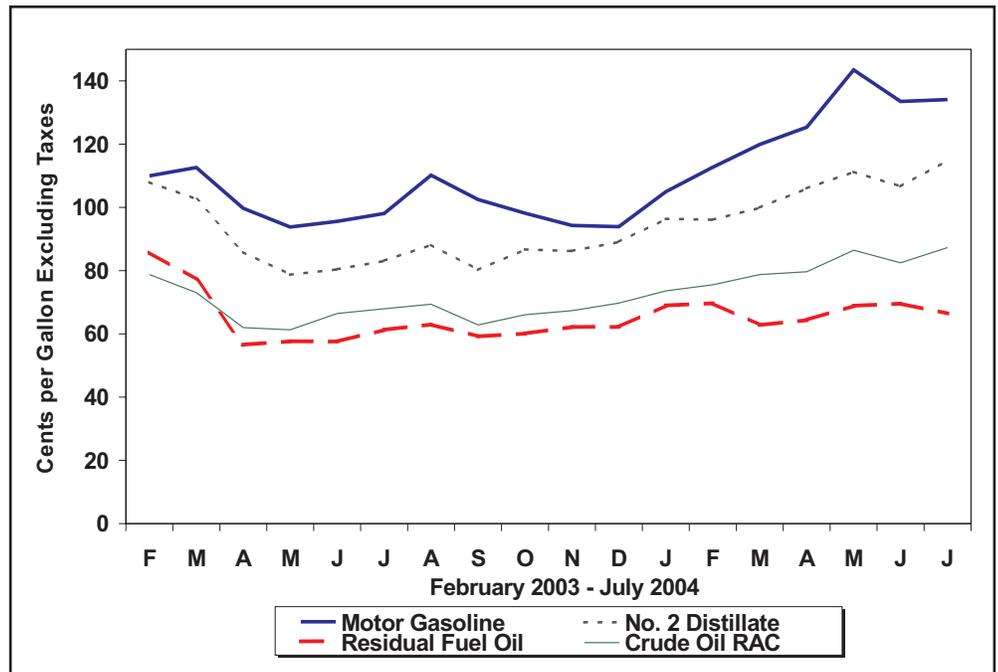


Highlights

International crude oil prices were on the rise during July, with prices for many benchmark streams reaching record highs. Many market watchers contend that a portion of the prices is the result of a so-called “security premium” which drives prices above their fundamental value. The war in Iraq, political tensions in the Middle East and Venezuela, and terror warnings in the United States are all examples of issues that contribute to this premium and have influenced recent price trends. While each of these issues are cause for concern in light of shrinking spare crude oil production capacity, data suggest that few, if any of them, had a tangible effect on the overall supply of oil in markets at this point in time. Notably, EIA forecasts predict that world oil supply will exceed demand during the second and third quarters of 2004. Further, the Organization of Oil Exporting Countries (OPEC) raised production quotas to 25.5 million barrels per day on July 1, and will increase them again to 26.0 million barrels per day on August 1, in an effort, noted by the group, to stabilize prices by ensuring adequate supply in world markets. In addition to those issues, a dispute between the Russian oil company, YUKOS, and the Russian government regarding taxes affected oil prices. However, despite its conflict with the government, and concern that oil shipments could be sharply reduced because of the issue, production and exports by YUKOS remained at typical levels during July. An increase in oil demand from Asia also underpinned prices as refineries in the region came back online from scheduled maintenance activities during the second quarter of the year. Approaching maintenance on North Sea production facilities additionally influenced prices. That work is expected to reduce oil production by about 350,000 barrels per day in September.

