



## This Week in Petroleum 11-7-07

Posted by [Robert Rapier](#) on November 7, 2007 - 10:15am

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### Updated Following Report Release

About 10 seconds after the report was released, I scanned down and found what I was looking for: *U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 0.8 million barrels compared to the previous week.* I turned to the guy sitting next to me, as we had been talking about this today, and I said “\$100 oil may have to wait for another day. The inventory draw was half what was expected.” We could still pop \$100 today, but this inventory report doesn’t favor that. A higher expected draw was already factored in, so I don’t think this supports a quick move up from the current price level. But I wouldn’t put \$1,000 on it.

However, we are still close enough that it won’t take much volatility to push oil over \$100. A single negative geopolitical event should do it. But in the absence of a brand new geopolitical or weather-related event, I will be very surprised if we don’t pull back a bit from \$100 in the next couple of days.

So, why were oil inventories down less than expected? Because refinery utilization continues to languish. You can see that in the utilization numbers, and you can see it in the fact that gasoline had an unexpected draw. Imports were also up from the previous week, surprising given the situation in Mexico. The other big surprise? Gasoline demand is still almost 1% above last year’s level. (Don’t overlook the role of ethanol there. As ethanol is added to the fuel supply, volume demand will go up even if miles driven don’t. [I have documented that here](#)).

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Here were the highlights:

U.S. crude oil refinery inputs averaged 14.9 million barrels per day during the week ending November 2, down 43,000 barrels per day from the previous week's average. Refineries operated at 86.2 percent of their operable capacity last week. Gasoline production fell compared to the previous week, averaging nearly 8.9 million barrels per day. Distillate fuel production rose last week, averaging nearly 4.2 million barrels per day.

U.S. crude oil imports averaged nearly 9.7 million barrels per day last week, up 275,000 barrels per day from the previous week. Over the last four weeks, crude oil imports have averaged 9.6 million barrels per day, or 461,000 barrels per day less than

averaged over the same four-week period last year. Total motor gasoline imports (including both finished gasoline and gasoline blending components) last week averaged 1,131,000 barrels per day. Distillate fuel imports averaged 270,000 barrels per day last week.

U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 0.8 million barrels compared to the previous week. At 311.9 million barrels, U.S. crude oil inventories are in the upper half of the average range for this time of year. Total motor gasoline inventories decreased by 0.8 million barrels last week, and are at the lower end of the average range.

Both finished gasoline inventories and gasoline blending components fell last week. Distillate fuel inventories increased by 0.1 million barrels, and are at the upper limit of the average range for this time of year. Propane/propylene inventories decreased 0.4 million barrels last week. Total commercial petroleum inventories decreased by 0.9 million barrels last week, but are in the upper half of the average range for this time of year.

Total products supplied over the last four-week period has averaged nearly 20.7 million barrels per day, down by 0.4 percent compared to the similar period last year. Over the last four weeks, motor gasoline demand has averaged 9.3 million barrels per day, or 0.8 percent above the same period last year. Distillate fuel demand has averaged 4.2 million barrels per day over the last four weeks, down 2.4 percent compared to the same period last year. Jet fuel demand is down 1.2 percent over the last four weeks compared to the same four-week period last year.

### **\$100 Edition? - to be updated following the release of the report**

It seems that every bit of news lately favors higher oil prices. In the wake of a perfect storm of weather-related and geopolitical events, Tapis went through the \$100 mark overnight, and WTI is knocking at the door. In case you have been asleep for a week, the Fed cut interest rates, [Mexico's oil-rich Tabasco region is underwater](#), and oil companies are evacuating platforms in some parts of the North Sea ahead of a fierce storm predicted to generate 35-foot waves. The wind is howling in Aberdeen already, and did so throughout the night. (One of my engineers is stuck offshore and may have to ride out the storm, forecast for Thursday.)

Predictions are for a 1.6 million barrel draw for crude oil stocks this week. That expectation is factored into the price, so if we see less than that, crude could quickly give up some ground to profit-taking. However, the predictions for a draw may be too conservative, in which case WTI should quickly pop over \$100. Gasoline inventories are forecast to rise by 200,000 barrels, and distillate inventories are expected to fall by 500,000 barrels.

Consider that the draws of the past 3 weeks have been much larger than predicted. I think the primary reason for that is a variable that analysts haven't factored in: Some refiners are drawing down stocks and trying to wait out these prices. Consider it from their perspective, and it makes perfect sense. You have filled your tanks with oil at \$80. You believe that we are in a speculative bubble. Therefore, you will risk drawing down inventories somewhat, and hoping that prices correct soon. If you fill your tanks at \$100, and the price corrects back to \$85, you are going to sell gasoline at a loss for a while. The risk in that strategy is obvious. But I do have direct knowledge that some are employing such a strategy.

So, there is that factor to consider with respect to the crude draw down. But the situation in Mexico, a large provider of U.S. imports, may cause the draw to be much steeper. This event has gotten very little attention in the media, but Mexican President Felipe Calderon said that the oil industry there has been devastated, and exports have ground to a halt. If it is as bad as it sounds, we should see a much larger draw than anticipated.

The final factor that may contribute to a larger than anticipated draw is the one that analysts **have** factored in: Refineries will be coming out of turnarounds. However, utilization rates have been lower than expected, primarily due to low margins. As I have mentioned before, if margins are poor, you aren't exactly scrambling to process as many barrels as you can. So the utilization patterns of the past couple of years may not be a good guide for this year's utilization pattern. Utilization should come up, which would lead to downward pressure on inventories, but it's not a sure thing.

My prediction? While I have made it through 85% of the year, I think I will lose [my \\$1,000 bet](#) within 24 hours. However, I don't expect oil to stay there for very long. I think it will return to \$100 - probably to stay - in 2008, but I believe it has gotten ahead of itself at the moment.

There were two scenarios that I foresaw as potentially causing me to lose the bet. One, Saudi production could continue to decline, and I would surely lose it. That did not happen. In fact, indications are that Saudi is increasing production, although just how much spare capacity they have is debatable. Two, a series of unfortunate events, which I identified as "*a bad hurricane season in the Gulf of Mexico, combined with terrorist attacks or pipeline problems (or any number of things)*" could cause me to lose it. Well, we have had saber-rattling and finally sanctions with Iran, storms in Mexico, storms in the North Sea, a collapsing dollar, and growing demand combined with flat production. I think that qualifies as a series of unfortunate events. If that happens, I will have a post dedicated to the bet, including a bit of information about my mystery betting partner.



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