



Petroleum Market Report

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Energy Information Administration
Office of Oil & Gas

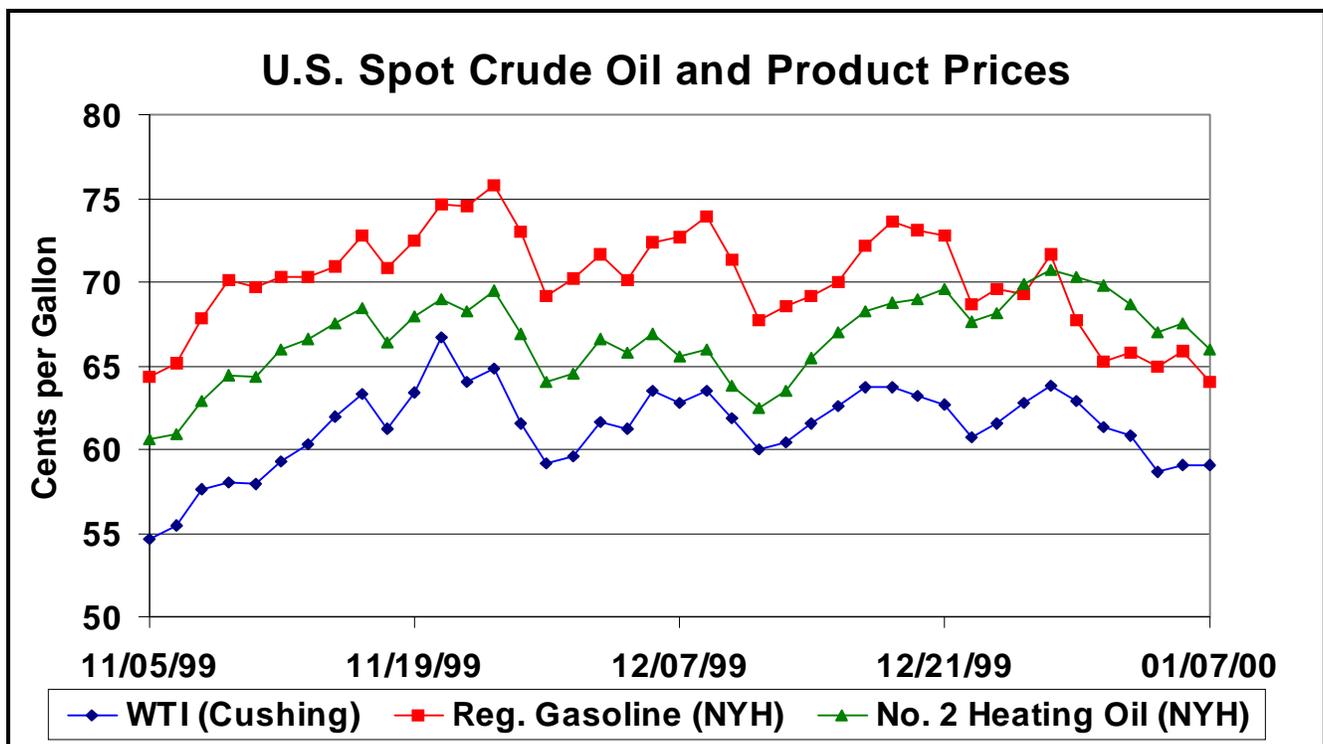
MARKET SUMMARY

U.S. crude oil and petroleum product prices began the year with a decline last week, following the long New Year's weekend featuring a completely uneventful rollover to the year 2000. In the absence of actual Y2K problems, the product inventories reportedly built up by marketers and consumers in late 1999 are expected to dampen January demand, weighing heavily on market sentiment. Additional downward pressures last week came from a lower-than-expected crude oil stockdraw for the final week of 1999, along with estimates of lower OPEC output cut compliance in December, only partially offset by reduced crude oil loadings in Nigeria and the North Sea, and by problems at a number of U.S. refineries.

Crude oil - prices generally declined to their lowest levels since mid-November, due in significant part to the first substantial questions about the long-running success of production cuts by OPEC and others. Even as producers are making public comments about the possibility of extending cuts beyond their current March expiration, compliance estimates for December show a sharp drop into the mid-70-percent range. An unexpectedly small U.S. stockdraw for the week ending December 31, reported by both API and EIA, resulted in the week's sharpest drop on Wednesday.

Gasoline - markets were significantly stronger than those for crude oil, posting relatively small declines for the week. Low primary stocks and outages at a number of refineries overcame, at least temporarily, trader fears that excess secondary and tertiary inventories would depress markets in the first weeks of 2000.

Distillate - prices posted the largest overall losses in U.S. markets last week, with the influence of weaker crude oil markets amplified by relatively mild winter weather. API and EIA reported strong stockdraws for the week ending December 31, but most observers believe substantial Y2K pre-stocking has been a



significant factor, and will result in reduced demand in January.

CHRONOLOGY OF RECENT MARKET EVENTS

- 1/7 - falling** - all prices ended lower after an up-and-down day, with new lower estimates of December OPEC output cut compliance seen as the deciding factor. Upward pressures from high winds delaying North Sea crude loadings, a Venezuelan statement of support for output cut extensions, and an outage at a Delaware refinery failed to provide adequate support.
- 1/6 - mixed** - crude oil and distillate futures prices fell for a fifth straight day, while gasoline futures and some spot prices posted increases. Early reports of refinery troubles, an earthquake in Alaska, and Venezuelan assurances of continued adherence to OPEC output cuts pushed prices higher, but late-day profit-taking wiped out much of the early gains.
- 1/5 - falling** - prices dropped across the board, due in part to a smaller-than-expected crude oil stockdraw, with spot WTI falling below \$25 per barrel for the first time since late November. Lingering concerns about weaker January demand due to Y2K stockpiles continue to be a factor.
- 1/4/2000 - mixed** - in the absence of Y2K problems, crude oil and distillate prices began the new year with a moderate decrease, continuing a decline begun before the extended holiday weekend, while gasoline ended higher. Mild temperatures and presumed leftover Y2K stocks exerted downward pressures, partially offset by expected stockdraws and problems at two refineries.
- 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.