



# Petroleum Market Report

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Energy Information Administration  
Office of Oil & Gas

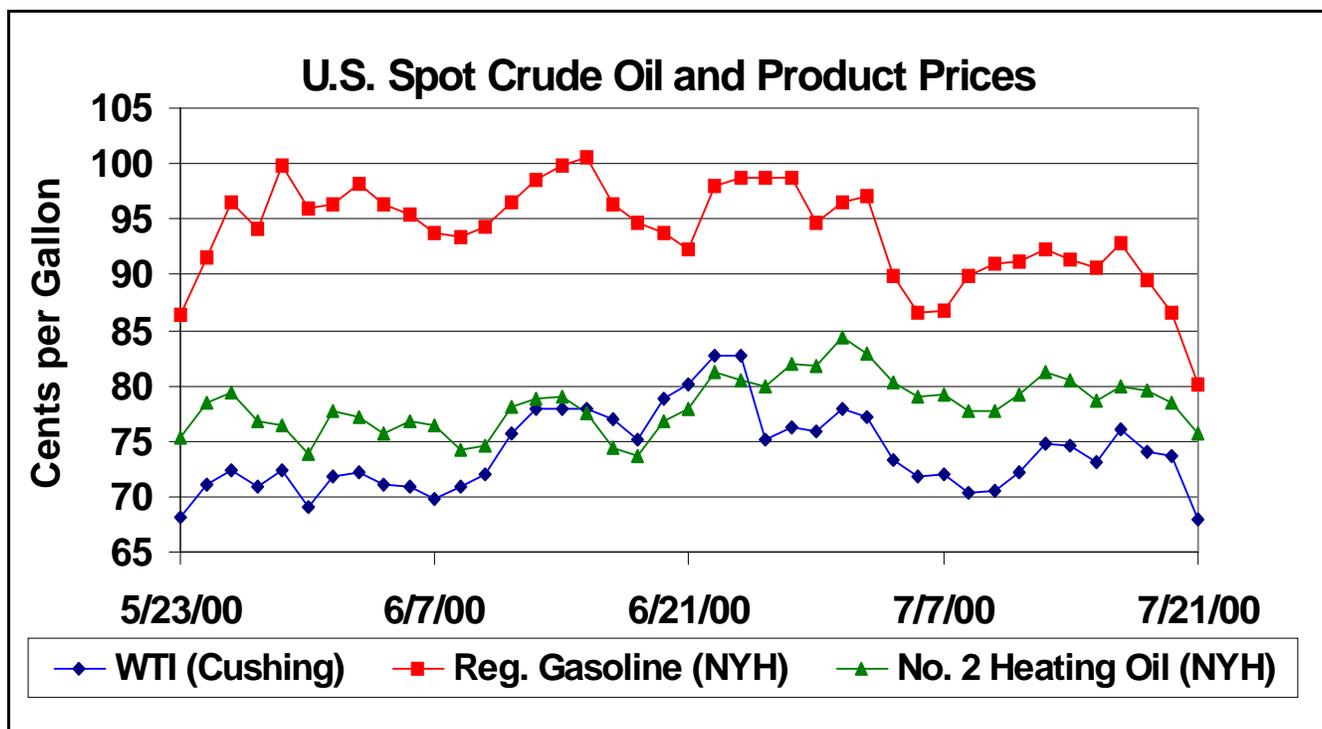
## MARKET SUMMARY

A steep decline in spot gasoline prices led U.S. petroleum markets lower last week, although OPEC activities were again seen as the primary influence. The week began with prices extending a modest downturn, as traders continued to assess the likelihood of seeing the production increase originally proposed by Saudi Arabia on July 3. The slide was temporarily reversed on Tuesday, after the OPEC basket price dropped below \$28 per barrel and OPEC President Ali Rodriguez announced that the 20-day clock for an “automatic” output increase would be reset. However, the decline resumed starting Wednesday, fueled by reports that additional Saudi volumes would be available in August, and by expiration of the August NYMEX crude oil contract on Thursday.

**Crude oil** - prices ended at 10-week lows in anticipation of higher production in August, although reported statements by OPEC officials moved markets up and down early in the week. OPEC President Ali Rodriguez told members on Monday to prepare for an increase by the end of the month, then reversed course on Tuesday, saying there would be no increase due to the price drop below \$28 per barrel. However, OPEC Secretary-General Rilwanu Lukman, seemingly in contradiction, reportedly said Wednesday that OPEC was not bound by the price-band mechanism.

**Gasoline** - posted the sharpest declines, especially in spot markets east of the Rockies, despite reported problems at two Gulf Coast refineries. Mixed stock reports for the week ending July 14 left inventories at comfortable levels with less than half of the summer driving season remaining.

**Distillate** - prices continued to soften, following crude oil downward, despite increasing concern over supplies for the coming winter. Stocks increased modestly in the week ending July 14, standing 25 million barrels below year-ago levels.



## **CHRONOLOGY OF RECENT MARKET EVENTS**

- 7/21 - falling** - prices fell marketwide for a third day, with the decline steepening on pre-weekend profit-taking. Expectations of possible increased exports from Saudi Arabia in August remained the major market driver, with gasoline continuing to weaken as the summer progresses with now-adequate supplies.
- 7/20 - falling** - all prices dropped for a second straight day, led by gasoline. The decline was largely attributed to further talk of Saudi Arabia offering extra crude oil volume for August, and to expiration of August NYMEX crude futures at the close.
- 7/19 - falling** - spot and futures prices again reversed course, heading downward, amid further confusion over OPEC's intents. OPEC Secretary-General Rilwanu Lukman was quoted as saying that the group need not wait 20 days to increase production, while other reports said Saudi Arabia was making more volume available to customers.
- 7/18 - rising** - prices rebounded solidly, led by crude oil, after OPEC President Ali Rodriguez said that a production increase was no longer imminent, because the OPEC basket price had dropped back below \$28 per barrel. Under OPEC's price-band mechanism, the basket price would have to remain above that level for 20 consecutive days to trigger an automatic increase.
- 7/17 - falling** - crude oil and product prices declined for a second day, following a reported statement by OPEC president Ali Rodriguez calling for a production increase by the end of July. Problems at two Gulf Coast refineries were partially offset by completion of repairs at one Midwest facility.
- 7/14 - falling** - all prices declined, with products outpacing crude oil, in profit-taking after three days of gains and ahead of the weekend. A seeming lack of progress in Saudi Arabia's attempts to deflate oil markets kept crude prices relatively firm.
- 7/13 - rising** - spot and futures prices climbed for a third day, again led by crude oil, as markets focused on apparent further delays in OPEC's consideration of a Saudi Arabian plan to increase oil production and lower prices. WTI crude prices jumped back over \$31 per barrel for the first time since the Saudi proposal was announced on July 3.
- 7/12 - rising** - prices rose across the board, with crude oil posting the strongest gains, following a meeting between the Saudi Arabian and Venezuelan oil ministers that did not yield agreement on a production increase. Late-day gains overcame early softness on crude and product stockbuilds.
- 7/11 - rising** - all prices moved higher, led by products, ahead of the weekly API and EIA supply reports. Prices fell early, but rose in late shortcovering, as the perceived likelihood of an OPEC production increase was offset by an IEA report highlighting low distillate stocks.
- 7/10 - mixed** - crude oil and distillate prices fell, while gasoline rose, in response to a mix of global and domestic factors. Indications that OPEC may agree to increase production pulled crude oil lower, while distillate reacted moderately to President Clinton's announcement establishing a heating oil reserve in the Northeast. Gasoline firmed on a rumored East Coast refinery problem.