While crude oil prices were climbing firmly in the United States during July, petroleum product prices experienced more modest gains or, in the case of gasoline, began to retreat. More specifically, gasoline prices began to drop at mid-month as demand eased, production remained brisk, and inventories registered increases. Monthly inventory data show that while gasoline stocks are just over 5 percent below the July 2003 level, they rose from June’s level and are well within the average range. In response to subsiding demand, adequate stock levels, and stable production, the upward pressure on gasoline prices began to dissipate. However, despite those developments, gasoline prices remained at high levels. A look at year-to-year and month-to-month New York Harbor spot market prices for gasoline highlights matters. The July 2004 monthly average spot price for regular gasoline was \$1.224 per gallon, while a year ago the average price was 87.3 cents per gallon, a difference of 35.1 cents per

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					
	July 2004		June 2004		July 2003		July 2004		June 2004		July 2003	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	148.6	60.0	154.7	60.1	110.6	66.8	134.1	333.6	133.5	332.1	98.2	330.1
Conventional	143.2	35.1	148.1	34.7	106.9	38.5	130.0	229.4	127.9	226.4	95.2	222.0
Regular	140.7	28.6	145.7	28.5	104.0	29.9	128.6	198.0	126.6	196.4	93.7	184.9
Midgrade	150.4	3.6	155.7	3.5	113.3	4.8	135.7	10.9	133.7	10.5	99.7	11.9
Premium	159.1	2.8	164.2	2.7	121.3	3.9	141.0	20.5	138.3	19.5	104.5	25.1
Oxygenated	148.8	1.7	151.0	1.7	114.1	2.3	136.2	8.0	136.7	7.9	103.3	8.0
Regular	146.6	1.4	148.8	1.4	111.9	1.8	135.1	6.4	136.0	6.4	102.3	6.2
Midgrade	155.9	0.2	158.5	0.2	116.6	0.3	136.4	1.0	135.4	1.0	103.9	1.2
Premium	165.0	0.1	168.3	0.1	130.2	0.2	148.6	0.5	148.8	0.5	113.4	0.6
Reformulated	156.8	23.2	164.5	23.7	115.7	26.0	143.6	96.2	146.2	97.8	104.4	100.1
Regular	152.7	17.3	160.6	17.8	111.7	18.8	141.0	76.9	143.3	79.0	101.6	77.2
Midgrade	164.0	2.6	171.4	2.7	122.3	3.3	150.2	5.2	155.4	5.1	110.3	6.4
Premium	173.1	3.3	180.7	3.2	129.2	4.0	155.6	14.1	159.2	13.7	114.9	16.5
Aviation Gasoline	187.0	0.1	193.2	0.1	151.9	0.1	170.6	0.6	174.0	0.6	129.5	0.7
Kerosene-Type Jet Fuel	116.9	47.3	110.3	48.5	81.7	45.1	115.6	15.4	108.5	15.3	81.3	10.9
Propane (Consumer Grade)	77.6	2.7	71.5	3.2	54.3	2.6	72.1	34.6	66.1	33.4	55.9	29.9
Kerosene	W	W	105.2	0.3	89.8	0.1	118.8	0.8	108.0	0.7	82.8	1.0
No. 1 Distillate	126.4	0.1	123.8	0.1	93.6	0.2	126.3	0.3	118.9	0.3	91.1	0.2
No. 2 Distillate	119.3	19.7	112.9	20.7	87.7	19.3	114.9	132.2	106.6	137.1	83.1	128.0
No. 2 Fuel Oil	113.0	2.2	104.9	2.3	82.8	2.3	109.4	14.8	101.9	15.0	78.9	16.6
No. 2 Diesel Fuel	120.1	17.5	113.9	18.4	88.4	17.0	115.6	117.4	107.2	122.2	83.7	111.4
Low Sulfur	122.2	11.6	116.2	12.0	90.7	10.9	116.4	100.6	107.9	104.1	84.0	96.8
High Sulfur	115.8	5.9	109.5	6.4	84.2	6.0	110.9	16.8	103.2	18.1	81.2	14.6
No. 4 Fuel^a	W	W	100.4	0.1	72.3	0.2	97.3	0.0	95.2	0.0	71.8	NA
Residual Fuel Oil	71.4	10.1	73.9	10.6	70.1	10.5	66.4	6.0	69.6	5.1	61.7	4.6
Sulfur Content not > 1 %	76.3	3.0	78.7	3.4	74.5	3.7	72.2	3.0	75.7	2.7	64.9	2.2
Sulfur Content > 1 %	69.3	7.0	71.6	7.2	67.8	6.8	60.4	3.0	62.7	2.4	58.9	2.5

NA = Not available.

