

PETROLEUM WATCH

CALIFORNIA ENERGY COMMISSION

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PETROLEUM NEWS

PRICES

- **Crude Oil Prices:** On June 28, Brent and West Texas Intermediate (WTI) crude prices closed at \$67.52 and \$58.20, respectively. The Brent crude price is \$9.92 lower than one year ago, and the WTI price is \$15.93 lower than one year ago (**page 2**).
- **California Retail Gasoline Prices:** On June 24, the price was \$3.61, a decrease of \$0.27 since the end of May. Through June, the California price averaged \$1.00 higher than the national average (**page 4**).
- **California Retail Diesel Prices:** On June 24, the price was \$3.97, a decrease of \$0.13 since the end of May. Through June, the California price averaged \$0.95 higher than the national average (**page 5**).

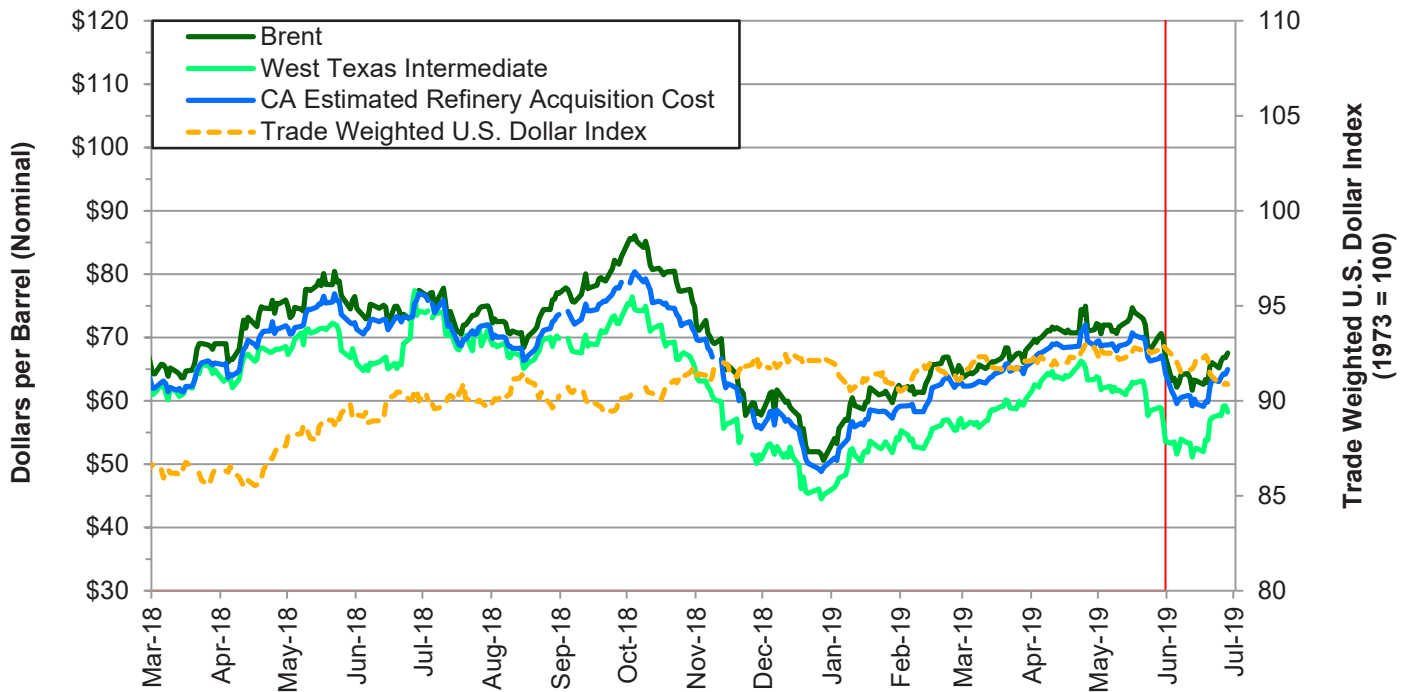
REFINING NEWS

- **Shell Martinez:** On June 13, the refinery shut down the flexicoker unit because of mechanical issues. On June 17, the refinery restarted the flexicoker unit.



