

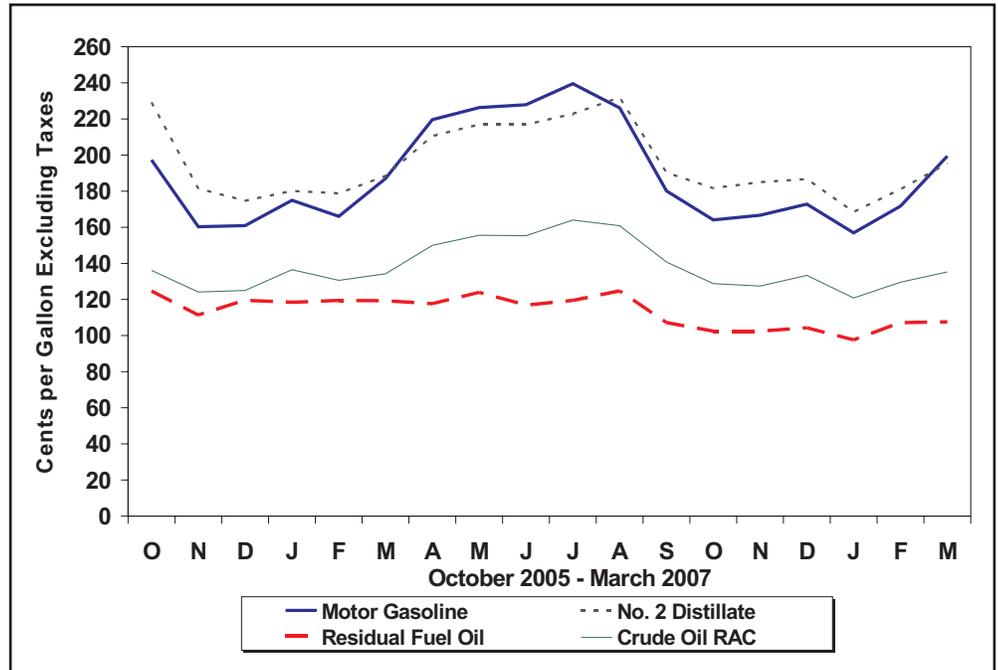
# Highlights

Pressed by political and fundamental issues, world crude oil prices rose significantly in March. Following the appreciable increases seen in late February, prices moved into a phase marked by more moderate changes during the first half of March. Expectations that the Organization of Oil Exporting Countries (OPEC) would not change its current production quotas during the group's March 15 meeting moderated prices. Nevertheless, tensions between Iran and the West concerning Iran's nuclear fuels program along with growing concerns about product stock levels in both the U.S. and Europe prevented extreme changes in benchmark prices. Further, observations that current OPEC production rates may tighten the supply/demand balance too much in coming months (when demand typically increases) provided an additional note of support to prices. In the latter part of the month, however, crude oil prices jumped, spurred by political tensions and regional fundamental issues. Concern about U.S. gasoline inventories rose as supply data showed continued declines, while demand for the product remained robust. Political situations also influenced prices. First, the seizure by Iran of fifteen crew members from a British naval vessel conducting exercises in the Strait of Hormuz on March 23 fanned simmering fears of the possibility of supply disruptions from the region. The ensuing standoff between the two governments propelled oil prices sharply higher. On March 27, rumors that Iranian forces had fired on a U.S. Navy ship in the Persian Gulf region contributed to a short-lived surge in prices. Another round of U.N. sanctions issued to Iran over its uranium enrichment activities during the same period exacerbated the effect on prices of the political standoff between Iran and

Britain. In addition to that situation, the upcoming presidential election in OPEC-member Nigeria, the world's eighth largest oil exporter, contributed some tension in oil markets. The election will mark the first time the country has experienced the change from one democratically elected leader to another since becoming an independent state in 1960. At the close of the month, the death of one of twenty-four candidates opened the possibility of a postponement to the April 21 election. Nigeria has experienced an increase in civil unrest in its oil producing region during the past year that has resulted in a significant decline in production and exports.

