



Petroleum Market Report

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Energy Information Administration
Office of Oil & Gas

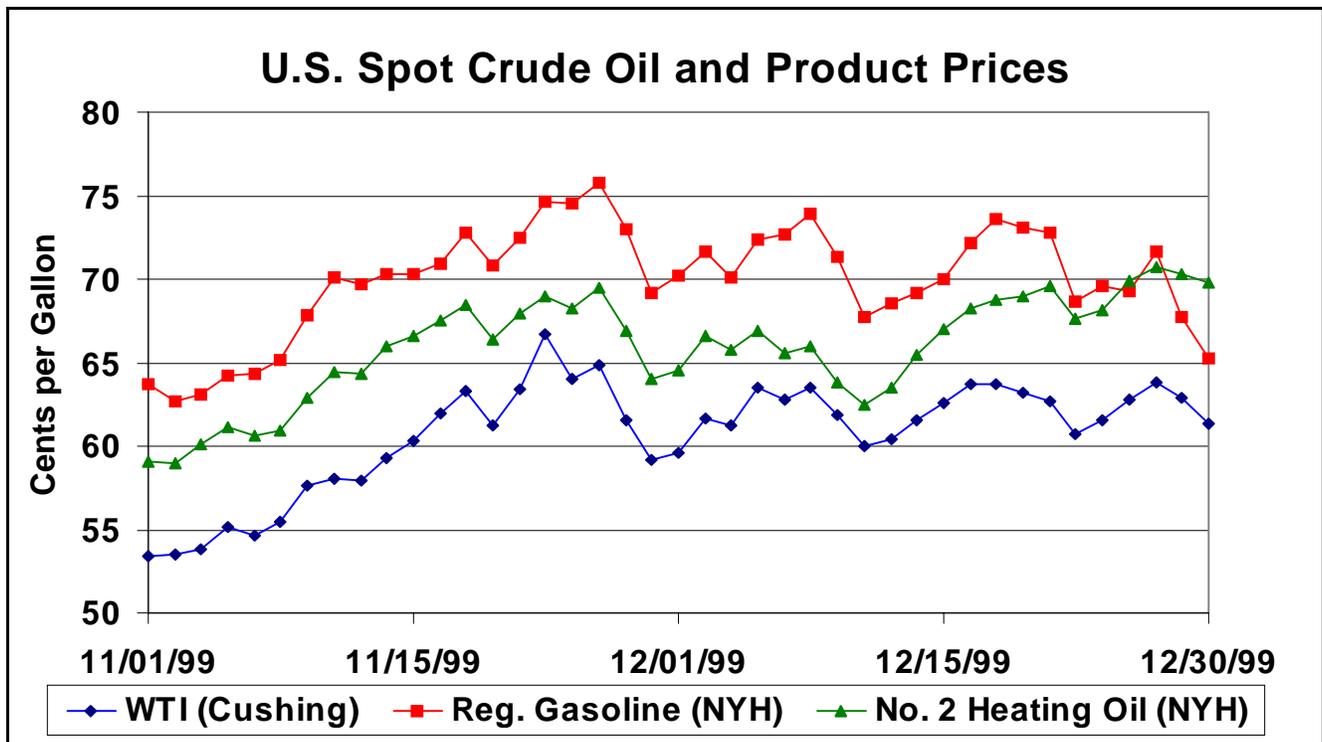
MARKET SUMMARY

U.S. petroleum markets ended the year with a mixed performance last week, as spot and futures prices were mostly higher through Tuesday, then declined ahead of the New Year's holiday. Prices began the week in a continuation of an upward move begun before Christmas, with support from Iranian comments on possible OPEC output cut extensions, along with colder weather in the Northeast and expected stockdraws. Markets turned lower on Wednesday, as traders began to take profits ahead of year-end, with additional influence from impending January product futures expiration and Y2K concerns. The potential for a Venezuelan production increase and reported lower OPEC output cut compliance were also factors.

Crude oil - prices rose and fell within the \$25 to \$27 (WTI) trading range seen throughout December, while market participants positioned themselves for the end of the year amid a variety of international influences. Iran began the week with comments supporting the possible extension of OPEC output cuts beyond the first quarter of 2000, echoing previous similar comments from Mexico. Much speculation the remainder of the week centered around the possibility of Venezuela requesting a higher OPEC quota to aid its recovery from disastrous flooding. The year ended on a negative note, with estimates of higher OPEC output in December, reflecting lower compliance to quota reductions in force through March 2000.

Gasoline - markets directionally followed those for crude oil, but showed more volatility, posting sharp declines on East and Gulf Coast markets after Tuesday. The likelihood that any Y2K pre-stocking in late 1999 would result in reduced demand in early 2000 appeared to weigh heavily on spot and futures prices.

Distillate - prices followed crude oil upward, but declined less, at least partly due to a huge stockdraw for the week ending December 24. The 5.8-million-barrel draw reported by EIA pulled inventories down to their lowest levels in over 2 years, and more than 30 million barrels lower than a year ago.



CHRONOLOGY OF RECENT MARKET EVENTS

- 12/30 - falling** - spot and futures prices ended the year by falling for a second day, driven by reports of possible lower OPEC compliance to output cuts in December, and continued worries about a potential increase in Venezuelan production. Pre-expiration selling of NYMEX product contracts, end-of-year and pre-holiday booksquaring, and modest Y2K concerns were also seen as factors.
- 12/29 - falling** - all prices fell in profit-taking after gains over the past several days. The possibility of a Venezuelan request for an OPEC quota increase to aid recovery from recent flooding, despite earlier denials, continued to worry traders.
- 12/28 - rising** - prices moved solidly higher marketwide, supported by expected stockdraws in the weekly API and EIA supply reports. A report that Venezuela would not increase crude output through the first quarter was also cited.
- 12/27 - mixed** - most prices rose in thin post-Christmas trading, continuing Thursday's upturn. Iranian comments that OPEC would probably extend output cuts beyond March, along with colder weather in the Northeast, were cited as bullish influences.
- 12/23 - rising** - crude oil and product prices turned moderately higher on the last trading day before the 3-day Christmas weekend. Fundamental market drivers were scarce, with most movement seen as the result of pre-holiday shortcovering.
- 12/22 - falling** - spot and futures prices fell across the board for the second straight day, with losses largely attributed to smaller-than-expected crude oil stockdraws in weekly reports from both API and EIA. Year-end liquidations by traders were also cited, along with technical selling as prices dropped below support levels.
- 12/21 - falling** - all prices posted modest declines on the first day of trading for February NYMEX crude oil as the front-month contract. Trading volumes remained light, while prices softened in spite of expectations that the weekly API and EIA reports would show crude oil and product stockdraws.
- 12/20 - mixed** - prices turned generally downward in thin holiday-week trading, with the resumption of Iraqi exports and the final day of the January NYMEX crude contract cited as major factors in the decline. Only distillate prices moved modestly higher, aided by forecast colder-than-normal temperatures later in the week in the Northeastern U.S.
- 12/17 - mixed** - crude oil prices flattened at the end of a week-long rise, while gasoline and distillates posted another moderate increase. Continued wrangling with the U.N. Security Council over weapons inspections blunted the impact of renewed exports by Iraq.
- 12/16 - rising** - gasoline led a fourth day of price increases across the board, as some refiners were reported cutting runs due to weak margins. WTI neared \$27 per barrel before closing at its highest level since before Thanksgiving.