CRUDE OIL PRICES

Figure 1: Daily Crude Oil Prices



Source: U.S. Energy Information Administration (EIA), Oil Price Information Service (OPIS) and Federal Reserve Bank of St. Louis.

CRUDE OIL PRICES

June 2019 vs 2018

(Percentage Change)

Brent 14% lower

WTI 19% lower

CA-RAC 16% lower

June 2019 Averages

Brent \$64.22

WTI \$54.66

CA-RAC \$61.36

June 28, 2018

Brent \$67.52

WTI \$58.20

CA-RAC \$64.92

Downward momentum from May continued into June and crude prices remained relatively low for most of the month. On June 20, spot prices rose after the EIA reported a drop in crude inventories, an indication that summer demand has started to pick up. Despite the drop, U.S. inventories are 12 percent higher than in 2018. Crude prices are still significantly lower than in 2018, suggesting that demand for crude is still below expectations.

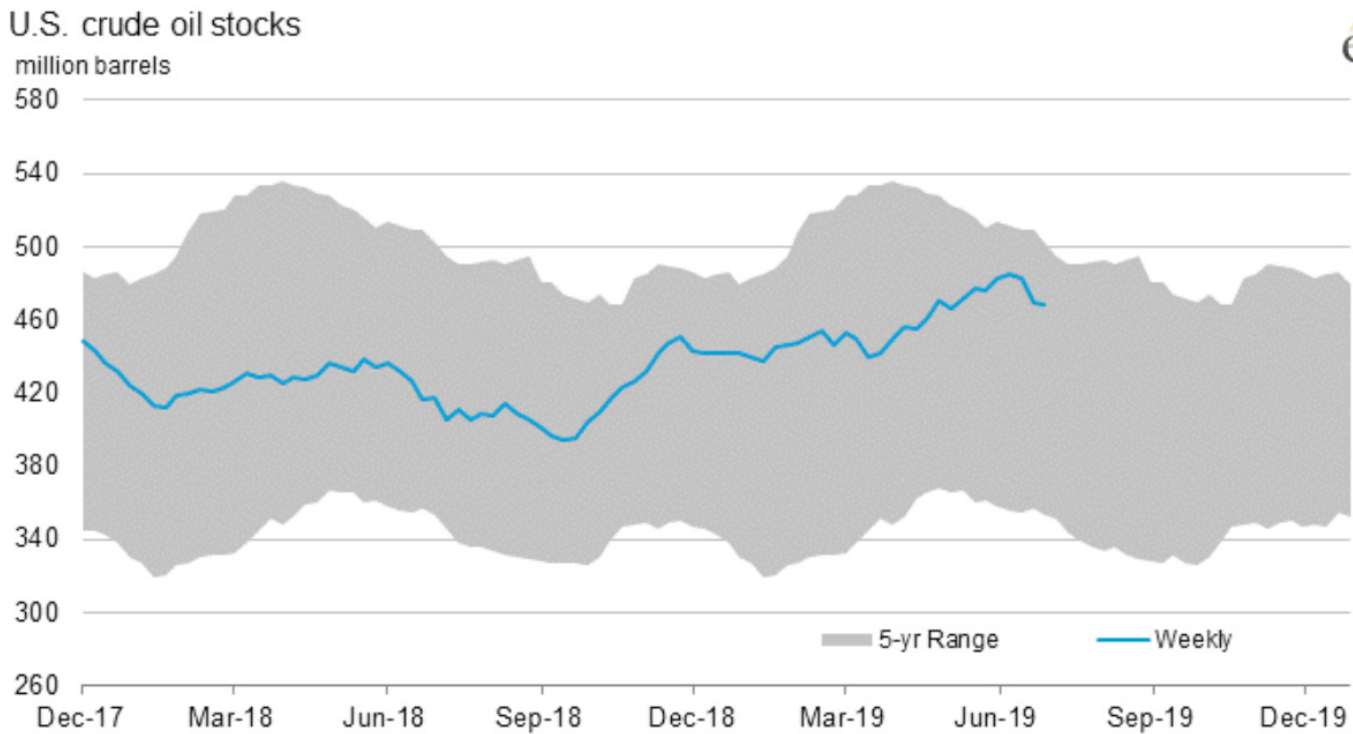
Monthly averages for Brent, WTI, and California Refinery Acquisition Cost (CA-RAC) were all 10 percent lower than the averages in May.¹ Brent and CA-RAC ended the month at their respective peaks of \$67.52 and \$64.92 while WTI peaked at \$59.18 on June 27.

