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This Week in Petroleum 7-18-07

Posted by Robert Rapier on July 20, 2007 - 9:15am
Topic: Supply/Production
Tags: eia, gas inventories, gas prices, oil inventories, twip [list all tags]

It's been a while since I updated one of these, but this seems like a good time for an inventory review. Crude inventories are very high, distillate inventories are about normal, and gasoline inventories were gradually clawing their way back, but are still very low for this time of year. But in a big surprise this week, gasoline inventories sharply reversed direction from their recent trend. (However, falling inventories are the norm for this time of year).

Some highlights from the text file:

> Refineries operated at 91.0 percent of their operable capacity last week. However, gasoline production dropped compared to the previous week, averaging nearly 9.2 million barrels per day, while distillate fuel production fell slightly, averaging nearly 4.0 million barrels per day.
>
> Total motor gasoline imports (including both finished gasoline and gasoline blending components) last week averaged 915,000 barrels per day.

Gasoline imports were strong while prices were at record highs. Looks like prices may need to head back that direction to attract more imports. That gasoline import number is pretty weak, considering gasoline imports have been running at well over a million barrels per day. I suspect today's report means gasoline prices will continue their recent climb, after bottoming out a couple of weeks ago. That refinery utilization number is another big story. We have yet to see 92% utilization this summer. You have to go all the way back to 1991 to see summer utilization numbers in this range. Last year's June number was 93%, and it was over 97% in June of 2004 and 2005.

> U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) declined by 0.5 million barrels compared to the previous week. However, at 352.1 million barrels, U.S. crude oil inventories remain well above the upper end of the average range for this time of year. Total motor gasoline inventories fell by 2.3 million barrels last week, and remain below the lower end of the average range.

That is a sharp reversal from previous weeks, in which inventories – buoyed by very strong imports – were heading back toward the lower end of the average range. I would have to check, but I suspect gasoline inventories are back in record low territory again (for this time of year).

> Over the last four weeks, motor gasoline demand has averaged over 9.6 million barrels per day, or 1.3 percent above the same period last year.

Record demand in the face of still very high prices. I don't think people are getting the message that these new, higher prices are unlikely to be temporary. I also get the feeling that people have lost sight of the fact that despite the recent climb in gasoline inventories, they remain well below normal for this time of year.

Here are some excerpts from what OPIS published in their 7/18/07 report:

> After showing some weakness earlier this week the gasoline futures market got a boost from some bullish DOE data in the form of a draw of more than 2 million bbl when the market was anticipating a build. DOE analysis shows that the four-week demand average is the highest ever. Also data from the API through the first six months of 2007 painted a strong demand picture as well.
>
> The biggest shock was the draw of 2.3 million bbl from gasoline inventories and as the DOE pointed out most of the draw came from the finished gasoline category, while blending components was only down slightly.
>
> Gasoline got a "triple whammy" of sorts with gasoline output slipping, imports dropping below 1 million b/d and demand moving past the 9.7 million b/d mark.
>
> Demand for gasoline has been relentless most of the summer, according to government data. Last week, demand rose to 9.7 million b/d, and over the last four weeks demand growth is ahead of last year by 1.3%.

I will not be surprised to see spot shortages, as were caused when the recent Coffeyville refinery went down. A large refinery outage in just about any location could lead to shortages relatively quickly. But if we coast through the rest of the summer with no major hurricanes or other problems, the general public may never know just how precarious the situation was this year. To me, the country's gas supply right now is like a homeowner without homeowner's insurance. That's just fine, until you need it.

I posted this on my blog, and Doug MacIntyre, one of the authors of This Week in Petroleum, dropped by and added this:

> Robert, I know you know this, but for many of you out there, another way to look at inventories is what we at EIA call Days Supply. If you take the absolute inventory level and divide by the 4-week moving average for demand (or crude inputs in the case of crude oil), you can see how inventories are doing relative to demand. We are now publishing these numbers (saving all of you the hassle of calculating it yourself) at:

Days of Supply [see the 5th tab, second column]

Looking at these numbers you can see that gasoline inventories are very low relative to demand, while distillate fuel inventories are low relative to demand. Absent any major hurricane damage, I don't think we will see "shortages" of gasoline, but we could see prices going back up again next month if the inventory situation doesn't improve. Also, as the text of TWIP pointed out today, while we haven't seen $80 per barrel yet for WTI, we have for other light, sweet crude oils.