

Highlights

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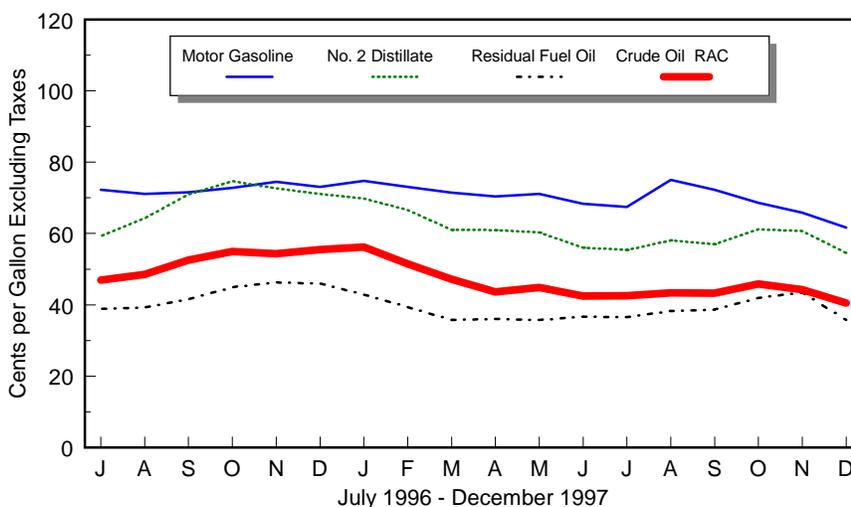
World crude oil prices continued on a descending path during December, pressured by comfortable stockpiles throughout international markets and robust wellhead production rates. Further, significant downward pressure continued to develop throughout the month from the decision by members of the Organization of Petroleum Exporting Countries (OPEC) to increase production quotas by 10 percent. The new rates are slated to go into effect January 1, 1998. Overshadowed by OPEC's production quota increase, Iraq's decision to halt crude oil exports early in December under the renewed United Nations oil-for-food program failed to have a noticeable counter-effect on prices. The Iraqi government's decision not to participate in the program for a third term was designed to protest the terms of the U.N. aid distribution plan. In other developments concerning Iraq, its refusal to permit weapons inspections at various sites had some limited effect on prices later in the month, although these events produced relatively short stays before prices began to slid again. Several benchmark crude oil streams registered long-term lows during this period of increasing tensions in the Persian Gulf region.

Persistent high stock levels of finished products and mild temperatures in the Northern Hemisphere had a more substantial effect on crude oil prices in major international markets. The most profound effects of these variables were felt in Asian markets, where the ongoing lower-than-expected demand for finished products and poor refining margins (amid upheavals in the region's financial markets) led to cuts in production runs and a downturn in crude

oil prices. In the United States and Europe, crude oil prices found some support in favorable refining margins, despite a variety of crude oil streams readily available to buyers and elevated stock levels of finished products in both markets.

During December, crude oil and finished product prices fell in most regions of the United States, marking the last quarter of 1997 as one with an overall downward trend in prices. Reports alluding to problems at various refining facilities offered some minor and short-lived support to market prices. Periodic stocks reports also affected prices. While stocks of some products fell from last month's levels, a comparison with December 1996 levels for the major products show significant increases. Preliminary data indicate total stocks of distillate fuels fell 1.1 percent from November's level, but rose 9.6 percent from the year-ago level. Reflecting December's drop in stock levels, data indicating demand for distillate product show a 7.5 percent jump from November's