WTI slightly outpaced Brent, shrinking the monthly average Brent-WTI difference from \$10.49 to \$9.56. For context, the five-year average is \$3.96, the June 2018 average was \$6.53, and is currently averaging \$8.70 for 2019. The difference could widen given that the Organization of Petroleum Exporting Countries (OPEC) has agreed to extend their supply cuts through March 2020.² However, the high rate of production from the United States and large U.S. crude inventories could dampen the advantage OPEC hopes to gain from their supply curbs.

1 CA-RAC is a weighted average of the prices of California (San Joaquin Valley) crude, Alaskan crude, and foreign crude.

2 "OPEC and allies extend oil supply cut in bid to boost prices," Reuters, July 2, 2019 <https://www.reuters.com/article/us-oil-opec/opec-and-allies-extend-oil-supply-cut-in-bid-to-boost-prices-idUSKCN1TXOTF>.

Figure 2: U.S. Crude Oil Inventories



Source: U.S. Energy Information Administration

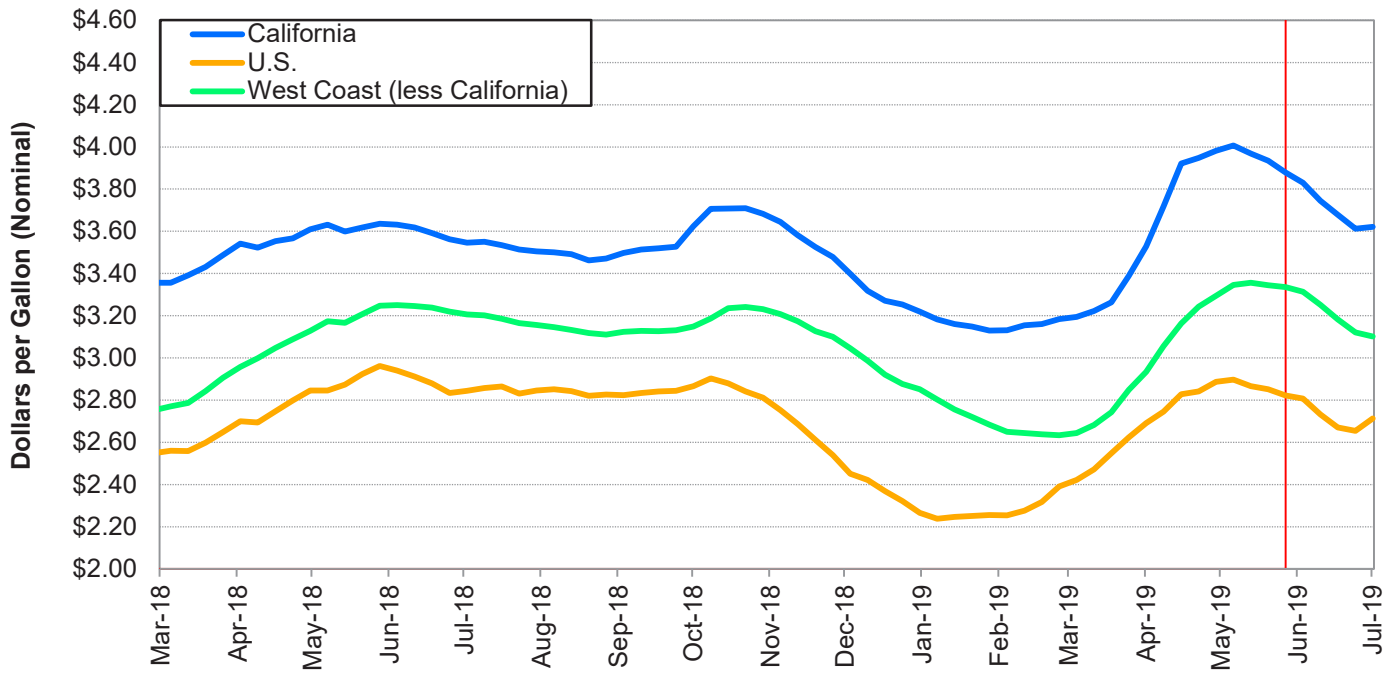
- U.S. crude oil production for June averaged 12.20 million barrels per day (bpd). This amount is only 50,000 bpd lower than the May average of 12.25 million bpd. This is a 1.30 million bpd increase from June 2018, when production averaged 10.90 million bpd.
 - Crude oil imports for June remained at 7.3 million bpd. Compared to June 2018 imports, this is a decrease of 1.1 million bpd.
 - U.S. crude oil refinery inputs had an increase of 499,000 bpd since May, finishing June at a four-week average of 17.2 million bpd. Refinery inputs are 430,000 bpd lower than a year ago.
 - U.S. crude oil inventory in June fell by 14.8 million barrels to 468.5 million barrels. Current inventories are 50.6 million barrels higher than June 2018 inventories.
 - According to OPEC's June Monthly Oil Market Report, total May OPEC production decreased by 236,000 bpd to 29.88 million bpd.³ Their world oil demand forecast for 2019 also decreased slightly from 99.94 million bpd to 99.86 million bpd.
- Reductions in crude stocks and higher refinery inputs are signs that demand could be picking up in the short run. However, demand is weaker than in June 2018 when inventories were lower and inputs were higher. Crude production and imports are also lower than the rates from the previous year. Average refinery utilization increased this month from 90 percent to 94 percent while crude imports remained relatively unchanged.⁴ Crude imports fell by 1.1 million bpd over the year as U.S. production rose by 1.3 million bpd, which means a portion of the demand for foreign crudes has shifted to domestic oils.

