

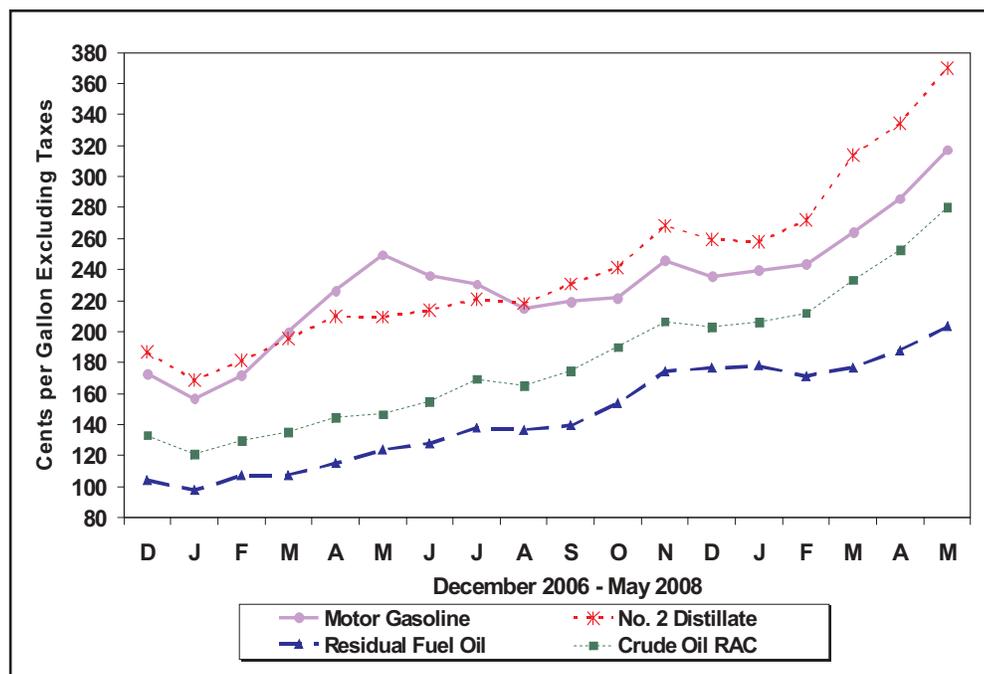
Highlights

World crude oil prices continued to climb during May. Political and economic issues along with fundamental factors drove the significant increase in prices. At various points during the month, militant attacks on oil industry facilities in Nigeria underpinned soaring prices, as did reports of Turkish military forays against Kurdish locations in Northern Iraq. Prices also responded to Iran's resistance to international pressure to stop work on its nuclear fuels program and to reports of an internal proposal to reduce the country's crude oil output. On the other side of the equation, oil demand continued to play a key role behind the rise in prices. Although Chinese demand for crude oil was reported to have declined in April, momentarily tempering prices, the rise in demand from emerging economies in Asia—especially China—and other regions in recent years has contributed to a slimmer margin between global oil supply and demand. Coupled with real and potential supply disruptions and shrinking spare production capacity, rising demand raises the potential for greater price volatility. Notably, although Saudi Arabia announced at mid-month it had increased output by 300,000 barrels per day to compensate for production declines from other sources, the news was countered soon afterwards by statements from Organization of Petroleum Exporting Countries (OPEC) officials that the group was unlikely to raise production rates anytime soon since it believed the market was adequately supplied. Worries about economic trends in the United States and the value of the dollar also underpinned rising oil prices throughout the month. Some market watchers contend that a weaker dollar encourages investment in commodities like crude oil as a

hedging strategy against inflation. Finally, forecasts from several sources suggesting the upward trend in prices will continue in coming months served as support for the current record-setting levels.

