

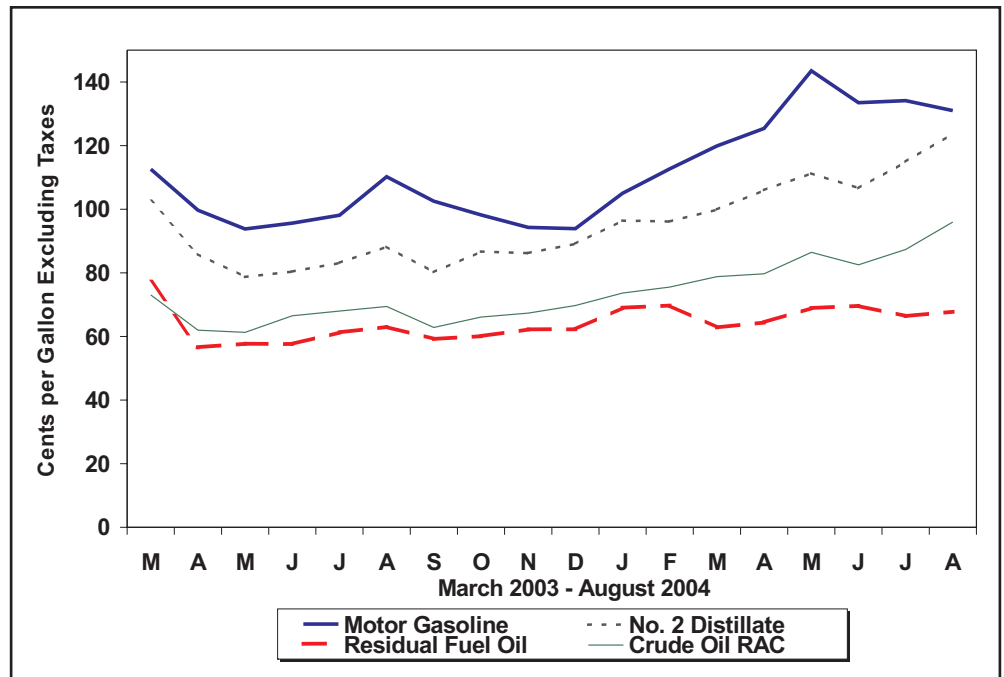
Highlights

With political issues playing a significant role, world crude oil prices climbed to new highs in August. Disruptions to Iraqi oil production and transportation facilities, the tax dispute between YUKOS and the Russian government, and a referendum vote of confidence on Venezuela's president all contributed to the rise in prices. More specifically, attacks on oil pipelines curtailed oil exports from ports in southern Iraq during the first half of the month. Additionally, the recent increase of violence in Iraq has fed a rising sense of restiveness in international oil markets. Many market watchers feel that the conflict in Iraq, along with other politically-motivated incidents in the Middle East, has added value to oil prices beyond that based on a more objective assessment of market factors. Prices were also bolstered by the continuing tax dispute between the Russian oil giant, YUKOS, and the Russian government continued through August, fostering concern that the matter would disrupt oil production and exports. However, data show that production output continued at above-average rates during August. Further, public assurances were given that exports would continue as scheduled. In Venezuela, President Hugo Chavez survived a referendum vote calling for his ouster on August 15. The outcome of the vote allayed market anxiety about the country's political stability, and oil shipments were expected to remain steady. The run-up in prices was also underpinned by indications of economic growth in the U.S., Europe, and Asia. Economic expansion is usually seen to promote higher demand for oil. Given the view of some that the balance between oil demand and supply has been very tight, news of economic growth in these markets encouraged higher prices. However, despite these events and their weight in

oil markets, prices dropped firmly in the latter part of August. The decline was prompted by the reopening of two pipelines in southern Iraq, which allowed exports to resume at normal rates. At the same time, shipments to the Turkish port of Ceyhan via a pipeline in northern Iraq also increased. Further, prices were affected by market technical factors and profit-taking by market participants.