W = Withheld to avoid disclosure of individual company data.

^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."

gallon. The July monthly average price was also 7.1 cents higher than the average price for June. In contrast to the changing path for gasoline price during July, distillate prices rose throughout the month. Demand for distillates during the customary summertime stock build continued to rise in July, marking a 4.7 percent increase from the rate at this time last year. Some supply tightness in Atlantic basin markets also affected prices. Again, a look at the New York Harbor spot prices for No. 2 fuel oil shows significant changes. The average price for July 2004 was \$1.089 per gallon, 30.3 cents higher than the July 2003 average price of 78.6 cents per gallon. The July 2004 price compared with the June

2004 price shows an increase of 9.5 cents per gallon. Apart from those trends, it appeared that U.S. refinery production of distillates kept pace with demand. Monthly data show July distillate production to be on par with June's level, and 6.2 percent above the July 2003 rate. July distillate stocks also rose 3.1 percent from June levels to 121.4 million barrels. Additionally, refinery utilization rates remained robust throughout the month, despite a drop in margins.

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

Crude Oil

Amid a tense market, the daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma rose steadily during July. Opening at its lowest point for the month, \$36.92 per barrel, the price went on to rise in response to production and supply concerns, which were often associated with political tensions in various international oil producing regions. Despite estimates that OPEC was producing the largest amount of oil in 25 years, the price continued to climb and reach new levels. The price closed July at \$43.72 per barrel, marking the last in a string of record-setting highs hit during the month and a \$6.80 per barrel increase from the price's opening level.

- Monthly average crude oil prices rose in July. The average domestic crude oil first purchase price increased \$2.00 (5.8 percent), to \$36.53 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil climbed \$2.09 (6.5 percent), to \$34.16 per barrel. The average landed cost of foreign crude oil increased \$1.73 (5.1 percent), to \$35.79 per barrel.
- The average refiner acquisition cost for domestic crude oil rose 86 cents (2.4 percent), to \$37.43 per barrel. The average cost of imported crude oil to U.S. refiners increased \$2.68 (8.0 percent), to \$36.26 per barrel, while the composite refiner acquisition cost for crude oil rose \$2.03 (5.9 percent), to \$36.68 per barrel.

Petroleum Products

Motor Gasoline

Because of rising production and growing inventories, the daily spot price for regular gasoline at New York Harbor diverged from the steady upward path seen in other major products prices' during July. After opening the month at \$1.119 per gallon, the price rose sharply in the following days, underpinned by concern about inventory and production levels, and rising demand. The price reached its high of \$1.289 per gallon on July 9. The price fell in the following weeks as stocks registered increases and refinery operations remained stable. After reaching its low of \$1.160 per gallon, the price closed the month at \$1.243 per gallon, 12.4 cents above its opening level.

- National average gasoline prices fell in many sales categories in July. The average price for retail sales of motor gasoline by refiners dropped 6.1 cents to \$1.486 per gallon, while the average wholesale price eased 0.6 cent to \$1.341 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets declined 5.4 cents to \$1.471 per gallon. The average wholesale price for gasoline rose 1.1 cents to \$1.342 per gallon. The average dealer tank wagon (DTW) price decreased 1.2 cents to \$1.392 per gallon, while the average rack price increased 2.6 cents to \$1.332 per gallon. The average bulk sale price fell 0.4 cent to \$1.226 per gallon. Reformulated gasoline prices were 11.8 cents higher than conventional gasoline prices at retail, and 10.6 cents more at wholesale. Oxygenated gasoline prices were 3.3 cents more than conventional gasoline prices at retail, and 4.8 cents higher at wholesale.
- July refiner sales of motor gasoline generally show only modest changes from June levels. Total sales increased 1.4 million gallons per day (0.4 percent), to an average of 393.6 million gallons per day. Retail sales decreased 100,000 gallons per day (0.2 percent), while wholesales rose 1.5 million gallons per day (0.5 percent). Rack sales explained 68.4 percent of wholesales, while DTW and bulk sales made up 16.4 percent and 15.2 percent, respectively. Reformulated gasoline accounted for 30.3 percent of total motor gasoline sales, while oxygenated gasoline defined 2.4 percent of sales.

