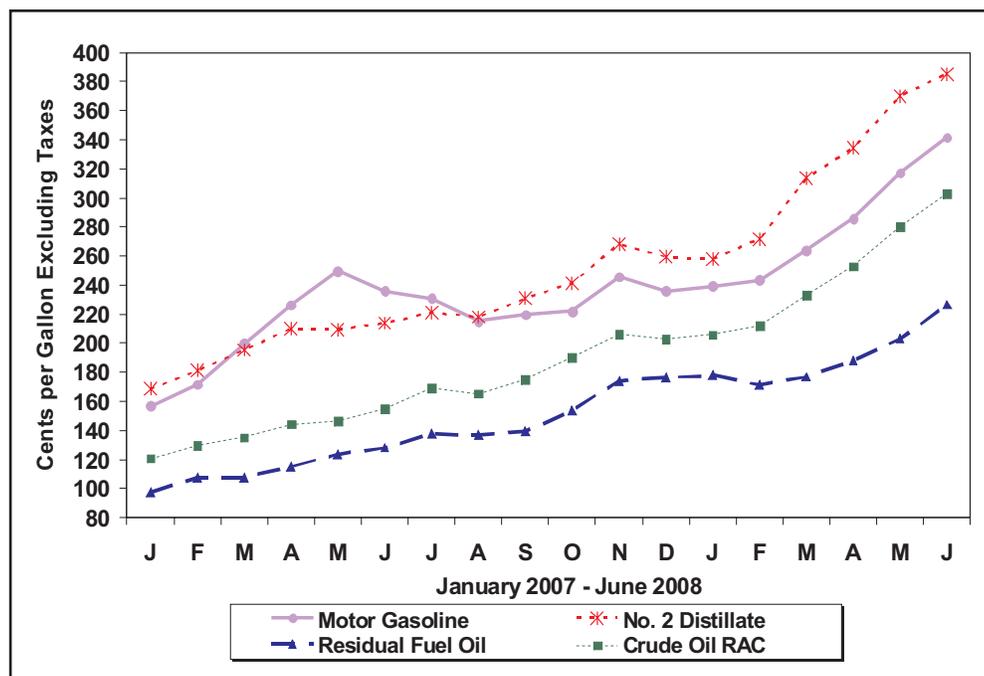


Highlights

International crude oil prices remained in a volatile mode during June. Prices declined during the initial days of the month due to expectations of increases in refined product inventories and concerns about high prices softening demand for oil. They then jumped to record levels based on an investment bank report predicting that crude oil prices could reach \$150 per barrel by July 4 as political tensions continued in the Middle East. More specifically, Israeli comments that an attack on Iranian nuclear sites seemed inevitable because sanctions had failed to curb the possibility that Iran had access to nuclear bomb making technology caused prices to spike. Prices retreated almost as quickly on a combination of technical factors and more positive U.S. economic news, and were further moderated by news reports that Saudi Arabia had boosted production output by 500,000 barrels per day during the second quarter of 2008. Nevertheless, they rallied again following reports of a larger-than-expected decrease in U.S. stocks and a threatened strike by Nigerian oil workers. Leading up to a June 22 meeting between oil producing and consuming nations called by Saudi Arabia, militants attacked an offshore oil production facility in Nigeria on June 19, cutting the country's output by approximately 10 percent. The start of a limited strike by one of Nigeria's oil workers' union at nearly the same time also supported prices. Additional pressure arrived from another round of sanctions by European Union countries against Iran over its nuclear fuels program, despite Saudi Arabia's announced decision to increase output to 9.7 million barrels of oil per day in July. At the end of the month, prices reacted to comments from Libya about cutting production in

response to a bill in the U.S. Congress that, if passed, would allow the Justice Department to sue members of the Organization of Petroleum Exporting Countries (OPEC) for limiting the supply of oil. OPEC officials continue to maintain that high prices are not the result of supply issues, but are the consequence of market speculation. The month closed with prices for many benchmark streams at new all-time highs, thanks to heightened tensions in the Middle East. Prices were spurred by a war of words between Iran and the U.S. with Iran saying it would impose controls on shipping in the Strait of Hormuz if it were attacked, while the U.S. responded that it would not allow Iran to set such restrictions. About 40 percent of the world's seaborne traded crude oil passes through the waterway.