In the United States, crude oil and refined product prices rose to their highest levels in the past six months during March. Throughout the month, market attention centered on gasoline supplies and demand, and refinery operations, but international

**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 2007		February 2007		March 2006		March 2007		February 2007		March 2006	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
<b>Motor Gasoline</b> .....	213.7	57.4	184.1	57.2	198.5	58.3	199.4	316.8	171.7	310.4	187.0	309.8
<b>Conventional</b> .....	206.4	35.0	178.6	34.9	196.6	33.4	193.4	225.4	167.2	221.2	185.4	205.9
Regular .....	204.2	30.0	176.5	29.8	194.4	28.1	191.5	197.4	165.6	192.9	183.8	178.9
Midgrade .....	214.9	2.7	186.4	2.8	204.1	3.0	199.6	10.0	173.9	10.6	192.0	10.3
Premium .....	225.7	2.2	197.0	2.3	213.7	2.3	210.2	17.9	180.7	17.8	198.4	16.7
<b>Reformulated</b> .....	225.1	22.5	192.8	22.3	200.8	23.4	214.4	91.5	182.7	89.2	190.2	94.7
Regular .....	220.8	17.4	188.3	17.2	197.2	18.0	211.3	76.3	179.7	73.5	188.0	77.9
Midgrade .....	234.7	2.4	202.4	2.5	208.8	2.6	222.2	3.1	189.5	3.2	196.8	3.7
Premium .....	245.0	2.6	212.6	2.7	216.5	2.8	231.6	12.1	198.7	12.5	201.6	13.1
<b>Aviation Gasoline</b> .....	262.7	0.1	228.5	0.1	247.3	0.1	244.8	0.5	218.5	0.4	228.2	0.5
<b>Kerosene-Type Jet Fuel</b> .....	187.2	40.2	179.0	40.8	187.5	42.5	185.4	17.2	176.7	16.1	186.2	16.0
<b>Propane (Consumer Grade)</b> .....	NA	3.5	155.3	4.3	NA	2.4	104.9	39.3	103.3	50.8	96.6	40.3
<b>Kerosene</b> .....	231.1	0.1	NA	0.2	236.3	0.1	194.3	1.4	194.2	3.3	197.9	1.2
<b>No. 1 Distillate</b> .....	212.7	0.2	203.1	0.3	202.2	0.3	215.1	0.6	208.0	1.8	196.1	1.5
<b>No. 2 Distillate</b> .....	205.4	25.7	190.6	26.7	194.4	18.9	195.4	148.8	181.1	150.7	188.4	144.0
No. 2 Fuel Oil .....	203.8	1.1	203.1	1.4	192.6	2.0	177.7	20.6	172.4	22.8	179.1	21.2
No. 2 Diesel Fuel .....	205.5	24.5	189.9	25.3	194.6	16.9	198.3	128.2	182.7	127.9	190.1	122.7
Ultra Low Sulfur .....	209.3	12.4	193.1	12.3	-	-	202.6	95.4	185.5	95.4	-	-
Low Sulfur .....	210.2	7.3	191.8	7.9	198.0	11.7	194.0	15.1	178.1	14.5	191.6	105.1
High Sulfur .....	188.5	4.8	179.0	5.0	187.1	5.2	178.8	17.7	171.7	18.0	181.0	17.6
<b>No. 4 Fuel<sup>a</sup></b> .....	W	W	W	W	W	W	138.3	0.3	136.0	0.2	W	W
<b>Residual Fuel Oil</b> .....	115.0	11.7	112.3	13.0	125.0	10.0	107.6	7.3	107.2	7.3	119.3	4.1
Sulfur Content not > 1 % .....	122.1	3.8	121.4	4.3	136.0	3.5	117.1	3.0	117.2	3.1	121.8	2.4
Sulfur Content > 1 % .....	111.5	7.8	107.8	8.7	119.1	6.5	100.8	4.2	100.0	4.2	115.8	1.7

Dash (-) = No data reported.

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

Notes: In January 2007, ultra low-sulfur diesel fuel was added.