No. 2 Distillate

The daily spot price for No. 2 fuel oil at New York Harbor rose during July, largely due to concerns about supply levels and comparatively strong demand. Opening at \$1.004 per gallon, the price gained ground before falling back to the month's low of \$1.043 per gallon on July 12. The low was a result of weekly inventory data showing an increase in stock levels. Rising gradually during the remainder of the month, the price closed July at its high level, \$1.157 per gallon, more than 15 cents higher than its opening level.

- Monthly average No. 2 distillate prices increased firmly in July. The national average residential sales price rose 2.2 cents to \$1.430 per gallon. The average wholesale price climbed 8.0 cents to \$1.155 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets increased 3.5 cents, while the average No. 2 diesel fuel wholesale price rose 8.1 cents. The difference between low- and

high-sulfur diesel fuel prices was 3.0 cents at retail and 4.4 cents at wholesale.

- Refiner sales of No. 2 distillates fell during July. Total sales dropped 6.0 million gallons per day (3.8 percent), to 151.9 million gallons per day. Sales of No. 2 fuel oil decreased 300,000 gallons per day (1.7 percent), while sales of No. 2 diesel fuel declined 5.7 million gallons per day (4.1 percent). Low-sulfur diesel fuel made up 83.2 percent of all refiner diesel fuel sales, and 73.9 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- July residual fuel oil prices fell from June levels in all sales categories. Refiner prices for low-sulfur residual fuel oil decreased 2.4 cents to 76.3 cents per gallon at retail, and 3.5 cents to 72.2 cents per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil dropped 2.3 cents to 69.3 cents per gallon, while the wholesale price also declined 2.3 cents, to 60.4 cents per gallon. Including data reported by a sample of residual fuel oil marketers, the average price for low-sulfur residual fuel oil fell 3.6 cents to 73.7 cents per gallon at retail, and 3.0 cents to 71.1 cents per gallon at wholesale. The retail price for high-sulfur residual fuel oil decreased 2.5 cents to 68.5 cents per gallon, while the wholesale price fell 3.5 cents to 63.7 cents per gallon.

- July sales of residual fuel oil by refiners show modest changes from June levels. Total sales increased 400,000 gallons per day (2.5 percent). Low-sulfur residual fuel oil sales declined 100,000 gallons per day (1.6 percent), while high-sulfur residual fuel oil sales rose 400,000 gallons per day (4.2 percent).

Other Products

- Many of the monthly average prices for the remaining surveyed products show increases in July. Refiner prices for propane rose 6.1 cents per gallon at retail, and 6.0 cents per gallon at wholesale. Including data from a sample of propane marketers, the average residential propane price fell 5.0 cents per gallon, while the average retail price increased 1.5 cents per gallon. The average wholesale propane price rose 5.6 cents per gallon. Kerosene-type jet fuel and No. 1 distillate prices increased at both levels, while aviation gasoline prices fell in both categories. Kerosene and No. 4 distillate prices rose at the wholesale level.
- Refiner sales of the products included in this section were mixed in July. Sales of propane and kerosene-type jet fuel fell at retail but rose at wholesale, while sales of No. 1 distillate did just the opposite. Sales of aviation gasoline increased at both levels. Finally, kerosene sales rose at wholesale, while No. 4 distillate sales dropped in the same category.