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 2008		May 2008		June 2007		June 2008		May 2008		June 2007	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	357.9	56.0	331.6	56.3	257.0	61.0	341.5	312.1	317.2	312.0	236.1	327.8
Conventional	350.7	34.0	329.1	34.0	253.3	36.5	336.6	221.1	314.7	221.0	233.6	234.2
Regular	348.8	30.3	327.3	30.1	251.0	31.8	335.3	196.6	313.1	196.7	231.6	205.5
Midgrade	360.5	2.1	337.7	2.2	264.0	2.6	336.2	10.2	318.8	10.3	241.4	11.1
Premium	372.8	1.7	349.4	1.8	273.2	2.2	354.7	14.2	334.3	14.0	252.1	17.6
Reformulated	368.9	21.9	335.5	22.3	262.4	24.5	353.4	91.0	323.2	91.0	242.2	93.6
Regular	365.3	17.8	332.0	18.0	258.2	19.2	351.0	78.8	321.0	78.3	239.1	78.0
Midgrade	379.1	2.0	344.3	2.1	272.0	2.5	361.4	2.1	329.0	2.2	251.5	2.9
Premium	389.5	2.2	354.9	2.3	283.2	2.8	370.7	10.1	338.5	10.5	259.2	12.7
Aviation Gasoline	396.5	0.2	382.7	0.1	297.8	0.1	401.8	0.5	375.1	0.4	292.4	0.5
Kerosene-Type Jet Fuel	393.3	43.4	365.9	39.6	213.2	42.9	391.5	15.0	364.2	18.1	211.4	16.5
Propane (Consumer Grade)	188.5	3.1	181.1	3.2	130.9	2.3	172.4	25.7	163.7	27.0	109.4	34.7
Kerosene	415.4	0.0	393.4	0.0	W	W	397.3	0.4	376.8	0.3	215.7	0.6
No. 1 Distillate	413.3	0.0	376.8	0.1	223.8	0.1	400.1	0.4	395.3	0.3	223.1	0.4
No. 2 Distillate	400.4	20.5	380.6	20.9	222.3	24.2	385.2	161.6	370.1	155.2	213.8	148.2
No. 2 Fuel Oil	391.9	0.7	375.4	0.8	210.2	0.5	376.0	10.9	353.8	9.8	201.4	9.5
No. 2 Diesel Fuel	400.7	19.7	380.8	20.1	222.6	23.7	385.9	150.8	371.2	145.4	214.7	138.8
Ultra Low Sulfur	401.8	12.3	382.4	12.1	225.4	12.8	386.3	126.5	371.9	121.9	216.6	106.6
Low Sulfur	401.0	6.5	381.4	6.8	222.9	7.1	384.3	22.0	368.1	21.0	210.0	20.9
High Sulfur	385.0	0.9	361.4	1.2	212.5	3.8	377.8	2.3	358.7	2.5	204.7	11.3
No. 4 Fuel^a	W	W	W	W	W	W	W	W	268.6	0.1	154.2	0.2
Residual Fuel Oil	243.3	7.8	213.2	8.0	135.7	10.3	226.4	12.2	203.0	10.8	128.0	6.7
Sulfur Content not > 1 %	265.7	2.4	234.8	1.8	142.1	3.4	257.7	2.8	232.2	1.7	135.7	2.2
Sulfur Content > 1 %	233.3	5.4	206.9	6.2	132.5	6.9	216.8	9.3	197.4	9.1	124.3	4.5

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."

