

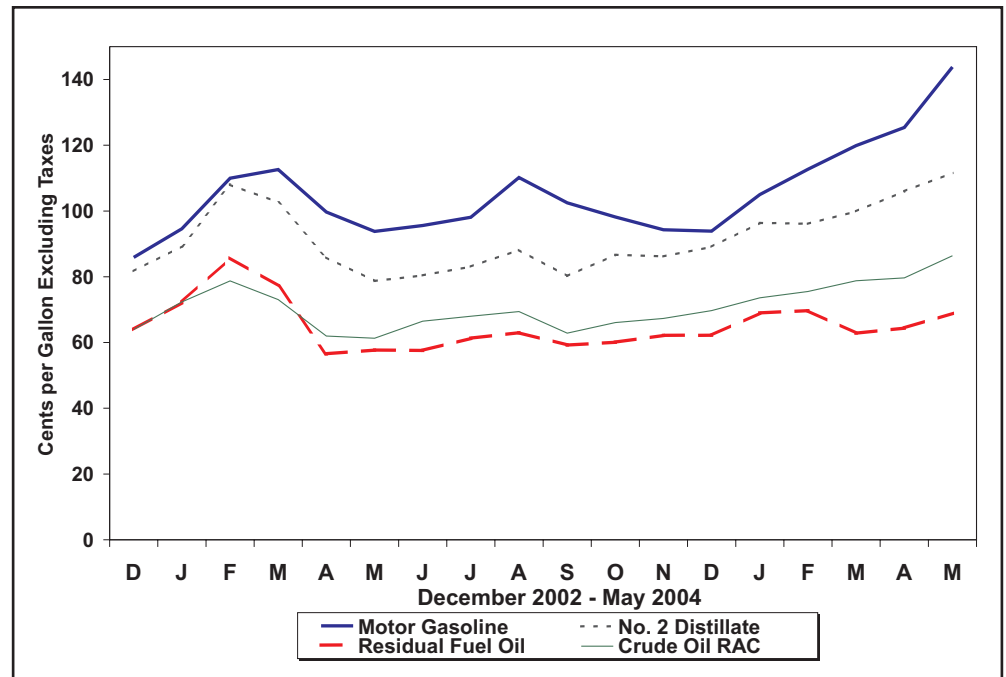
Highlights

Influenced by a variety of factors, international crude oil prices increased in May. Fundamental issues including supply tightness and brisk demand for gasoline in the United States and Europe along with political events spurred prices for many key streams to establish new long-term highs. In particular, at the beginning of the month news of an attack at a petrochemical complex in Yanbu, Saudi Arabia in which five foreign national workers were killed, helped move oil prices higher. Further, more attacks on oil production and transport facilities in Iraq continued to hobble production. While no major disruptions to the infrastructure occurred, the offensives helped underpin crude oil prices in world markets by contributing to a degree of unease about the political equilibrium in the Middle East. In addition to the troubles in Iraq and Saudi Arabia, skirmishes between ethnic and religious groups in Nigeria throughout the month and a coming recall vote on Venezuelan President Hugo Chavez in August added to the unsettled atmosphere in oil markets. Ongoing concern about the adequacy of current supply rates in the face of continued robust world demand and high prices led Saudi Arabia to announce on May 21 that it would raise its production rate to 9.1 million barrels per day, up from the 8.3 million barrels per day. Some market watchers were skeptical about the actual impact of increase, noting that the oil would not reach consuming markets until mid- to late-summer. In addition to the effect of supply rates on crude oil prices, gasoline inventories in the U.S. and to a lesser degree, Europe, are of distinguishing interest to some market players, thanks to burgeoning demand for the product. Finally, market speculation by noncommercial investors had a degree of influence on prices during May, as potential profits from the com-

modity began to look more attractive when prices hit the \$40-per-barrel mark during the second week of May.