³ OPEC June Monthly Oil Market Report, page iii, page 35: https://www.opec.org/opec_web/en/publications/338.htm.

⁴ U.S. EIA, Weekly Supply Estimates https://www.eia.gov/dnav/pet/pet_sum_sndw_dcus_nus_w.htm.

GASOLINE AND DIESEL RETAIL PRICES

Figure 3: Gasoline Retail Prices



Source: U.S. Energy Information Administration

GASOLINE PRICES

June 2019 vs 2018

(Percentage Change)

California	3% higher
U.S.	6% lower
West Coast	1% lower

June 2019 Averages

California	\$3.72
U.S.	\$2.72
West Coast	\$3.22

Week of June 24, 2019

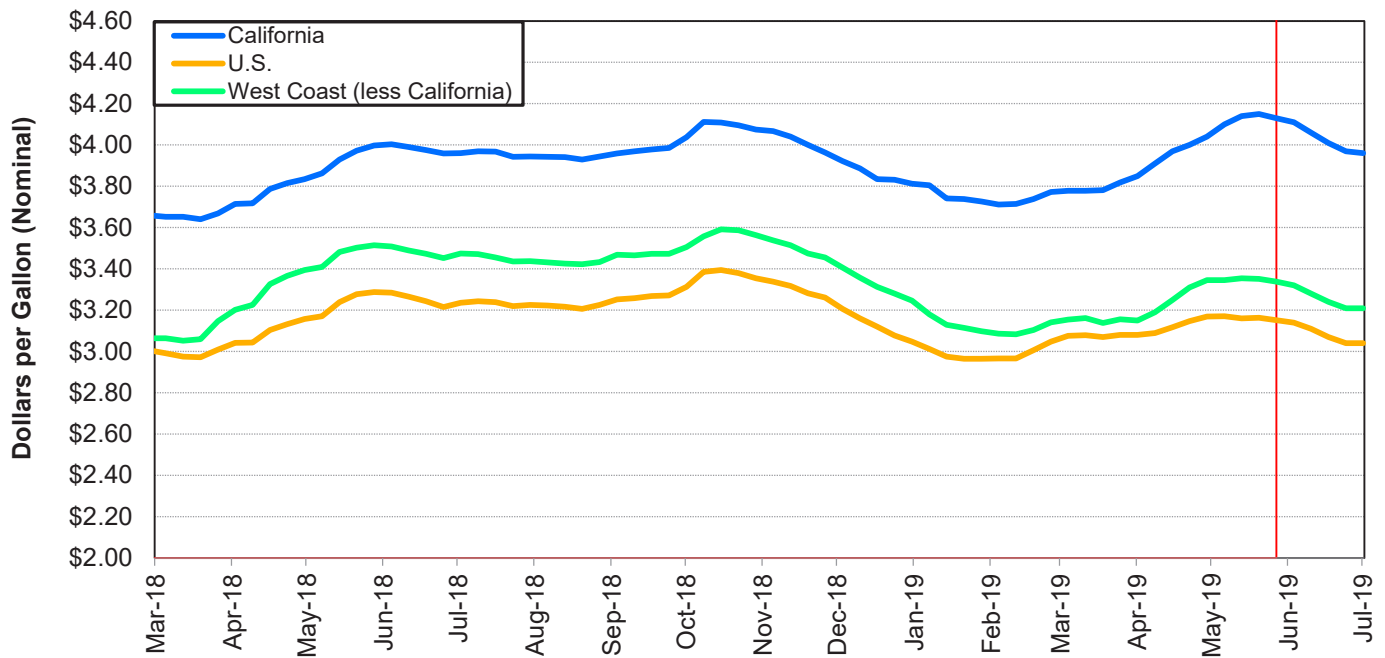
California	\$3.61
U.S.	\$2.65
West Coast	\$3.12

The average California gasoline retail price in June was \$3.72, \$0.23 lower than in May when the price averaged \$3.95. The June average was 3 percent higher compared to same month last year (**sidebar**). On June 3, the retail price was \$3.83. The price decreased \$0.08 the following week and continued to decrease at \$0.08 and \$0.07 the weeks after to \$3.61 on June 24. From June 24 to July 1, the price increased \$0.01 from \$3.61 to \$3.62, because of the gasoline excise tax rate increasing from \$0.42 to \$0.47 on July 1. For three months straight, the California monthly average price has been at least \$1.00 higher than the United States average price.