In the United States, higher world crude oil prices and strong world demand sent refined products prices soaring during May. In addition to crude oil prices reaching record-setting levels, distillate prices experienced remarkable increases over the course of the month. U.S. exports of petroleum products also reached record highs in May, thanks to robust international demand for products from the middle of the barrel. Although the trend was not as dramatic as those seen for distillate prices, gasoline prices also experienced significant changes, rising to record levels just prior to the start of the summer driving season. The combination of high prices and a slowing economy fostered expectations that demand

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					
	May 2008		April 2008		May 2007		May 2008		April 2008		May 2007	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	331.5	56.9	298.4	56.5	266.9	58.8	317.2	311.9	285.8	316.3	249.6	330.6
Conventional	329.0	34.7	294.5	34.0	263.3	35.7	314.8	221.2	283.0	224.3	246.6	237.7
Regular	327.2	30.6	292.5	29.9	261.4	31.1	313.1	196.7	281.4	198.5	244.5	209.7
Midgrade	337.7	2.2	303.7	2.3	272.0	2.5	318.8	10.3	285.9	11.0	259.8	10.5
Premium	349.1	1.9	315.5	1.9	281.2	2.0	334.4	14.3	302.0	14.8	263.9	17.4
Reformulated	335.5	22.3	304.5	22.5	272.6	23.1	323.1	90.7	292.8	91.9	257.2	92.9
Regular	332.0	18.0	300.8	17.9	268.6	18.2	320.9	78.7	290.2	78.6	254.3	77.9
Midgrade	344.3	2.1	313.9	2.1	281.6	2.4	329.0	2.2	300.8	2.4	266.0	2.9
Premium	354.9	2.3	323.6	2.4	291.8	2.6	338.9	9.9	309.6	10.9	273.9	12.1
Aviation Gasoline	382.7	0.1	359.7	0.1	309.6	0.1	375.1	0.4	346.8	0.4	304.7	0.5
Kerosene-Type Jet Fuel	365.9	39.6	333.3	39.1	210.5	40.2	364.2	18.1	332.0	17.8	207.9	16.0
Propane (Consumer Grade)	181.1	3.2	NA	3.0	129.8	2.8	163.7	27.0	152.7	29.1	111.2	36.2
Kerosene	393.4	0.0	376.5	0.0	W	W	375.9	0.3	354.3	0.2	207.8	0.6
No. 1 Distillate	376.8	0.1	342.8	0.1	218.5	0.1	395.3	0.3	354.1	0.3	227.7	0.3
No. 2 Distillate	380.7	20.8	345.1	22.2	218.2	26.2	370.1	155.3	334.3	158.0	209.3	144.0
No. 2 Fuel Oil	375.7	0.8	340.6	0.9	208.3	0.7	353.9	9.8	319.4	14.0	194.9	7.9
No. 2 Diesel Fuel	380.9	20.0	345.3	21.3	218.5	25.5	371.2	145.5	335.8	144.0	210.1	136.0
Ultra Low Sulfur	382.4	12.1	347.0	12.9	222.4	13.2	372.0	122.1	336.5	120.9	213.1	102.4
Low Sulfur	381.5	6.7	345.0	7.4	220.2	7.4	368.1	20.9	333.1	19.4	204.5	17.4
High Sulfur	361.4	1.2	327.3	1.0	205.8	5.0	358.7	2.5	325.7	3.7	197.5	16.2
No. 4 Fuel^a	W	W	W	W	W	W	268.6	0.1	241.5	0.3	148.3	0.2
Residual Fuel Oil	213.2	8.0	198.3	9.0	130.1	11.0	203.2	11.2	188.0	10.0	123.8	7.9
Sulfur Content not > 1 %	234.8	1.8	221.9	2.2	135.9	2.7	232.2	1.7	213.9	1.8	131.1	2.7
Sulfur Content > 1 %	206.9	6.2	190.4	6.8	128.2	8.3	197.8	9.5	182.3	8.2	120.0	5.2

NA = Not available.

W = Withheld to avoid disclosure of individual company data.