In the United States, prices for crude oil and refined products continued to set new records during June. Inventory levels, demand, and international political affairs affected prices across regional markets. Although refined product prices increased during June, refining margins continued to shrink because of record-setting crude oil prices, notably with margins for gasoline falling into negative territory at the end of June. Rising prices for gasoline appeared to be affecting demand for the product. Data from the Bureau of Labor Statistics show the energy index rose 6.6 percent in June, with that increase accounting for a substantial portion of the increase seen in the overall consumer price index during June. EIA data for retail outlet sales of motor gasoline show the price was \$3.566 per gallon (excluding taxes) in June 2008, compared with the June 2007 price of \$2.565 per gallon. Further, the U.S. Department of Transportation estimates Americans drove 4.7 percent

fewer miles in June 2008 than one year ago. Distillate prices also remained in record-setting territory, as demand for products from this cut of the barrel remained vigorous despite weather-related delays in the spring planting season in the Midwest. International exports of distillates and firm demand for kerosene-type jet fuel going into the summer travel season also helped sustain demand for distillates. Additionally, increases in natural gas prices and distillate inventories remaining below year-ago levels affected prices. A comparison of monthly average spot market prices provides some additional insight into the climate in the petroleum products marketplace. The June 2008 average spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma was \$133.88 per barrel compared to last month's average of \$125.40 per barrel, an increase of \$8.48 (6.8 percent.) The price

Petroleum Products

Motor Gasoline

During June, the path of the daily spot price for regular gasoline at New York Harbor reflected crude oil price trends. After opening at \$3.250 per gallon, the price dropped to its low of \$3.039 per gallon on June 4 following reports of larger than expected increases in product stocks. Climbing rapidly after that, the price moved to the month's high—and a new record—of \$3.416 per gallon on June 12 on a combination of factors, including an increase in refiner buying and a smaller than anticipated rise in stock levels. It moved on a more moderate path during the coming weeks, checked by comparatively thin demand and following cues from crude oil prices. On the rise again at the end of the month, the price closed June at \$3.321 per gallon, 7.1 cents above its opening level for the month.

- June monthly average finished gasoline prices showed considerable increases from May levels. The average price for retail sales of motor gasoline by refiners rose 26.3 cents to \$3.579 per gallon, while the average wholesale price climbed 24.3 cents to \$3.415 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets rose 24.6 cents to \$3.566 per gallon. The average wholesale price for gasoline climbed 23.1 cents to \$3.416 per gallon. The average dealer tank wagon (DTW) price increased 26.2 cents to \$3.506 per gallon, while the average rack price rose 21.3 cents to \$3.410 per gallon. The average bulk sale price climbed 26.6 cents to \$3.282 per gallon. Reformulated gasoline prices were appreciably higher than conventional gasoline prices in June, showing premiums of 17.5 cents and 13.5 cents at the retail and wholesale levels, respectively.
- Overall, refiner sales of motor gasoline declined modestly in June. Total sales fell 200,000 gallons per day (0.1 percent) to an average of 368.1 million gallons per day. Retail sales dropped 300,000 gallons per day (0.5 percent), while wholesales remained essentially flat. DTW sales accounted for 12.8 percent of wholesales, while rack and bulk sales made up 71.5 percent and 15.7 percent, respectively.

averaged \$67.49 per barrel in June 2007, amounting to a difference of \$66.39 (98.4 percent) from the June 2008 price. For No. 2 fuel oil at New York Harbor, the price averaged \$3.801 per gallon in June 2008, marking an 18.6-cent (5.1 percent) increase from May's average of \$3.615 per gallon. The June 2008 price was \$1.810 (90.9 percent) higher than the June 2007 average price of \$1.991 per gallon. Last, the spot market price for regular gasoline at New York Harbor averaged \$3.292 per gallon in June 2008, and 19.4 cents (6.3 percent) higher than the May 2008 average of \$3.098 per gallon, and \$1.106 (50.6 percent) more than the year-ago average of \$2.186 per gallon.

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 WTI crude oil moved along an unsettled path during June. Opening at \$127.35 per barrel, the price dropped to the month's low of \$122.30 per barrel on rising stock levels and concern about weakening demand for oil products. Nevertheless, the price rose sharply following that point in reaction to political tensions in the Middle East. In the following weeks, a threatened strike by Nigerian oil workers, production outages in the North Sea, and continuing tension in the Middle East helped underpin the price throughout the remainder of the month. The price closed the month at a new all-time high of \$139.96 per barrel, and \$12.61 above its opening level for June.