In the United States, crude oil and refined product prices were unsettled during August. Crude oil prices set new records, while distillates' prices challenged gasoline prices during the high-demand summer driving season. The same factors that affected prices in international oil markets influenced values for crude oil in U.S. markets. In addition, two storms in the Gulf of Mexico, Bonnie and Charley, led to shutdowns of production facilities in the region during the first half of August. Although the closures were short-lived and

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					
	August 2004		July 2004		August 2003		August 2004		July 2004		August 2003	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	145.4	60.8	148.6	60.1	123.1	66.8	131.0	334.8	134.1	333.6	110.2	335.5
Conventional	141.4	35.8	143.2	35.1	118.7	38.5	127.5	229.7	130.0	229.4	106.2	225.4
Regular	138.8	29.0	140.7	28.6	116.1	30.2	126.0	198.2	128.6	198.0	104.7	190.0
Midgrade	148.1	3.8	150.3	3.6	125.1	4.7	132.4	11.0	135.7	10.9	111.1	11.9
Premium	157.4	3.0	159.1	2.9	132.3	3.6	139.3	20.5	141.1	20.5	116.0	23.6
Oxygenated	146.0	1.7	148.8	1.7	129.1	2.2	132.5	7.7	136.1	8.0	116.5	8.0
Regular	143.8	1.4	146.6	1.4	127.0	1.8	131.5	6.3	135.1	6.5	115.6	6.3
Midgrade	153.2	0.2	155.9	0.2	131.8	0.3	132.7	0.9	136.2	1.0	116.5	1.1
Premium	162.5	0.1	165.0	0.1	144.2	0.2	144.1	0.5	148.6	0.5	126.8	0.6
Reformulated	151.6	23.2	156.8	23.3	129.1	26.1	139.1	97.4	143.6	96.2	118.5	102.1
Regular	147.4	17.3	152.7	17.4	125.6	19.1	136.4	77.6	141.0	76.9	116.0	79.8
Midgrade	158.7	2.6	163.9	2.6	135.0	3.2	144.9	5.2	150.2	5.2	123.8	6.3
Premium	167.6	3.3	173.1	3.3	141.4	3.8	151.2	14.6	155.6	14.1	129.3	16.0
Aviation Gasoline	185.8	0.1	187.0	0.1	162.2	0.1	169.1	0.7	170.6	0.6	139.7	0.7
Kerosene-Type Jet Fuel	127.1	47.7	116.9	47.3	87.2	45.4	126.9	16.3	115.6	15.4	86.2	11.6
Propane (Consumer Grade)	88.1	2.6	77.6	2.6	55.3	2.5	83.0	33.3	72.1	34.6	58.6	30.9
Kerosene	125.8	0.2	W	W	100.7	0.1	127.8	1.5	118.8	0.8	88.2	1.1
No. 1 Distillate	137.6	0.1	126.4	0.1	100.2	0.2	136.6	0.4	126.3	0.3	100.4	0.2
No. 2 Distillate	127.8	20.3	119.4	19.5	93.2	18.6	123.8	134.9	114.9	132.5	88.1	124.7
No. 2 Fuel Oil	122.6	2.2	113.2	2.1	86.9	2.5	118.8	15.6	109.4	14.9	83.6	15.4
No. 2 Diesel Fuel	128.4	18.1	120.1	17.4	94.2	16.1	124.4	119.4	115.6	117.6	88.8	109.3
Low Sulfur	130.3	11.9	122.4	11.5	95.9	11.1	125.3	102.9	116.4	100.8	89.2	96.1
High Sulfur	124.8	6.2	115.8	5.9	90.3	5.0	119.3	16.5	110.9	16.8	85.7	13.2
No. 4 Fuel^a	106.4	0.1	W	W	72.6	0.2	95.4	0.0	97.3	0.0	73.6	NA
Residual Fuel Oil	73.2	9.1	71.4	10.1	69.8	9.8	67.8	6.3	66.4	6.0	63.4	6.5
Sulfur Content not > 1 %	79.8	2.9	76.3	3.0	75.4	3.1	75.2	3.0	72.2	3.0	67.2	2.6
Sulfur Content > 1 %	70.1	6.2	69.3	7.0	67.2	6.7	60.8	3.2	60.4	3.0	60.7	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."

