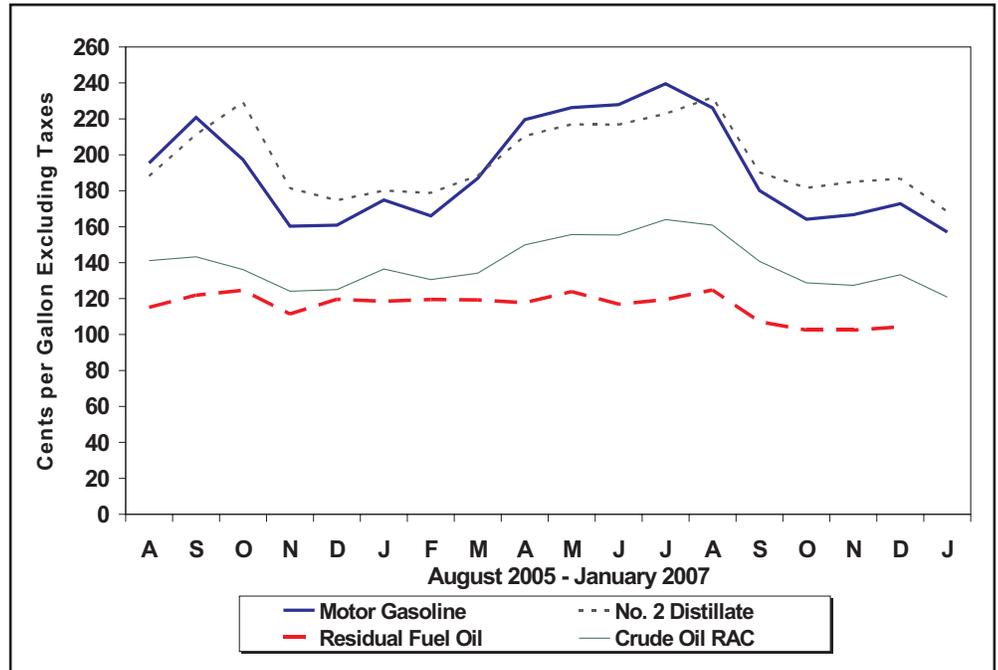


Highlights

In reaction to a number of issues, world crude oil prices were quite unsettled in January. First falling steeply to some of the lowest levels seen since mid-2005, prices then rose sharply during the latter part of the month. Unseasonably warm weather in markets across the Northern Hemisphere during the first half of January dampened demand for oil, contributing to rising stock levels and lower prices. Market perception that production comfortably covered demand also softened crude oil values. Because of the rapid and pronounced decrease, rumors of an emergency meeting by the Organization of Oil Exporting Countries (OPEC) to address the decline began to circulate, but were later discounted by representatives of the group. OPEC officially cut production rates by 1.2 million barrels per day at the beginning of November 2006, then in December, voted to reduce production by another 500,000 barrels per day, effective February 1, 2007. By mid-month, many key crude oil streams were registering declines of 15 percent or more since the beginning of January. However, prices reversed direction during the second half of the month. They registered a noticeable increase following U.S. President George W. Bush's statement of intention to substantially increase the amount of crude oil held in the Strategic Petroleum Reserve (SPR). At the same time, temperatures in Atlantic Basin markets dropped to more reasonable levels. Market watchers also noted an increase in political tensions in the Middle East, and debate over Iran's nuclear fuels program coming to the forefront again as supportive factors. By the close of the month, prices were underpinned by continued below-average temperatures and stock draws in the U.S., along with the approaching reduction in OPEC production levels.