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

Note: Beginning January 2007, oxygenated gasoline is included in conventional gasoline.

Note: 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*. Total volumes may not equal the sum of the components due to rounding.

Source: Energy Information Administration Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

for gasoline would soften. But a revised crude oil price forecast from Goldman Sachs, in which the estimated average crude oil price was raised to \$141.00 per barrel for the second half of 2008, supported prices throughout the complex following its release at mid-month. By the final days of the month, prices began to moderate, although many of the same issues causing the noteworthy trends remained in play. A look at some monthly average spot market prices emphasizes the significant changes in petroleum product prices. The average price for No. 2 fuel oil at New York Harbor in May 2008 was \$3.615 per gallon, and a 38.9 cents (12.1 percent) increase from April's average of \$3.226 per

gallon and a \$1.731 (91.9 percent) rise from the May 2007 average of \$1.884 per gallon. The average spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma was \$125.40 per barrel in May 2008 compared to last month's average of \$112.58 per barrel, marking an increase of \$12.82 (11.4 percent.) Last year at this time, the price averaged \$63.45 per barrel, reflecting a change of \$61.95 (97.6 percent.) Finally, the May 2008 average spot market price for regular gasoline at New York Harbor was \$3.098 per gallon, 33.6 cents (12.2 percent) higher than the April 2008 average of \$2.762 per gallon and 85.3 cents (38.0 percent) more than the April 2007 average of \$2.245 per gallon.

Additional May 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 continued to rise firmly in May. Opening at \$113.70 per barrel, the price dropped back to the month's low of \$112.60 per barrel on May 1 on news of an increase of the value of the U.S. dollar and the resolution of the strike in Nigeria. Nevertheless, international political issues and the dollar's fluctuating value, coupled with supply concerns, led the price sharply upward as the month continued. The price hit the month's high on May 21 when it reached \$132.99 per barrel, a new record, following an unexpected decline in crude oil stocks and another decrease in the value of the dollar. The price moderated during the remainder of the month, closing May at \$127.35 per barrel, the price was \$13.65 higher than its opening level for the month.

- Monthly average crude oil prices soared in May. The average domestic crude oil first purchase price rose \$11.91 (11.2 percent), to \$118.55 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil climbed \$9.23 (8.9 percent), to \$113.09 per barrel. The average landed cost of foreign crude oil increased \$8.37 (7.8 percent), to \$115.96 per barrel.
- The average refiner acquisition cost for domestic crude oil jumped \$11.29 (10.4 percent), to \$119.75 per barrel. The average cost of imported crude oil rose \$11.78 (11.2 percent), to \$116.72 per barrel, while the composite refiner acquisition cost for crude oil increased \$11.55 (10.9 percent), to \$117.76 per barrel.

Petroleum Products

Motor Gasoline

Despite comparatively anemic demand just before the start of the summer driving season, the daily spot price for regular gasoline at New York Harbor climbed to new heights in May. Opening at \$2.811 per gallon, the price immediately marked the month's low on May 1 when it dropped to \$2.772 per gallon. During the next several

weeks the price rose firmly and set a record high of \$3.282 per gallon on May 21. The price retreated modestly during the final week of the month and closed May at \$3.250 per gallon, 43.9 cents higher than its opening level for the month.

- Monthly average prices for finished gasoline showed significant increases in all sales categories in May. The average price for retail sales of motor gasoline by refiners climbed 33.1 cents to \$3.315 per gallon, while the average wholesale price rose 31.4 cents to \$3.172 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets increased 33.9 cents to \$3.319 per gallon. The average wholesale price for gasoline climbed 32.1 cents to \$3.184 per gallon. The average dealer tank wagon (DTW) price rose 31.1 cents to \$3.243 per gallon, while the average rack price increased 32.9 cents to \$3.197 per gallon. The average bulk sale price climbed 29.0 cents to \$3.017 per gallon. Reformulated gasoline prices were 7.1 cents higher than conventional gasoline prices at retail, and 8.2 cents more at wholesale.
- Overall, refiner sales of motor gasoline in May fell from last month's levels. Total sales declined 4.0 million gallons per day (1.1 percent) to an average of 368.8 million gallons per day. Retail sales inched up 400,000 gallons per day (0.7 percent), while wholesales fell 4.4 million gallons per day (1.4 percent.) DTW sales accounted for 12.8 percent of wholesales, while rack and bulk sales made up 72.0 percent and 15.2 percent, respectively.