- Monthly average crude oil prices increased across the board again in June. The average domestic crude oil first purchase price rose \$8.80 (7.4 percent), to \$127.35 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil increased \$8.15 (7.1 percent), to \$123.13 per barrel. The average landed cost of foreign crude oil climbed \$6.65 (5.6 percent), to \$125.40 per barrel.
- The average refiner acquisition cost for domestic crude oil increased \$9.69 (8.1 percent), to \$129.44 per barrel. The average cost of imported crude oil rose \$9.67 (8.3 percent), to \$126.22 per barrel. The composite refiner acquisition cost for crude oil also increased \$9.67 (8.2 percent), rising to \$127.31 per barrel.

No. 2 Distillate

The daily spot price for No. 2 heating oil at New York Harbor remained in a volatile mode during June. Opening at \$3.647 per gallon, the price followed the general downward trend in the market, dropping to its low of \$3.535 per gallon on June 4. The price rose quickly after that point as the market reacted to tensions in the Middle East and inventory data. Trends in crude oil and natural gas prices helped spur the No. 2 heating oil price to the month's high of \$3.968 per gallon on June 11. While the price moderated to some extent during the middle of the month, it returned to an upward path during the final days of June. Closing the month at \$3.890 per gallon, the price was 24.3 cents higher than its opening level for June.

- June prices for No. 2 distillates increased in all categories from May levels. The national average residential sales price increased 28.6 cents to \$4.206 per gallon. The average wholesale price climbed 15.0 cents to \$3.860 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets rose 22.1 cents, while the average wholesale price increased 14.2 cents. Ultra low-sulfur diesel fuel prices were 2.4 cents more than low-sulfur diesel fuel at retail, and 2.2 cents more at wholesale.
- Refiner sales of No. 2 distillates increased in June. Total sales rose 6.1 million gallons per day (3.4 percent), to 182.1 million gallons per day. Sales of No. 2 fuel oil increased 1.0 million gallons per day (9.7 percent), while sales of No. 2 diesel fuel climbed 5.0 million gallons per day (3.0 percent). Ultra low-sulfur diesel fuel made up 81.4 percent of all refiner diesel fuel sales, while total diesel fuel sales accounted for 93.6 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Residual fuel oil prices showed significant increases in June. Refiner prices for low-sulfur residual fuel oil climbed 30.9 cents to \$2.657 per gallon at retail, and 25.5 cents to \$2.577 per gallon at wholesale. Refiner

prices for high-sulfur residual fuel oil rose 26.4 cents to \$2.333 per gallon at retail, and 19.4 cents to \$2.168 per gallon at wholesale. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil jumped 33.1 cents to \$2.669 per gallon at retail, and 27.1 cents to \$2.449 per gallon at wholesale. Prices for high-sulfur residual fuel oil increased 24.3 cents to \$2.332 per gallon at retail, and 19.6 cents to \$2.180 per gallon at wholesale.

- Overall, refiner sales of residual fuel oil rose in June. Total sales increased 1.2 million gallons (6.4 percent) to 20.0 million gallons per day. Low-sulfur residual fuel oil sales climbed 1.7 million gallons (48.6 percent), while high-sulfur residual fuel oil sales fell 600,000 gallons (3.9 percent).

Other Products

- Prices for the remaining surveyed products showed substantial increases in June. The refiner retail sales price for propane rose 7.4 cents per gallon, while the wholesale price rose 8.7 cents per gallon. Including data from a sample of propane marketers, the average residential price increased 4.9 cents per gallon, while the average retail price rose 5.2 cents per gallon. The average wholesale price for propane climbed 8.5 cents per gallon. Prices for kerosene-type jet fuel, aviation gasoline, kerosene, and No. 1 distillate marked appreciable increases at both the retail and wholesale levels in June.
- Refiner sales of the products included in this section were mixed in June. Sales of propane declined at both the retail and wholesale levels, while sales of aviation gasoline did just the opposite. Sales of kerosene and No. 1 distillate declined at retail but rose at wholesale, while kerosene-type jet fuel sales rose at retail but declined at wholesale.