	15.5	103.2	18.1
<b>No. 4 Fuel<sup>a</sup></b> .....	W	W	133.4	0.1	100.4	0.1	131.6	0.0	W	W	95.2	0.0
<b>Residual Fuel Oil</b> .....	101.2	10.3	102.3	8.9	73.9	10.6	89.5	7.4	87.5	4.5	69.6	5.1
Sulfur Content not > 1 % .....	108.6	4.1	109.0	3.2	78.7	3.4	98.4	3.0	92.0	1.5	75.7	2.7
Sulfur Content > 1 % .....	96.2	6.2	98.4	5.6	71.6	7.2	83.6	4.5	85.2	3.0	62.7	2.4

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."

year-ago levels, distillate demand was approximately 5 percent above last year at this time. Robust distillates exports served to heighten the effect of vigorous domestic demand on prices for these products. The monthly average spot market price for No. 2 heating oil at New York Harbor provides a snapshot of price trends for distillate products across regional U.S. petroleum markets. The average price in June 2005 was \$1.612 per gallon, a striking 20 cents increase from the May 2005 average price of \$1.413 per gallon. Further, the difference between the June 2005 price and the year-ago price of 99.4 cents per gallon, is 61.8 cents, a 62 percent increase. The June average No. 2 heating oil price was also at a 10.3-cents premium to the average price for conventional regular gasoline at the Harbor. Although the refinery utilization rate continued to rise

during June, along with refined product stock levels, rumors and reports of problems at various refining facilities supported rising prices. These kinds of incidents encouraged concerns about product supplies (particularly about heating oil) later this year and fostered higher prices in the current market. While fears about gasoline supplies appeared to have ebbed in June, prices still rose firmly. The May 2005 average price for conventional regular gasoline was \$1.371 per gallon, compared with \$1.509 per gallon in June 2005, a change of 13.8 cents. The average price one year ago in June 2004 was \$1.153, a difference of 35.6 cents compared with the June 2005 price.

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

## Crude Oil

At Cushing, Oklahoma, the daily spot price for West Texas Intermediate (WTI) crude oil rose dramatically during June, reaching new long-term highs. After opening at \$52.01 per barrel, its lowest point for the month, the price jumped more than two dollars on the first day of June, spurred by fears of lean distillate supplies. While the price underwent relatively modest changes during the following week, it began to climb in earnest again at mid-month, following the release of supply reports showing declines in crude oil stock levels. The rising price was also underpinned by the appreciable increases seen in year-on-year demand for gasoline and distillates. The price rose to its highest point on June 27, when it reached \$59.78 per barrel. It declined during the final days of month, due mostly to technical factors. The price closed June at \$56.63 per barrel, \$4.62 above its opening level.

- June monthly average crude oil prices rose considerably from May levels. The average domestic crude oil first purchase price climbed \$5.89 (13.4 percent) to \$49.89 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil increased \$4.73 (11.1 percent), to \$47.52 per barrel. The average landed cost of foreign crude oil rose \$4.38 (9.9 percent), to \$48.52 per barrel.
- The average refiner acquisition cost for domestic crude oil rose \$4.29 (9.0 percent), to \$52.10 per barrel. The average cost of imported crude oil to U.S. refiners experienced the largest increase, rising \$6.23 (14.4 percent), to \$49.35 per barrel, while the composite refiner acquisition cost for crude oil climbed \$5.59 (12.5 percent), to \$50.33 per barrel.

## Petroleum Products

### Motor Gasoline

Following the general upward trend seen in the complex, the daily spot price for regular gasoline at New York Harbor experienced a hefty increase during June. After beginning the month at \$1.411 per gallon, its lowest level for June, the price immediately rose more than six cents. Following a period of comparatively modest changes, the price underwent a sizable increase in level at mid-month, approaching the record levels seen in

April 2005. The price reached the month's high of \$1.583 per gallon on June 27. Losing some ground during the closing days of the month, the price ended June at \$1.490 per gallon, 7.8 cents higher than its opening level.