In the United States, prices for crude oil and petroleum products saw significant increases during May. Prices for many products reached new long-term highs as inventories remained at, or below, the average range for stocks at this time of year. Other major factors include the sustained economic growth at both national and international levels that has contributed to a rise in demand for crude oil, in conjunction with efforts to curb production by producer nations to prevent the possibility of a glut of oil that would dampen prices. As a result, crude oil prices reached record highs in U.S. (and other) markets. In addition, price trends for one product had direct effect on prices for other products. For example, while high crude oil prices have contributed to high gasoline prices—EIA estimates that crude oil

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					
	May 2004		April 2004		May 2003		May 2004		April 2004		May 2003	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	157.1	59.9	139.6	59.2	110.0	64.8	143.8	319.9	125.4	316.5	93.8	314.5
Conventional	152.1	34.6	134.3	34.6	103.6	38.1	139.4	216.1	121.2	216.5	88.7	208.7
Regular	150.0	28.4	131.9	27.9	100.7	29.5	137.9	187.5	119.6	185.7	87.2	174.0
Midgrade	158.5	3.6	141.2	3.8	110.2	4.7	146.2	10.5	127.3	11.1	93.6	11.2
Premium	166.0	2.6	148.5	2.9	118.2	3.9	151.1	18.0	132.2	19.7	97.9	23.5
Oxygenated	163.9	1.6	142.9	1.6	110.5	2.2	150.6	7.2	129.8	7.7	99.8	7.9
Regular	162.2	1.4	140.8	1.3	108.3	1.8	150.1	5.9	128.9	6.2	99.0	6.2
Midgrade	168.4	0.2	148.9	0.2	115.2	0.2	149.8	0.9	129.9	1.0	99.1	1.1
Premium	178.6	0.1	159.4	0.1	126.8	0.2	159.2	0.4	140.9	0.5	111.0	0.6
Reformulated	163.9	23.6	147.4	23.0	119.9	24.5	153.2	96.7	134.8	92.3	104.0	97.9
Regular	160.4	17.8	143.9	17.0	116.2	18.0	150.8	76.9	132.2	73.2	101.0	75.4
Midgrade	170.6	2.7	153.2	2.8	126.1	3.0	158.7	5.3	141.5	5.4	112.3	6.3
Premium	178.1	3.1	161.3	3.2	134.0	3.4	163.5	14.4	146.0	13.8	114.9	16.2
Aviation Gasoline	194.9	0.1	177.4	0.1	139.8	0.2	172.8	0.6	155.7	0.6	121.7	0.5
Kerosene-Type Jet Fuel	117.0	46.2	106.6	48.1	75.8	44.3	114.7	12.1	103.3	10.6	75.1	10.6
Propane (Consumer Grade)	74.9	2.5	67.4	2.7	53.9	1.8	65.5	28.2	60.4	31.3	54.3	28.5
Kerosene	111.8	0.4	139.8	0.1	NA	0.1	119.4	0.6	104.3	1.1	74.5	1.3
No. 1 Distillate	124.8	0.1	120.5	0.1	95.1	0.1	125.5	0.3	119.2	0.3	90.4	0.2
No. 2 Distillate	118.5	19.7	113.0	18.7	85.1	19.5	111.6	124.6	106.0	136.8	78.7	121.6
No. 2 Fuel Oil	107.2	2.3	101.9	2.3	80.9	2.6	103.9	13.0	95.5	18.3	75.5	20.1
No. 2 Diesel Fuel	120.0	17.4	114.6	16.4	85.7	16.9	112.5	111.6	107.6	118.5	79.3	101.5
Low Sulfur	122.6	11.9	118.2	11.3	88.5	11.7	113.5	97.2	109.1	102.3	79.6	89.9
High Sulfur	114.4	5.6	106.6	5.1	79.3	5.2	106.1	14.4	98.3	16.2	77.0	11.7
No. 4 Fuel^a	W	W	W	W	77.1	0.2	96.2	0.0	91.1	0.0	68.4	0.0
Residual Fuel Oil	72.8	10.0	68.8	10.7	61.9	10.4	68.9	7.1	64.4	6.3	57.7	6.8
Sulfur Content not > 1 %	79.1	3.1	75.8	3.9	74.9	2.0	76.4	3.2	69.9	3.3	62.6	2.9
Sulfur Content > 1 %	69.8	6.8	64.8	6.7	58.8	8.4	62.8	3.9	58.4	3.0	53.9	3.8

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."