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."

political issues also played a role in the sharp runup in prices during the latter part of March. Refinery outages compounded the reaction to the ongoing decreases in finished gasoline stocks reported in weekly inventory data. More specifically, problems and delays in restarting a number of facilities in California early in the month sent gasoline soaring, with spot market prices in Los Angeles nearing \$2.50 per gallon for the regular grade of California Reformulated Gasoline (CA RFG). Similar circumstances fostered higher prices in other regional markets throughout the month. Issues at foreign refining centers also affected U.S. prices. Crimped supplies stemming from problems at Canadian refineries in February and early March underpinned prices for both gasoline and diesel fuel in some Midwestern markets. Later in the month, a strike by French workers at the Foz-Lavera port, the third largest oil port in the world, led to runs cuts at many refineries

before the 18-day long work stoppage ended on March 31. The reduction in refinery operations fostered concern about gasoline exports to the United States just before the high-demand, so-called "driving season" begins. In addition to production and supply problems, the early onset of, and the expected continuation of a higher rate of demand in 2007 added support to rising prices. Implied demand for gasoline derived from weekly data suggest it remains firmly above year-ago levels. Positive news about the U.S. economy supported sentiment that gasoline consumption would remain at record levels in coming months. Rising market prices also reflected the impending shift to low-RVP gasoline formulations used during warm weather months. Producers start to make and ship these more costly products in March to be in compliance by control period deadlines. With more comfortable stock

levels and slower demand, distillate prices showed more moderate trends during March compared with gasoline prices. One can see the effect of these issues in monthly average spot market prices. At New York Harbor, the March 2007 price for regular gasoline averaged \$1.938 per gallon, marking an increase of 29.7 cents per gallon (18.1 percent) from the February 2007 price of \$1.640 per gallon. Notably, the price had undergone a 20.9-cent increase last month. The March 2007 average price for No. 2 fuel oil at New York Harbor rose a much more modest 4.8 cents (2.9 percent) from last month's average of \$1.693 per gallon, to \$1.742 per gallon. The same degree of change occurs in the average spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma. The price was \$60.44 per barrel this month, an increase of \$1.21 (2.0 percent) from the February 2007 price of \$59.23 per barrel.

Additional March 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 experienced significant changes during March. After opening at \$61.78 per barrel, the price eased during the first half of the month, responding in large part to anticipation and realization of the OPEC decision not to cut the group's existing production levels along with the perception of adequate supplies within the market. The price reached the month's low of \$56.41 per barrel on March 20. Shortly after that, however, it increased dramatically in response to more drawdowns in gasoline stocks and political tensions stemming from events in the Persian Gulf. The high for the month, \$66.10 per barrel, was marked on March 29. Closing March at \$65.94 per barrel, the price was \$4.16 higher than its opening level.

- Monthly average crude oil prices increased again during March. The average domestic crude oil first purchase price rose \$1.96 (3.7 percent) to \$54.90 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil climbed \$2.75 (5.3 percent) to \$54.81 per barrel. The average landed cost of foreign crude oil increased \$2.60 (4.8 percent), to \$56.47 per barrel.
- The average refiner acquisition cost for domestic crude oil increased \$2.11 (3.8 percent), to \$57.86 per

barrel. The average cost of imported crude oil rose \$2.56 (4.8 percent) to \$56.26 per barrel, while the composite refiner acquisition cost for crude oil increased \$2.38 (4.4 percent), to \$56.80 per barrel.

## Petroleum Products

### *Motor Gasoline*

Concern about the sufficiency of gasoline supplies to meet demand in the coming months underpinned the upward trend seen in the daily spot price for regular gasoline at New York Harbor during March. Following the sharp increase seen during the latter part of February, the price opened March at \$1.868 per gallon, its lowest level for the month. Unsettled by a variety of issues, including market technical factors, refinery outages, and inventory concerns, the price continued to rise throughout the month. At the end of the month, as the summer driving season with its attendant higher rate of demand moved closer, the price reached its high of \$2.066 per gallon on March 29. Closing at \$2.048 per gallon, the price was 18.0 cents above its opening level.