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					
	December 1997		November 1997		December 1996		December 1997		November 1997		December 1996	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	77.7	66.1	81.6	62.3	86.0	59.2	61.7	298.5	65.9	286.2	73.1	297.0
Conventional	72.9	37.7	77.2	36.1	85.7	32.9	57.1	197.0	61.3	188.7	71.3	196.2
Regular	68.9	26.4	73.4	25.5	82.2	23.4	55.0	150.9	59.3	145.1	69.2	151.3
Midgrade	78.4	6.0	82.8	5.7	90.9	5.2	61.3	16.1	65.4	15.4	75.8	15.9
Premium	86.4	5.3	90.4	5.0	98.9	4.3	65.3	30.1	69.3	28.3	79.8	29.0
Oxygenated	87.3	4.6	91.1	4.3	91.8	6.1	70.8	11.2	76.0	10.7	78.1	11.3
Regular	83.4	3.4	87.5	3.2	87.9	4.5	68.8	8.6	74.2	8.2	76.1	8.5
Midgrade	94.7	0.7	97.8	0.7	99.2	0.9	74.0	1.3	78.6	1.3	80.8	1.2
Premium	104.1	0.5	107.0	0.4	106.9	0.7	80.5	1.3	85.7	1.2	87.2	1.6
Reformulated	83.6	23.8	87.2	21.8	84.6	20.2	70.6	90.3	74.5	86.8	76.3	89.4
Regular	79.1	15.9	82.8	14.6	79.7	13.1	67.0	60.2	71.0	57.2	72.8	59.5
Midgrade	89.1	4.0	92.5	3.7	89.5	3.7	75.5	10.9	79.4	10.7	79.2	11.6
Premium	96.6	3.8	99.9	3.5	98.8	3.3	79.1	19.2	82.3	18.9	86.1	18.4
Aviation Gasoline	107.7	0.1	113.0	0.1	115.3	0.1	99.8	0.5	102.1	0.5	107.1	0.4
Kerosene-Type Jet Fuel	56.3	50.0	61.2	48.6	74.0	49.3	55.4	14.3	61.3	14.1	73.0	12.8
Propane (Consumer Grade)	51.7	4.5	52.2	3.8	87.5	3.4	37.5	42.5	39.6	35.8	67.7	43.2
Kerosene	75.0	0.3	77.9	0.3	90.7	0.3	57.8	4.9	62.6	4.0	79.0	4.1
No. 1 Distillate	63.8	0.6	70.1	0.4	77.7	0.8	64.1	3.2	71.0	3.1	80.0	4.1
No. 2 Distillate	60.0	24.4	65.0	23.7	74.5	24.2	54.6	125.6	60.7	113.5	71.1	122.1
No. 2 Fuel Oil	59.7	3.5	64.2	3.1	75.1	3.0	53.4	35.4	58.4	27.6	71.2	42.3
No. 2 Diesel Fuel	60.1	20.9	65.2	20.5	74.4	21.2	55.0	90.2	61.5	85.8	71.0	79.8
Low Sulfur	61.8	13.4	66.7	13.5	76.1	13.2	55.3	75.4	61.9	72.4	71.3	64.7
High Sulfur	57.1	7.5	62.3	7.1	71.5	7.9	53.6	14.8	59.2	13.5	69.9	15.1
No. 4 Fuel^a	56.1	0.4	58.2	0.4	65.9	0.5	49.0	0.3	57.3	0.1	65.7	0.5
Residual Fuel Oil	40.2	17.7	45.7	14.4	49.9	15.7	35.8	12.5	43.5	11.8	46.0	12.3
Sulfur Content not > 1 %	48.2	4.1	51.2	3.6	58.6	3.5	38.7	5.9	46.5	4.6	51.4	4.4
Sulfur Content > 1 %	37.8	13.7	43.8	10.8	47.5	12.2	33.1	6.6	41.6	7.2	43.0	8.0

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

Notes: Motor gasoline averages and totals prior to October 1993 include leaded gasoline.

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*.

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

rate. Total finished gasoline stocks rose 3.1 percent from November's level and were 5.5 percent above last year's level. December demand for gasoline rose 1.1 percent from the previous month. Stocks of crude show a trend similar to that of distillate. While stocks rose 2.1 percent from the year-ago rate, they fell 2.1 from last month's level.

December market and sales activity for crude oil and the principal petroleum products are summarized in the following sections.

Crude Oil

Reflecting plentiful supplies, the December daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma, fell over the course of the month. The price opened at \$19.13 per barrel and straightaway fell below the \$18.00-per-barrel mark, remaining below this level for the rest of the month. The highest price during the course of the month, \$18.86 per barrel, was reached on December 8 and was attributed mostly to market technical factors. Taking a generally downward path after that, the price reached the low of \$17.60 per barrel on December 30. Closing at \$17.65 per barrel, the price ended

December \$1.48 per barrel below where it started the month.

- December monthly average crude oil prices show considerable decreases in all categories of sales. The average domestic crude oil first purchase price fell \$1.77 (10.5 percent), to \$15.07 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil shows the largest amount of change again, tumbling \$2.16 (13.2 percent), to \$14.19 per barrel. The average landed cost of foreign crude oil dropped \$1.78 (10.1 percent), to \$15.84 per barrel.
- The monthly average refiner acquisition costs for domestic crude oil declined \$1.30 (6.8 percent), to \$17.93 per barrel. The average cost of imported crude oil to U.S. refiners fell \$1.90 (10.5 percent), to \$16.18 per barrel. The composite refiner acquisition cost of crude decreased \$1.61 (8.7 percent), to \$17.00 per barrel.

Petroleum Products

Motor Gasoline

The daily spot price for unleaded regular gasoline at New York Harbor followed a changeable course during December, driven by a variety of factors ranging from reports of refinery problems and market technical factors. The price quickly fell from its opening quote of 55.1 cents per gallon to 53.6 cents per gallon by the close of the day. The price dropped rapidly during the next few weeks, only to regain some ground on news of refinery problems. During the second half of month, the price lost ground, ending December at 49.3 cents per gallon, 5.8 cents lower than where it began.