In the United States, crude oil and refined product prices also experienced significant changes during January. Warm weather and robust inventories pulled prices down to some of the lowest levels seen in the past year and a half during the first part of the month. However, the arrival of more winter-like weather spurred prices for all oil products higher. Further, crude oil prices rallied briskly following an announcement first made on January 23 by Energy Secretary Bodman of a plan to double the amount of crude oil held in the Strategic Petroleum Reserve (SPR). President Bush also communicated the plan in his State of the Union address to Congress. The release of the EIA weekly inventory report for the week ending January 24 showed stocks growing at less-than-expected rates, underpinning rising prices. By some accounts, the expected drop in inventories sparked interest in purchases of oil products' futures from noncommercial sources. Price trends in futures markets are generally

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 2007		December 2006		January 2006		January 2007		December 2006		January 2006	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	179.3	53.8	186.8	56.5	187.3	55.4	157.0	300.6	172.8	315.1	174.9	289.3
Conventional	173.8	32.4	182.5	32.1	185.7	30.8	152.0	213.6	169.3	213.3	173.1	190.3
Regular	171.2	27.6	180.1	27.4	183.6	26.1	150.5	185.3	167.8	187.1	171.9	164.9
Midgrade	183.6	2.6	191.3	2.6	192.3	2.7	154.7	9.5	173.9	9.0	175.7	10.4
Premium	194.2	2.2	202.9	2.1	203.6	2.0	165.3	18.7	183.9	17.1	185.2	15.0
Oxygenated	-	-	189.0	2.0	184.9	2.7	-	-	174.8	11.3	170.9	9.6
Regular	-	-	186.7	1.7	182.6	2.2	-	-	173.5	9.3	169.7	8.0
Midgrade	-	-	198.9	0.1	191.7	0.3	-	-	174.3	1.0	172.3	0.9
Premium	-	-	209.8	0.1	200.0	0.2	-	-	187.1	1.0	183.0	0.7
Reformulated	187.6	21.5	192.8	22.4	190.0	22.0	169.5	87.0	180.7	90.5	179.1	89.4
Regular	183.1	16.5	188.7	17.2	186.3	16.9	166.2	72.0	178.0	74.8	176.9	74.1
Midgrade	197.3	2.4	201.3	2.5	197.1	2.4	178.2	3.1	186.5	3.3	184.4	3.5
Premium	207.3	2.6	211.3	2.7	206.6	2.6	186.6	11.9	195.4	12.5	191.4	11.8
Aviation Gasoline	217.1	0.1	234.9	0.1	239.1	0.1	199.4	0.5	217.2	0.4	218.7	0.4
Kerosene-Type Jet Fuel	175.8	39.5	193.5	40.1	184.2	40.1	172.9	16.9	190.6	15.2	182.4	15.1
Propane (Consumer Grade)	NA	3.5	138.3	3.7	NA	3.7	99.8	49.8	103.3	50.7	104.3	38.2
Kerosene	194.0	0.2	NA	0.3	224.9	0.2	180.5	2.2	200.7	1.7	191.6	2.7
No. 1 Distillate	201.0	0.3	218.4	0.3	193.9	0.4	196.1	1.9	223.7	1.4	194.3	2.4
No. 2 Distillate	180.9	16.9	195.8	17.2	185.3	18.3	168.4	139.6	186.7	136.0	180.1	132.9
No. 2 Fuel Oil	189.7	1.2	199.0	1.0	188.4	2.2	160.6	19.1	175.3	19.8	175.6	22.5
No. 2 Diesel Fuel	180.2	15.8	195.6	16.3	184.9	16.1	169.6	120.6	188.6	116.2	181.0	110.4
Low Sulfur	185.0	11.4	201.2	11.2	189.1	10.6	171.5	101.8	190.9	100.2	182.1	93.0
High Sulfur	168.0	4.4	183.3	5.1	177.0	5.6	159.5	18.8	174.2	16.0	175.4	17.3
No. 4 Fuel^a	W	W	W	W	W	W	129.6	0.2	145.6	0.2	W	W
Residual Fuel Oil	105.4	13.4	109.9	10.0	124.2	10.3	NA	NA	104.3	10.2	118.5	3.7
Sulfur Content not > 1 %	116.7	4.0	119.9	3.1	134.6	3.9	99.7	4.8	113.3	4.8	125.8	2.1
Sulfur Content > 1 %	100.6	9.4	105.3	6.8	117.8	6.4	NA	NA	96.2	5.4	108.8	1.6

Dash (-) = No data reported.