In June, the United States and West Coast (less California) average gasoline retail prices decreased from May to \$2.72 and \$3.22, respectively. From June 3, to July 1, the United States price decreased \$0.10 from \$2.81 to \$2.71. During the same time, the West Coast (less California) average price decreased \$0.21 to \$3.10. The most noticeable change was the 2.3 percent increase from June 24 to July 1, a \$0.06 increase while the price across the U.S. was trending downward (**Figure 3**). The California retail price will likely increase during July because of the increase in the excise tax rate.

GASOLINE AND DIESEL RETAIL PRICES

Figure 4: Diesel Retail Prices



Source: U.S. Energy Information Administration

DIESEL PRICES

June 2019 vs 2018

(Percentage Change)

California	1% higher
U.S.	5% lower
West Coast	6% lower

June 2019 Averages

California	\$4.04
U.S.	\$3.09
West Coast	\$3.26

Week of June 24, 2019

California	\$3.97
U.S.	\$3.04
West Coast	\$3.21

Diesel retail prices decreased across the country in June (Figure 4). June 3 saw the highest prices of the month when California, the United States, and the West Coast (less California) hit \$4.11, \$3.14, and \$3.32, respectively. Prices then slid, with California seeing the largest diesel price decrease. California also saw the largest week-over-week change, dropping \$0.05 on June 10 to \$4.06. California retail prices dropped a total of \$0.14 in June, ending June 24 at \$3.97. The United States and West Coast lost an average of \$0.03 and \$0.04 a week, respectively. The United States and the West Coast lost a total of \$0.10 and \$0.11 in June ending on June 24 at \$3.04 and \$3.21.