No. 2 Distillate

With U.S. distillate stocks remaining tight, the daily spot price for No. 2 heating oil at New York Harbor rose substantially in May. Opening at \$3.195 per gallon, the price marked its low for the month at \$3.118 per gallon on May 1. The price rose steadily during the next several weeks due to crude oil price increases and robust international demand for distillate products. Capping the almost uninterrupted climb, the price reached a new all-time nominal high of \$3.944 cents per gallon on May 22. The price retreated during the final week of the month as export demand waned. Closing May at \$3.647 per gallon, the price was 45.2 cents higher than where it started the month.

- Prices for No. 2 distillates jumped in May. The national average residential sales price increased 29.6 cents to \$3.919 per gallon. The average wholesale price surged 35.5 cents to \$3.709 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets climbed 35.7 cents, while the average wholesale price rose 35.1cents. Ultra low-sulfur diesel fuel prices were 2.9 cents more than low-sulfur diesel fuel at retail, and 3.9 cents more at wholesale.
- As a whole, refiner sales of No. 2 distillates dropped in May. Total sales fell 4.1 million gallons per day (2.3 percent), to 176.1 million gallons per day. Sales of No. 2 fuel oil decreased 4.3 million gallons per day (29.0 percent), while sales of No. 2 diesel fuel increased 200,000 gallons per day (0.1 percent). Ultra low-sulfur diesel fuel made up 81.1 percent of all refiner diesel fuel sales, while total diesel fuel sales accounted for 94.0 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Residual fuel oil prices continued to rise in May. Refiner prices for low-sulfur residual fuel oil rose 12.9 cents to \$2.348 per gallon at retail, and 18.3 cents to \$2.322 per gallon at wholesale. Refiner prices for high-sulfur residual fuel oil increased 16.5 cents to \$2.069 per gallon at retail, and 15.5 cents to \$1.978 per gallon at wholesale. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil rose 16.3 cents to \$2.338 per gallon at retail, and 15.4 cents to \$2.178 per gallon at wholesale. Prices for high-sulfur residual fuel oil jumped 19.0 cents to \$2.089 per gallon at retail, and 16.8 cents to \$1.987 per gallon at wholesale.
- Refiner sales of residual fuel oil rose marginally in May. Total sales increased 200,000 gallons (1.1 percent) to 19.2 million gallons per day. Low-sulfur residual fuel oil sales fell 500,000 gallons (12.5 percent), while high-sulfur residual fuel oil sales rose 700,000 gallons (4.7 percent).

Other Products

- Prices for products included in this section increased firmly during May. The refiner wholesale price for propane rose 11.0 cents per gallon. Including data from a sample of propane marketers, the average residential price increased 9.5 cents per gallon, while the average retail price rose 5.0 cents per gallon. The average wholesale price for propane climbed 11.0 cents per gallon. Prices for kerosene-type jet fuel, aviation gasoline, kerosene, and No. 1 distillate registered significant increases at both the retail and wholesale levels, while the wholesale price for No. 4 distillate also showed a large increase in May.
- Refiner sales of the remaining surveyed products varied in May. Sales of propane and aviation gasoline increased at the retail level, but fell at wholesale, while kerosene sales showed the opposite pattern. While No. 1 distillate sales fell at both the retail and wholesale levels, sales of kerosene-type jet fuel rose in both categories. Sales of No. 4 distillate decreased at wholesale during May.