NA = Not available.

W = Withheld to avoid disclosure of individual company data.

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

Notes: Beginning January 2007, oxygenated gasoline is included in conventional gasoline. Year-ago values only include the product displayed.

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."

reflected at other market levels. Additional price support came at the close of the month when the weekly report showed a decline in distillate stocks, and the first decrease in nearly two months. A look back at some monthly average spot market prices for crude oil and refined products reveal dynamic changes taking place during January. At Cushing, Oklahoma, the average January 2007 spot price for West Texas Intermediate (WTI) crude oil was \$54.51 per barrel, \$7.45 (12.0 percent) lower than the December 2006 average of \$61.96 per barrel. The average price for January 2006 was \$65.49 per barrel. At New York Harbor, the average spot price for regular gasoline this month was \$1.432 per gallon, compared with \$1.670 per gallon in Decem-

ber 2006, marking a decrease of 23.8 cents (14.3 percent). Notably, the price ranged 37.9 cents over the course of January, rising from a low of \$1.320 per gallon to a high of \$1.699 per gallon. Last year at this time, the price was more than 30 cents higher at \$1.735 per gallon. Also at New York Harbor, the January 2007 monthly average price for No. 2 fuel oil fell 15.6 cents (9.3 percent) to \$1.528 per gallon, from the December 2006 average of \$1.684 per gallon. One year ago, the January 2006 price was \$1.751 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 WTI crude oil at Cushing, Oklahoma was volatile during January, ranging more than \$10.00 over the course of the month. After opening at its highest point for the month, \$60.85 per barrel, the price moved into a period of aggressive decline during the following weeks. Reaching its lowest levels since May 2005, the price registered \$50.51 per barrel on January 18, following the release of weekly data showing a substantial increase in crude oil inventories. As precipitously as it declined in the first half of the month, the price rose nearly as sharply during the latter half of January. A change in weather patterns and bullish inventory data helped underpin the price's increase. By the close of the month, the price had risen to \$58.17 per barrel, \$2.68 less than its opening level.

- Monthly average crude oil prices underwent sizeable decreases in January. The average domestic crude oil first purchase price fell \$5.71 (10.4 percent) to \$49.32 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil declined \$5.49 (10.4 percent) to \$47.32 per barrel. The average landed cost of foreign crude oil dropped \$5.36 (9.8 percent), to \$49.27 per barrel.
- The average refiner acquisition cost for domestic crude oil decreased \$4.71 (8.1 percent), to \$53.10 per barrel. The average cost of imported crude oil declined \$5.48 (10.0 percent) to \$49.51 per barrel, while the composite refiner acquisition cost for crude oil fell \$5.25 (9.4 percent), to \$50.74 per barrel.

Petroleum Products

Motor Gasoline

The New York Harbor daily spot price for regular gasoline shifted sharply during January. After opening at \$1.643 per gallon, the price moved immediately to the month's high of \$1.699 per gallon on January 2. Influenced by robust inventories and the firm downward trend seen in prices throughout the complex, the price for gasoline decreased steadily during the first half of the month. Following the release of weekly inventory data showing a sizeable increase in oil product stocks, the price reached the month's low of \$1.320 per gallon on January 18. While the price rose after that point, its

increase did not match those seen in other product prices. Closing at \$1.486 per gallon, the price was 15.6 cents less than its beginning level for January.