costs accounted for just over 40 percent of the price of a gallon of regular gasoline in May 2004—rising crude oil prices have been spurred by soaring gasoline prices. Tight supplies of gasoline along with a significant increase in demand for it throughout U.S. markets during 2004 have promoted prices to record-setting levels. More specifically, while total finished gasoline stocks registered the first greater-than-1-percent month-to-month gain since November 2003, they still stood 11.8 percent below the May 2003 level. With the annual growth in demand running as high as 3.9 and 3.2 percent in March and April, respectively, along with refinery utilization running at seasonal lows during the first quarter of 2004, and relatively lean imports, inventories were not replenished at a rate seen as adequate to quell volatile prices going into the high-consumption summer driving season. A review

of year-to-year and month-to-month spot market prices for gasoline show some remarkable changes. At New York Harbor, the monthly average spot price for regular gasoline in May 2003 was 75.5 cents per gallon. One year later in May 2004, the average price was \$1.344 per gallon, a 78 percent increase. (In comparison, the monthly average spot price for WTI crude oil at Cushing, Oklahoma shows a 43.3 percent increase for the period between May 2003 and May 2004.) In April 2004, the monthly average price was \$1.120 per gallon, reflecting a 20 percent month-to-month increase. Spot market prices in other regions show similarly dramatic changes. On the West Coast, the Los Angeles spot market monthly average price for reformulated regular gasoline was \$1.426 per gallon in April 2004, but rose to \$1.649 per gallon in May 2004. The average price one

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year ago in May 2003 was 88.6 cents per gallon. The monthly average Gulf Coast spot market price for regular gasoline was \$1.149 per gallon in April 2004, \$1.334 per gallon in May 2004 and 78.3 cents per gallon in May 2003. Finally, while the rate of demand eased in May and weekly reports showed an increase in stocks by the end of May, some market watchers believe that inventories are not building fast enough to prevent the possibility of another price spike later this summer.

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

Crude Oil

At Cushing, Oklahoma, the West Texas Intermediate (WTI) crude oil daily spot price continued on a volatile path during May. Opening at \$37.31 per barrel, its lowest point for May, the price moved firmly toward the \$40-per-barrel mark during the first week of the month, spurred by fears of more problems in the Middle East, market speculation, and concern about supply levels. Following a short period of volatility caused by technical factors, the price reached the month's high—and its highest level since late-1990—of \$42.03 per barrel. On the downswing during the last week of the month, the price closed May at \$39.90 per barrel, \$2.59 above the month's opening level.

- Monthly average crude oil prices rose in all categories during May. The average domestic crude oil first purchase price increased 35cents (1.1 percent), to \$33.58 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil rose \$2.50 (8.0 percent), to \$33.60 per barrel. The average landed cost of foreign crude oil climbed \$2.24 (6.8 percent), to \$35.12 per barrel.
- The average refiner acquisition cost for domestic crude oil rose \$1.97 (5.6 percent), to \$37.22 per barrel. The average cost of imported crude oil to U.S. refiners jumped \$3.37 (10.4 percent), to \$35.79 per barrel, while the composite refiner acquisition cost for crude oil increased \$2.82 (8.4 percent), to \$36.28 per barrel.

Motor Gasoline

Prompted in large part by concern about supply levels, the daily spot price for regular gasoline at New York Harbor reached new heights in May. After opening at \$1.239 per gallon, its lowest point for the month, the price rose firmly during the next few weeks as supply reports showed only small increases in gasoline inventories. Following a short-lived drop caused by the arrival of gasoline imports from Europe, the price reached a new long-term high of \$1.404 per gallon on May 19. Pressured by decreases in crude oil prices and market technical factors, the price eased during the latter part of May. Closing at \$1.355 per gallon, the price was still more than 11 cents higher than where it began the month.