- Monthly average prices for finished gasoline registered significant increases in all categories of sales during March. The average price for retail sales of motor gasoline by refiners jumped 29.6 cents to \$2.137 per gallon, while the average wholesale price climbed 27.7 cents to \$1.994 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets surged 29.2 cents to \$2.117 per gallon. The average wholesale price for gasoline climbed 27.6 cents to \$2.000 per gallon. The average dealer tank wagon (DTW) price jumped 29.1 cents to \$2.089 per gallon, while the average rack price rose 26.7 cents to \$1.988 per gallon. The average bulk sale price rose 27.5 cents to \$1.855 per gallon. Reformulated gasoline prices were 16.9 cents higher than conventional gasoline prices at retail, and 18.4 cents more at wholesale.
- Refiner sales of motor gasoline increased again in March. Total sales rose 6.6 million gallons per day (1.8 percent) to an average of 374.2 million gallons per day. Retail sales rose 200,000 gallons per day (0.3 percent), while wholesales increased 6.4 million gallons per day (2.1 percent). Rack sales

made up 72.6 percent of wholesales, while DTW and bulk sales accounted for 14.0 percent and 13.4 percent, respectively.

### *No. 2 Distillate*

The daily spot price for No. 2 heating oil at New York Harbor eased through much of March, only to rise firmly again at the end of the month. Opening at \$1.781 per gallon, the price turned to a downward path as winter temperatures began to abate and demand eased. The price dropped to its low of \$1.673 per gallon on March 21. Underpinned by the increases seen in other product prices in the complex, it rose significantly during the latter part of the month. Closing at its highest point for March, \$1.871 per gallon, the price was 9.0 cents above its opening level for the month.

- While March monthly average prices for No. 2 distillates rose in all categories of sale, the increases were not as large as those seen in gasoline prices. The national average residential sales price rose 4.6 cents to \$2.436 per gallon, while the average wholesale price increased 13.6 cents to \$1.961 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets climbed 18.4 cents, while the average wholesale price increased 15.8 cents. Ultra low-sulfur diesel fuel prices were 3.3 cents higher than low-sulfur diesel fuel at retail, and 6.4 cents more at wholesale. Prices for low- and high-sulfur diesel fuel differed by 19.4 cents at retail, and 16.7 cents at wholesale.
- Refiner sales of No. 2 distillates dropped in March. Total sales declined 2.9 million gallons per day (1.6 percent), to 174.4 million gallons per day. Sales of No. 2 fuel oil fell 2.5 million gallons per day (10.3 percent), while sales of No. 2 diesel fuel decreased 400,000 gallons per day (0.3 percent). Ultra low-sulfur diesel fuel accounted for 70.6 percent of all refiner diesel fuel sales, while total diesel fuel sales made up 87.6 percent of all refiner No. 2 distillate sales.

### *Residual Fuel Oil*

- Residual fuel oil prices generally increased in March. Refiner prices for low-sulfur residual fuel oil rose 0.7

cent to \$1.221 per gallon at retail, but fell 0.1 cent to \$1.171 per gallon at wholesale. The average refiner price for retail sales of high-sulfur residual fuel oil climbed 3.7 cents to \$1.115 per gallon, and 0.8 cent to \$1.008 per gallon at wholesale. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil rose 1.2 cents to \$1.255 per gallon at retail, but remained flat at \$1.136 per gallon at wholesale. Prices for high-sulfur residual fuel oil increased 3.0 cents to \$1.109 per gallon at retail, and 4.7 cents to \$1.030 per gallon at wholesale.

- Refiner sales of residual fuel declined in March. Total sales fell 1.3 million gallons per day (6.4 percent) to 19.0 million gallons per day. Low-sulfur residual fuel sales dropped 600,000 gallons (8.1 percent), while high-sulfur residual fuel oil sales decreased 900,000 gallons (7.0 percent).

### *Other Products*

- Prices for the remaining surveyed products rose in March. The refiner average wholesale price for propane rose 1.6 cents per gallon. Including data from a sample of propane marketers, the average residential price climbed 5.7 cents per gallon, while the average retail price inched up 0.8 cent per gallon. The average wholesale price for propane increased 1.5 cents per gallon. Prices for kerosene-type jet fuel, aviation gasoline, and No. 1 distillate climbed at both retail and wholesale, while wholesale prices for kerosene and No. 4 distillate also registered increases during March.
- Trends for refiner sales of these products were mixed during March. Sales of propane, kerosene, and No. 1 distillate fell at both the retail and wholesale levels, while sales of aviation gasoline did the opposite. Sales of kerosene-type jet fuel declined at retail, but rose at wholesale. No. 4 distillate sales fell at the wholesale level during March.