- January monthly average prices for finished gasoline dropped substantially from December levels. The average price for retail sales of motor gasoline by refiners fell 7.5 cents to \$1.793 per gallon, while the average wholesale price plummeted 15.8 cents to \$1.570 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets declined 9.8 cents to \$1.771 per gallon. The average wholesale price for gasoline decreased 15.6 cents to \$1.578 per gallon. The average dealer tank wagon (DTW) price dropped 11.9 cents to \$1.681 per gallon, while the average rack price plunged 18.4 cents to \$1.541 per gallon. The average bulk sale price fell 13.4 cents to \$1.507 per gallon. Reformulated gasoline prices were 13.3 cents higher than conventional gasoline prices at retail, and 14.6 cents more at wholesale.
- Refiner sales of motor gasoline declined in January. Total sales fell 17.2 million gallons per day (4.6 percent) to an average of 354.4 million gallons per day. Retail sales dropped 2.7 million gallons per day (4.8 percent), while wholesales fell 14.5 million gallons per day (4.6 percent). Rack sales made up 73.3 percent of wholesales, while DTW and bulk sales accounted for 14.4 percent and 12.3 percent, respectively.

No. 2 Distillate

Market volatility and changing weather patterns unsettled the daily spot price for No. 2 heating oil at New York Harbor during January. After opening at \$1.601 per gallon, the price followed the general downward trend seen in the market during the first half of the month. After the release of bearish inventory data and continued unseasonably mild weather, the price dropped to its low of \$1.446 per gallon on January 18. Spurred by colder temperatures and underpinned by the general increase seen in the market, the No. 2 heating oil price rose significantly during the second half of the month. Closing at \$1.681 per gallon, the price was 8.0 cents above its opening level.

- Average No. 2 distillate prices for January show appreciable declines from December levels. The national average residential sales price fell 6.0 cents to \$2.312 per gallon, while the average wholesale price dropped 17.9 cents to \$1.702 per gallon. The average

price for No. 2 diesel fuel at company-operated retail outlets declined 13.7 cents, while the average wholesale price for No. 2 diesel fuel decreased 18.9 cents. The difference between low- and high-sulfur diesel fuel prices was 15.2 cents at retail, and 11.2 cents at wholesale.

- Overall, sales of No. 2 distillates by refiners increased in January. Total sales rose 3.4 million gallons per day (2.2 percent), to 156.7 million gallons per day. Sales of No. 2 fuel oil dropped 500,000 gallons per day (2.3 percent), while sales of No. 2 diesel fuel climbed 3.9 million gallons per day (2.9 percent). Low-sulfur diesel fuel accounted for 83.0 percent of all refiner diesel fuel sales, and 72.2 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Residual fuel oil prices fell in January. Refiner prices for low-sulfur residual fuel oil declined 3.2 cents to \$1.167 per gallon at retail, and 13.6 cents to 99.7 cents per gallon at wholesale. The average refiner price for retail sales of high-sulfur residual fuel oil dropped 4.7 cents to \$1.006 per gallon. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil declined 2.8 cents to \$1.186 per gallon at retail, and 12.2 cents to \$1.002 per gallon at wholesale. The retail price for

high-sulfur residual fuel oil decreased 5.2 cents to \$1.005 per gallon, while the wholesale price fell 3.0 cents to 93.2 cents per gallon.

- Total sales of low-sulfur residual fuel by refiners oil rose 900,000 gallons per day (11.4 percent) in January, with most of the increase occurring at the retail level.

Other Products

- Many prices for the remaining surveyed products fell in January. The refiner price for propane at wholesale dropped 3.5 cents per gallon. Including data from a sample of propane marketers, the average residential price rose 1.0 cent per gallon, while the average retail price increased 2.3 cents per gallon. The average wholesale propane price declined 3.5 cents per gallon. Prices for kerosene-type jet fuel, aviation gasoline, and No. 1 distillate declined at both the retail and wholesale levels. Wholesale prices for kerosene and No. 4 distillate also registered decreases in January.
- Refiner sales of these products varied during January. Sales of propane fell at both the retail and wholesale levels, while sales of aviation gasoline did the reverse. Sales of kerosene-type jet fuel, kerosene, and No. 1 distillate dropped at retail, but rose at wholesale. No. 4 distillate sales increased at wholesale.