- National average gasoline prices soared in May. The average price for retail sales of motor gasoline by refiners jumped 17.5 cents to \$1.571 per gallon, while the average wholesale price climbed 18.4 cents to \$1.438 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets increased 17.8 cents to \$1.555 per gallon. The average wholesale price for gasoline rose 18.8 cents to \$1.436 per gallon. The average dealer tank wagon (DTW) price increased 18.1 cents to \$1.484 per gallon, while the average rack price jumped 19.7 cents to \$1.438 per gallon. The average bulk sale price climbed 18.4 cents to \$1.292 per gallon. Reformulated gasoline prices exceeded conventional gasoline prices by 11.4 cents at retail and 10.9 cents at wholesale. Oxygenated gasoline prices were 8.2 cents higher than conventional gasoline prices at retail, and 10.3 cents more at wholesale.
- Refiner sales of motor gasoline increased modestly in most sales categories during May. Total sales rose 4.1 million gallons per day (1.1 percent), to an average of 379.8 million gallons per day. Retail sales increased 700,000 gallons per day (1.2 percent), while wholesales climbed 3.4 million gallons per day (1.1 percent). Rack sales accounted for 67.7 percent of wholesales, while DTW and bulk sales made up 17.7 percent and 14.6 percent, respectively. RFG explained 31.7 percent of total motor gasoline sales, while oxygenated gasoline accounted for 2.3 percent of sales.

No. 2 Distillate

While other products' prices were quite volatile in May, the daily spot price for No. fuel oil at New York Harbor followed a more subdued course. Nonetheless, the price moved in a range that is out of the ordinary for this time of year, due to concern about product inventories stemming from the industry's focus on producing gasoline. Opening at 95.3 cents per gallon, the price rose gradually until reaching its high of \$1.053 per gallon on May 19. After some fluctuation during the intervening weeks, the price closed May at 99.9 cents per gallon, 4.6 cents higher than where it began.

- No. 2 distillate prices increased in all sales categories during May. The national average residential sales price rose 1.0 cent to \$1.421 per gallon. The average wholesale price climbed 6.2 cents to \$1.126 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets rose 5.1 cents, while the average No. 2 diesel fuel wholesale price increased 5.0 cents. The difference between low- and high-sulfur diesel fuel prices was 3.2 cents at retail and 5.4 cents at wholesale.
- In total, refiner sales of No. 2 distillates fell in May. Total sales declined 11.2 million gallons per day (7.2 percent), to 144.3 million gallons per day. Sales of No. 2 fuel oil decreased 5.3 million gallons per day (25.7 percent), while sales of No. 2 diesel fuel fell 5.9 million gallons per day (4.4 percent). Low-sulfur diesel fuel made up 84.6 percent of all refiner diesel fuel sales, and 75.6 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Residual fuel oil prices rose firmly during May. Refiner prices for low-sulfur residual fuel oil increased 3.3 cents to 79.1 cents per gallon at retail, and 6.5 cents to 76.4 cents per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel

oil rose 5.0 cents to 69.8 cents per gallon, while the wholesale price increased 4.4 cents to 62.8 cents per gallon. Including data reported by a sample of residual fuel oil marketers, the average price for low-sulfur residual fuel oil climbed 5.8 cents to 77.8 cents per gallon at retail, and 5.6 cents to 73.7 cents per gallon at wholesale. The retail price for high-sulfur residual fuel oil increased 5.5 cents to 70.0 cents per gallon, while the wholesale price rose 3.8 cents to 65.9 cents per gallon.

- May sales of residual fuel oil by refiners show moderate changes from April levels. Total sales rose 100,000 gallons per day (0.6 percent). Low-sulfur residual fuel oil sales fell 900,000 gallons per day (12.5 percent), while high-sulfur residual fuel oil sales increased 1.0 million gallons per day (10.3 percent).

Other Products

- Monthly average prices for the remaining surveyed products generally increased during May. Refiner prices for propane rose 7.5 cents per gallon at retail, and 5.1 cents per gallon at wholesale. Including data from a sample of propane marketers, the average residential propane price increased 1.8 cents per gallon, while the average retail price fell 1.0 cent per gallon. The average wholesale propane price climbed 4.8 cents per gallon. Prices for kerosene-type jet fuel, aviation gasoline, and No. 1 distillate increased at both levels. Kerosene prices fell at retail but rose at wholesale. The wholesale price for No. 4 distillate increased during May.
- Refiner sales of products included in this section mostly declined in May. Sales of propane, aviation gasoline, and No. 1 distillate fell at both the retail and wholesale levels. Kerosene-type jet fuel sales declined at retail but rose at wholesale, while sales of kerosene did just the opposite. Sales of No. 4 distillate decreased at the wholesale level during May.