TWIP (This Week in Petroleum) 8-29-2007

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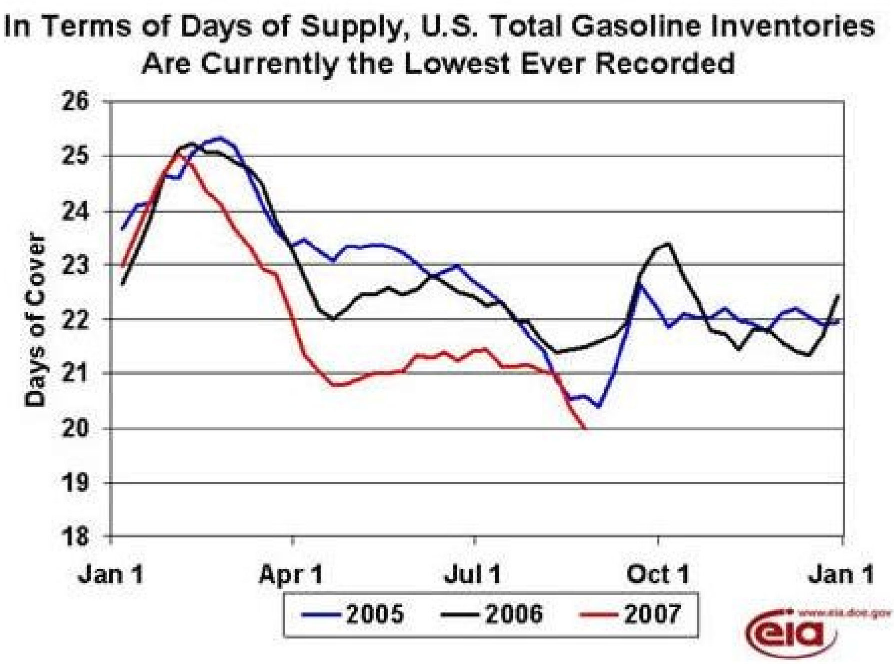
This mornings Petroleum supply report released by the EIA showed reasonably high crude oil inventories, but all time record low gasoline inventories, as measured by days of supply. On the day, crude oil rallied $1.78, reformulated gasoline gained 8.5 cents and heating oil gained 6.5 cents.



Below the fold is this weeks TWIP

Good News, Bad News
As the Labor Day weekend approaches, there is both good news and bad news for drivers. The good news is that retail prices have been falling over the last several weeks and, nationally, are the lowest they have been since early April. The bad news, however, is that inventories are very low, especially in terms of days of supply (calculated by taking total gasoline inventories and dividing by the latest four-week average of product supplied). The low inventory level could limit the normal seasonal drop in retail prices after Labor Day.

But first, here's the good news for drivers. The average retail gasoline price is down 47 cents per gallon since its peak the week before Memorial Day. What's more, the trend has been fairly consistent, with the average national retail price for regular gasoline falling 11 out of the last 14 weeks. High prices seen before Memorial Day spurred increased supply, both by domestic production and increased imports. However, recently, as gasoline demand reached its seasonal peak, imports declined and refinery problems dampened domestic refinery production, such that inventories have been used to meet demand. Over the last four weeks, total gasoline inventories have dropped by more than 12 million barrels, or somewhat faster than normally seen at this time of year. This sharp drop in inventories leads us to the bad news for consumers.

As the chart below indicates, not only is the absolute level of inventories low (see Figure 4 in the Weekly Petroleum Status Report), but in terms of days of supply, it is the lowest ever recorded (the days of supply data goes back to March 1991), reaching just 20 days. This is even fewer days than seen following the hurricanes in 2005. While the absolute level of total gasoline inventories has been slightly lower a few times in recent years, when the level of demand is taken into account, it has not been this low before. Of course, with gasoline demand set to fall significantly after Labor Day, the low level of inventories is not likely to cause a sharp spike in retail prices, but more likely will limit the usual seasonal decline seen after Labor Day, with the possibility remaining of an atypical slight increase over the next few weeks.

In Terms of Days of Supply, U.S. Total Gasoline Inventories Are Currently the Lowest Ever Recorded

What this means is that while retail prices are not expected to jump sharply on a national average, they are also unlikely to fall dramatically over the next few weeks. Of course, this expectation is based on the assumption that there are no major hurricanes or other non-market events impacting petroleum infrastructure over the next few weeks. With no storms forming in the Atlantic as of this writing, that should be considered as another bit of good news for drivers.

Gasoline and Diesel Prices Fall

The U.S. average retail price for regular gasoline dropped 3.6 cents last week to dip to 274.9 cents per gallon as of August 27, 2007, 9.6 cents lower than last year. All regions recorded price declines. East Coast prices fell 3.6 cents to 269.6 cents per gallon. Midwest region prices decreased 3.1 cents this week to 284.0 cents per gallon. Prices for the Gulf Coast were 2.9 cents less, settling at 265.2 cents per gallon, the lowest in the country. The highest prices were found in the Rocky Mountain region, where prices were 280.6 cents per gallon, down 3.5 cents this week and 18.3 cents per gallon below last year. West Coast prices decreased 5.5 cents to 276.8 cents per gallon. The average price for regular grade in California was 7.1 cents lower totaling 279.1 cents per gallon.

Continuing the fluctuating trend, retail diesel prices were slightly lower at 286.3 cents per gallon, 0.5 cent under last week. Prices are 16.4 cents per gallon lower than at this time last year. East Coast prices fell by 0.8 cent to 283.4 cents per gallon. In the Midwest, prices rose 0.6 cent to 287.0 cents per gallon, while the Gulf Coast increased 0.1 cent to 280.8 cents per gallon. The Rocky Mountain region price fell by 3.0 cents, to settle at 294.7 cents per gallon. The West Coast price was down by 3.1 cents to 296.5 cents per gallon. California prices fell by 3.0 cents, to 298.6 cents per gallon, 21.4 cents per gallon lower than at this time last year.

Propane Stockholders Post Weak Build
Propane stockholders reversed course from the recent modest inventory rebound and posted a relatively weak 0.9-million-barrel build last week, moving inventories up to an estimated 54.3 million barrels as of August 24, 2007. With last week's build, total propane inventories continued to drift further below the average range for this time of year. Moreover, with less than two months remaining in the typical build cycle prior to the start of the next winter heating season, propane stockholders' ability of creating any significant inventory safety net by that time appears less assured. East Coast inventories gained the most last week with a 0.9-million-barrel build, while the Midwest and the combined Rocky Mountain/West Coast regions posted similar gains of 0.2 million barrels. During this same time, Gulf Coast inventories posted a loss of 0.4 million barrels. Propylene non-fuel use inventories plunged 0.3 million barrels last week to account for a much lower 4.8 percent share, down from the prior week's 5.4 percent share.

I'm writing a post on the 'marginal barrel', which will examine the intersection of the market mechanism of setting price, with our natural tendency to discount the future in favor of the present. As long as the market has plenty of gasoline *now*, (even if the world stopped pumping oil we'd still have 20 days of inventories), futures prices stay subdued as conventional wisdom suggests that at some point gasoline stocks will go back up. At how many days supply will the market (and hence the average person) start to pay attention? (This is a rhetorical question, but perhaps a good one for discussion)

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