- Continuing last month's trend, December monthly average gasoline prices fell in all categories of sales. The average price for retail sales of motor gasoline by refiners fell 3.9 cents, to 77.7 cents per gallon while the average wholesale price declined 4.2 cents to 61.7 cents per gallon. Including data reported by a sample of motor gasoline marketers, the national average retail price at company-operated retail outlets decreased 4.0 cents to 76.6 cents per gallon. The average wholesale price decreased 4.1 cents, to 62.0 cents per gallon. The average dealer tank wagon (DTW) price abated 4.2 cents to

70.6 cents per gallon. The average rack price fell 4.0 cents to 58.6 cents per gallon. The average bulk sales price dropped 3.2 cents, to 53.7 cents per gallon. The margin between reformulated and conventional gasoline prices increased, rising to 8.1 cents at retail, and 11.3 cents at wholesale. The range between conventional and oxygenated gasoline prices increased to 12.3 cents at retail and shrank to 12.0 cents at wholesale.

- Sales of finished motor gasoline by refiners rose in all categories during December. Total sales increased 16.1 million gallons per day (4.6 percent), to an average of 364.6 million gallons per day. Retail sales jumped 3.8 million gallons per day (6.1 percent), while wholesales grew 12.3 million gallons per day (4.3 percent). Rack sales made up 60.6 percent of total wholesales, while DTW and bulk sales explained 25.4 percent and 14.0 percent, respectively. Reformulated gasoline (RFG) constituted 31.3 percent of total motor gasoline sales, while oxygenated gasoline made up 4.3 percent of sales.

No. 2 Distillate

Under pressure from high stock levels and mild temperatures, the daily spot price for No. 2 heating oil at New York Harbor fell throughout December. The price opened the month at 52.7 cents per gallon and hovered in that range until reaching the high of 53.0 cents per gallon on December 8. With few interruptions, the price fell after that point and closed the month at its lowest point, 49.0 cents per gallon.

- December monthly average prices for No. 2 distillate fell across the board. The national average residential price dropped 0.3 cent to 93.8 cents per gallon, while the average wholesale price tumbled 5.6 cents, to 56.0 cents per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets fell 3.1 cents, while the average wholesale price plunged 6.2 cents. The margins between low- and high-sulfur diesel fuel prices rose to 2.6 cents at retail but dropped to 1.8 cents at wholesale.
- Refiner sales of No. 2 distillate rose in December. Total sales increased 13.0 million gallons per day (9.5 percent), to 150.0 million gallons per day. Sales of No. 2 fuel oil rose 8.2 million gallons per day (26.7 percent) while sales of No. 2 diesel fuel climbed 4.8 million gallons per day (4.5 percent).

Low-sulfur diesel fuel sales made up 79.9 percent of all refiner diesel fuel sales, and 59.2 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- December monthly average residual fuel oil prices fell in all categories of sales, significantly so in some cases. Refiner prices for low-sulfur residual fuel decreased 3.0 cents to 48.2 cents per gallon at retail and 7.8 cents to 38.7 cents per gallon at wholesale. Refiner high-sulfur residual fuel prices fell 6.0 cents to 37.8 cents per gallon at retail and 8.5 cents to 33.1 cents per gallon at wholesale. Including data reported by the sample of residual fuel oil marketers, the average low-sulfur price dropped 2.8 cents to 48.2 cents per gallon at retail and 6.4 cents to 40.5 cents per gallon at wholesale. The average price for high-sulfur residual fuel oil fell 5.9 cents to 38.4 cents per gallon and 7.0 cents to 35.2 cents per gallon at retail and wholesale, respectively.
- Sales of residual fuel oil by refiners rose in December. Total sales increased 4.0 million gallons per

day (15.3 percent), to 30.2 million gallons per day. Low-sulfur residual fuel sales climbed 1.8 million gallons per day (22.0 percent), while high-sulfur residual fuel oil rose 2.3 million gallons per day (12.8 percent).

Other Products

- Generally, prices for other products fell during December. Refiner propane prices declined 0.5 cent per gallon at retail, and 2.1 cents per gallon at wholesale. Including the sample of propane marketers, the average residential propane price rose 2.2 cents per gallon, while the average end-user price increased 3.6 cents. The average wholesale price declined 2.1 cents per gallon. Price decreases occurred at both retail and wholesale for aviation gasoline, No. 1 distillate, No. 4 distillate, kerosene, and kerosene-type jet fuel.
- Refiner volumes of sales for products included under this heading rose in all categories of sales. Propane wholesales registered the largest increase, growing 6.7 million gallons from last month's level.