damage was minimal, the disruption supported rising oil prices. Refined product prices experienced similar volatility during August. Gasoline prices were affected by the perception that supplies were adequate to meet demand during the last full month of summer. EIA data show that gasoline inventory levels remained well within the average range during July and August. Solid supply levels were the result of robust refiner production and imports. However, the emphasis placed on making gasoline came at the expense of distillates' production. Thanks to an unusually high rate of demand for diesel fuel from trucking and manufacturing consumers throughout the summer, distillate product prices often rivaled gasoline prices during August. Additionally, expectations for an early harvest season supported distillate prices. Nevertheless, prices for all major products began to slide during the second half of August. Crude oil prices subsided as stocks

showed firmer footing within the average range for this time of year. Falling prices were also influenced by the coming fall refinery maintenance season, when demand for crude oil typically falls. Refined product prices also fell, following the general lead set by crude oil prices. Despite reports of refinery outages, data suggest finished product production continued at a sufficient pace and inventories remained at adequate levels. A review of New York Harbor spot market prices for gasoline and No. 2 fuel oil helps to illustrate U.S. market trends during August. While the price range for regular gasoline was wider (i.e., more volatile) in August, the monthly average of \$1.206 per gallon was lower than July's average price of \$1.224 per gallon. One year ago the average price was \$1.007 per gallon, a difference of 19.9 cents per gallon. Prices for No. 2 fuel oil continue to show substantial changes in levels, especially for this time of year. The August 2004 average

Petroleum Products

price was \$1.167 per gallon, 7.8 cents higher than the July 2004 price of \$1.089 and 35.1 cents per gallon higher than the August 2003 price. The spot market price for West Texas Intermediate crude oil at Cushing, Oklahoma averaged \$44.90 per barrel in August 2004, \$40.75 per barrel last month, and \$31.57 per barrel in August 2003.

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

Crude Oil

Driven in large part by international political events, the daily spot price for WTI crude oil at Cushing, Oklahoma reached new heights in August. After opening the month at \$43.72 per barrel, the price rose firmly, repeatedly setting new records during the coming weeks. Following the month's high of \$48.66 per barrel on August 19, the price entered a period of steady decline, primarily in response to news of improved Iraqi crude oil production and exports. By the end of the month, market technical factors were also pressuring the price lower. The price closed August at its lowest point, \$42.23 per barrel, \$1.49 per barrel lower than where it began the month.

- August monthly average crude oil prices increased firmly from July levels. The average domestic crude oil first purchase price rose \$3.56 (9.7 percent), to \$40.10 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil increased \$1.71 (4.9 percent), to \$36.51 per barrel. The average landed cost of foreign crude oil rose \$2.09 (5.7 percent), to \$38.77 per barrel.
- The average refiner acquisition cost for domestic crude oil climbed \$3.65 (9.6 percent), to \$41.55 per barrel. The average cost of imported crude oil to U.S. refiners increased \$3.59 (10.0 percent), to \$39.57 per barrel, while the composite refiner acquisition cost for crude oil rose \$3.63 (9.9 percent), to \$40.30 per barrel.

Motor Gasoline

The daily spot price for regular gasoline at New York Harbor traveled along a varied path during August. The price opened the month at \$1.243 per gallon, but lost ground during the first week of August as production rates and supply levels were seen as sufficient to meet demand. At mid-month, the price rose in reaction to supply reports showing a decline in gasoline stocks and the threat of tropical storms affecting coastal areas along the Gulf of Mexico. The price reached the month's high of \$1.294 per gallon on August 13. During the latter half of the month, the price dropped firmly as stocks were perceived to be adequate to meet demand as the summer driving season wound down. The price reached its low of \$1.122 per gallon on August 30, then closed the month at \$1.130 per gallon, 11.3 cents per gallon below its starting level.

- August national average gasoline prices underwent declines from July levels in all sales categories. The average price for retail sales of motor gasoline by refiners fell 3.2 cents to \$1.454 per gallon, while the average wholesale price declined 3.1 cents to \$1.310 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets decreased 2.5 cents to \$1.445 per gallon. The average wholesale price for gasoline dropped 2.9 cents to \$1.313 per gallon. The average dealer tank wagon (DTW) price fell 2.9 cents to \$1.363 per gallon, while the average rack price also registered a 2.9 cents decline, dropping to \$1.303 per gallon. The average bulk sale price fell 0.6 cent to \$1.221 per gallon. Reformulated gasoline prices were 9.3 cents higher than conventional gasoline prices at retail, and 9.2 cents more at wholesale. Oxygenated gasoline prices were 3.1 cents and 4.0 cents above conventional gasoline prices at retail and wholesale, respectively.