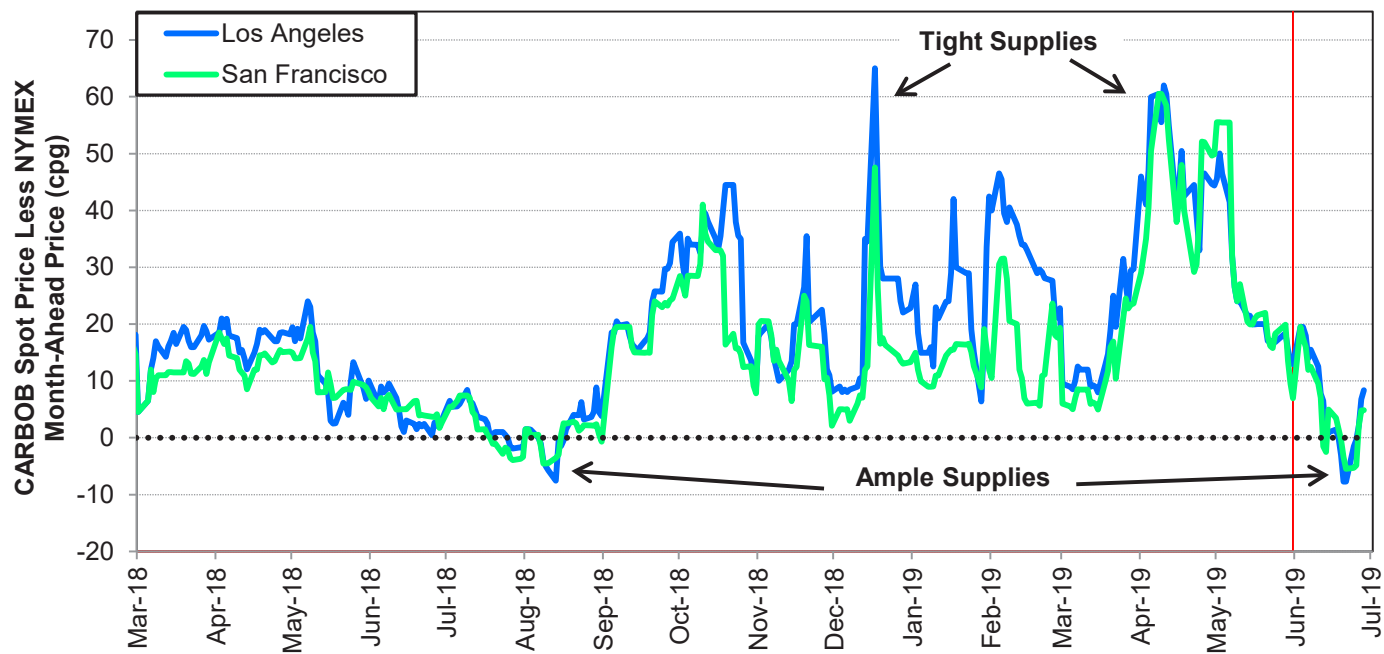
California's strong diesel inventories helped lower retail prices. Weekly Fuels Watch shows that diesel production started strong, but was in decline for the month.⁵ Despite reduced production, diesel inventories built up above the five-year band. This indicates a decrease in demand for diesel, which put downward pressure on the prices. The United States and West Coast prices followed a similar pattern but prices did not fall as much because of U.S. distillate stocks have been going down according to U.S. EIA.⁶

5 California Energy Commission. "Weekly Fuels Watch Report." https://ww2.energy.ca.gov/almanac/petroleum_data/fuels_watch/Weekly_FuelsWatch_Summary.pdf.

