This Week in Petroleum 2-27-08

Posted by Robert Rapier on February 27, 2008 - 10:38am
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I haven't reported on inventories in about a month, because there really weren't any developments that merited a report. While crude, distillate, and propane inventory levels have been typical for this time of year, the gasoline situation is worth a note.

It sort of crept up on me, but last week as I reviewed This Week in Petroleum, I was struck by just how fast the U.S. has built gasoline inventories. Currently at 230 million barrels, I could not recall ever seeing gasoline inventories that high. So, I went back and looked, and the last time gasoline inventories stood at this level was in 1994. And in this week's report, we again had an increase in gasoline inventories:

Summary of Weekly Petroleum Data for the Week Ending February 22, 2008

> U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose by 3.2 million barrels compared to the previous week. At 308.5 million barrels, U.S. crude oil inventories are in the middle of the average range for this time of year. Total motor gasoline inventories increased by 2.3 million barrels last week, and are above the upper limit of the average range. Both finished gasoline inventories and gasoline blending components inventories increased last week. Distillate fuel inventories decreased by 2.5 million barrels, and are in the lower half of the average range for this time of year. Propane/propylene inventories decreased by 2.4 million barrels last week.

Gasoline inventories from a year ago were fairly high at 222 million barrels, but then in mid-February we started a steep slide (accompanied by a steep increase in gasoline prices) to record low territory. We bottomed out in May - just before summer driving season - at 193 million barrels. We then struggled to build inventories back, and spent from May until December hovering along near the bottom of range for gasoline inventories.

But starting in December, we had a very steep build that has now put us well above normal. Why, and what is the significance?

I think the "why" is two-fold. First, gasoline (and oil) prices this winter were much higher than they were a year ago. There were conflicting reports about whether gasoline demand had fallen, and by how much, but EIA data do suggest that demand during late 2007 fell marginally year over year. It is encouraging to me that (some) people are willing to change (some) behaviors as prices soar.

Of more significance, though, is the difference in imports from a year ago. In late 2006, gasoline prices really crashed, and this had an impact on imports; they fell from previous year levels. In late 2007, gasoline prices were about $0.80/gallon higher than the prior year levels, and this attracted more imports. The sharpest contrast can be seen by comparing December 2006 to December 2007. In 2006, gasoline imports were never above 1 million bpd, and in 2 of 4 weeks they were below 900,000 bpd. In 2007, imports were only just shy of 1 million bpd once (0.985 million bpd) and then in 2 weeks out of 4 they were above 1.1 million bpd. That is the primary reason inventories bounced back so sharply starting in December of 2007.

The import numbers for this week continue to be strong, both for gasoline and for crude oil:

> U.S. crude oil imports averaged nearly 10.0 million barrels per day last week, down 144,000 barrels per day from the previous week. Over the last four weeks, crude oil imports have averaged about 10.1 million barrels per day, 743,000 barrels per day above the same four-week period last year. Total motor gasoline imports (including both finished gasoline and gasoline blending components) last week averaged nearly 1.4 million barrels per day.

We could still potentially see $4 gasoline by summer, but it is looking increasingly less likely that inventories will drive the price as they did last year. Inventories should start to come down as turnaround season gets into full gear, but we are starting this year in a more comfortable place than last year. To hit $4 by summer, oil prices will need to continue the current run - maybe to the $120/bbl range - and/or gasoline inventories need to start coming down quickly. If oil holds at around $100, we are going to have to see a pretty steep draw to get to $4 before summer.