- June monthly average gasoline prices increased in most categories. The average price for retail sales of motor gasoline by refiners inched up 0.9 cent to \$1.721 per gallon, while the average wholesale price climbed 6.8 cents to \$1.609 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets increased 2.1 cents to \$1.722 per gallon. The average wholesale price for gasoline rose 7.1 cents to \$1.613 per gallon. The average dealer tank wagon (DTW) price increased 3.5 cents to \$1.670 per gallon, while the average rack price climbed 9.4 cents to \$1.612 per gallon. The average bulk sale price rose 5.5 cents to \$1.510 per gallon. Reformulated gasoline prices were 8.1 cents more than conventional gasoline prices at retail, and 8.4 cents more at wholesale. Oxygenated gasoline prices were even with conventional gasoline prices at retail, and 0.4 cent higher at wholesale.
- Refiner sales of motor gasoline increased in June. Total sales climbed 12.2 million gallons per day (3.1 percent) to an average of 406.6 million gallons per day. Retail sales rose 2.5 million gallons per day (4.1 percent), while wholesales increased 9.7 million gallons per day (2.9 percent). Rack sales represented 68.7 percent of wholesales, while DTW and bulk sales made up 15.6 percent and 15.7 percent, respectively. Reformulated gasoline accounted for 31.7 percent of total motor gasoline sales, while oxygenated gasoline made up 2.8 percent of sales.

### No. 2 Distillate

The daily spot price for No. 2 heating oil at New York Harbor was volatile during June, reflecting market concern about the adequacy of distillate supplies. Opening at \$1.453 per gallon, its lowest level for the month, the price rose appreciably during the first week of the month. The price dropped momentarily when an EIA supply report showed an increase in inventories. The price continued its rise after that point, finally reaching its high of \$1.666 on June 23. While it dropped modestly during the last days of the month, the decline was not as pronounced as those seen for other products in the complex. The price closed June at \$1.611 per gallon, and an eye-opening 15.8 cents higher than its opening level for the month.

- Monthly average prices for No. 2 distillates jumped in June. The national average residential sales price rose 6.8 cents to \$1.983 per gallon. The average wholesale price climbed 14.9 cents to \$1.672 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets increased 10.2 cents, while the average wholesale price for No. 2 diesel fuel rose 14.7 cents. The difference between low- and high-sulfur diesel fuel prices was 5.0 cents at both the retail and wholesale levels.
- June sales of No. 2 distillates by refiners rose from May rates. Total sales increased 5.9 million gallons per day (3.8 percent), to 163.2 million gallons per day. Sales of No. 2 fuel oil rose 900,000 gallons per day (5.1 percent), while sales of No. 2 diesel fuel increased 5.0 million gallons per day (3.6 percent). Low-sulfur diesel fuel accounted for 85.0 percent of all refiner diesel fuel sales, and 75.3 percent of all refiner No. 2 distillate sales.

### ***Residual Fuel Oil***

- Monthly average residual fuel oil price trends were mixed again in June. Refiner prices for low-sulfur residual fuel oil eased 0.4 cent to \$1.086 cents per gallon at retail, but rose 6.4 cents to 98.4 cents per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil fell 2.2 cents to 96.2 cents per gallon, while the wholesale price dropped 1.6 cents, to 83.6 cents per gallon. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil increased 0.7 cent to \$1.063 cents per gallon at retail, and 6.2 cents to 99.1 cents per gallon at wholesale. The retail price for high-sulfur residual fuel oil declined 0.9

cent to 96.1 cents per gallon, while the wholesale price dropped 1.2 cents to 86.0 cents per gallon.

- Refiner sales of residual fuel oil increased in June. Total sales rose 4.3 million gallons per day (32.1 percent). Low-sulfur residual fuel oil sales climbed 2.4 million gallons per day (51.1 percent), while high-sulfur residual fuel oil sales increased 2.1 million gallons per day (24.4 percent).

### ***Other Products***

- Prices for the remaining surveyed products show mixed trends in June. Refiner prices for propane declined 1.1 cents per gallon at retail, but rose 0.9 cent per gallon at wholesale. Including data from a sample of propane marketers, the average residential propane price dropped 4.8 cents per gallon, while the average retail price declined 4.0 cents per gallon. The average wholesale propane price increased 1.1 cents per gallon. Prices for kerosene-type jet fuel and No. 1 distillate rose at both retail and wholesale. Aviation gasoline prices fell at retail, but rose at wholesale. The wholesale price for kerosene also increased during June.
- Refiner sales of these products generally increased in June. Sales of propane, aviation gasoline, and No. 1 distillate rose at both the retail and wholesale levels. Sales of kerosene-type jet fuel increased at retail but fell at wholesale. Sales of kerosene at the wholesale level rose in June.