- Refiner sales of motor gasoline generally experienced small increases in most categories in August. Total sales rose 1.9 million gallons per day (0.5 percent), to an average of 395.6 million gallons per day. Retail sales climbed 700,000 gallons per day (1.2 percent), while wholesales rose 1.2 million gallons per day (0.4 percent). Rack sales accounted for 67.5 percent of wholesales, while DTW and bulk sales made up 16.4 percent and 16.1 percent, respectively. Reformulated gasoline accounted for 30.5 percent of total motor gasoline sales, while oxygenated gasoline defined 2.4 percent of sales.

No. 2 Distillate

Supported by soaring crude oil prices and solid demand, the daily spot price for No. 2 fuel oil at New York Harbor reached new seasonal highs in August. Opening at \$1.157 per gallon, the price continued on an upward path during the coming weeks, echoing the trend seen in crude oil prices. The month's high was reached on August 19, when the price hit \$1.244 per gallon. After that, it entered a period of decline that lasted through the end of the month. The low of \$1.118 per gallon was struck on August 30. Closing the month at \$1.124 per gallon, the price was 3.3 cents lower than its opening level.

- August monthly average prices for No. 2 distillates show sizable increases from July levels. The national average residential sales price climbed 6.9 cents to \$1.498 per gallon. The average wholesale price rose 8.9 cents to \$1.244 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets jumped 9.2 cents, while the average No. 2 diesel fuel wholesale price increased 9.0 cents. The difference between low- and high-sulfur diesel fuel prices was 2.9 cents at retail and 4.9 cents at wholesale.
- Refiner sales of No. 2 distillates rose in August. Total sales climbed 3.3 million gallons per day (2.2 percent), to 155.3 million gallons per day. Sales of No. 2 fuel oil increased 800,000 gallons per day (4.7 percent), while sales of No. 2 diesel fuel rose 2.5 million gallons per day (1.9 percent). Low-sulfur diesel fuel accounted for 83.5 percent of all refiner diesel fuel sales, and 73.9 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Residual fuel oil prices rose in August. Refiner prices for low-sulfur residual fuel oil increased 3.5 cents to 79.8 cents per gallon at retail, and 3.0 cents to 75.2 cents per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil rose 0.8 cent to 70.1 cents per gallon, while the wholesale price increased 0.4 cent, to 60.8 cents per gallon. Including data reported by a sample of residual fuel oil marketers, the average price for low-sulfur residual fuel oil climbed 2.7 cents to 76.3 cents per gallon at retail, and 3.4 cents to 74.5 cents per gallon at wholesale. The retail price for high-sulfur residual fuel oil increased 1.1 cents to 69.6 cents per gallon, while the wholesale price inched up 0.1 cent to 63.8 cents per gallon.
- August sales of residual fuel oil by refiners generally declined from July rates. Total sales fell 700,000 gallons per day (4.3 percent). Low-sulfur residual fuel oil sales decreased 100,000 gallons per day (1.7 percent), while high-sulfur residual fuel oil sales declined 600,000 gallons per day (6.0 percent).

Other Products

- Monthly average prices for the remaining surveyed products generally increased during August. Refiner prices for propane jumped 10.5 cents per gallon at retail, and 10.9 cents per gallon at wholesale. Including data from a sample of propane marketers, the average residential propane price increased 2.3 cents per gallon, while the average retail price climbed 6.7 cents per gallon. The average wholesale propane price rose 10.8 cents per gallon. Kerosene-type jet fuel and No. 1 distillate prices jumped at both levels, while aviation gasoline prices fell modestly in both categories. Kerosene prices increased at wholesale while No. 4 distillate prices fell at the same level.
- Refiner sales of the products included in this section largely rose in August. Sales of kerosene-type jet fuel, aviation gasoline, and No. 1 distillate increased at both the retail and wholesale levels. Sales propane remained flat at retail and fell at wholesale. Lastly, kerosene and No. 4 distillate sales increased at wholesale.