6 U.S. EIA *This Week in Petroleum*: <https://www.eia.gov/petroleum/weekly/distillate.php>.

SPOT MARKET SPREADS

Figure 5: California Spot Gasoline to NYMEX Futures Price Spread



Source: U.S. Energy Information Administration and OPIIS

GASOLINE SPOT - FUTURES SPREAD

June 2019 vs 2018

Los Angeles \$0.01 higher

San Francisco same

June 2019 Averages

Los Angeles \$0.06

San Francisco \$0.05

June 28, 2019

Los Angeles \$0.08

San Francisco \$0.05

The Los Angeles (LA) and San Francisco (SF) gasoline spot less New York Mercantile Exchanges (NYMEX) futures spreads were each \$0.19 on June 3 (**Figure 5**), monthly highs for both spreads. The spreads decreased steadily, until June 14 to June 17 when the spreads increased briefly before continuing to fall. The spreads decreased to monthly lows of -\$0.08 for LA and -\$0.05 for SF on June 21. The spreads then increased to finish the month at \$0.08 for LA and \$0.05 for SF.

The spreads have come down after multiple outages at refineries during March and April that caused the spreads to spike.⁷ In May, the refineries began to bring equipment back on-line. Production and inventories

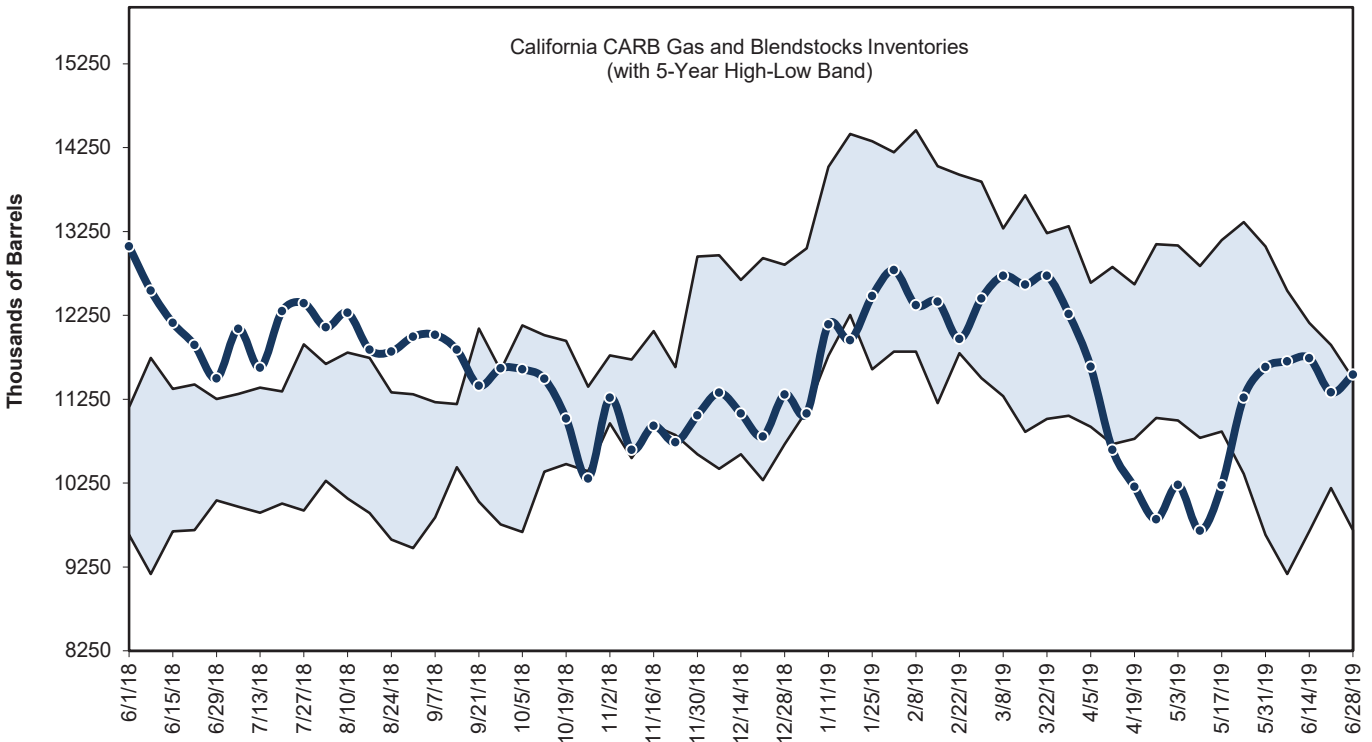
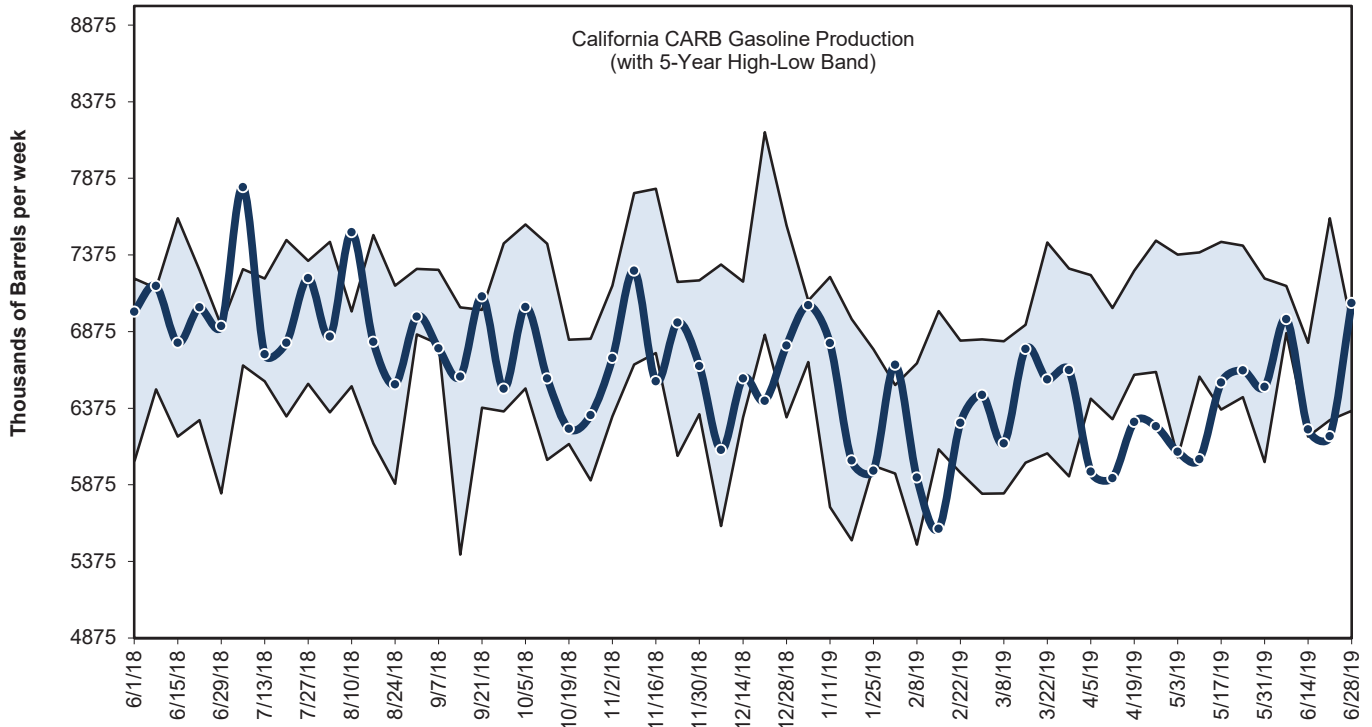
increased, putting downward pressure on the spreads, leading to a decline in the spreads that started in May and continued through mid-June. June is the first month since August 2018 that the LA and SF spot prices have been at a discount to NYMEX.

California gasoline production averaged 6.6 million barrels per week (bpw) and was within the five-year band except for the week of June 21, when production fell below the five-year-low (**Figure 6**). California gasoline inventories decreased slightly from 11.7 million barrels to 11.5 million barrels between June 7 and June 28, respectively.

⁷ California Energy Commission. June 2019. *Petroleum Watch*: https://www.energy.ca.gov/sites/default/files/2019-06/2019-06_Petroleum_Watch.pdf.

SPOT MARKET SPREADS

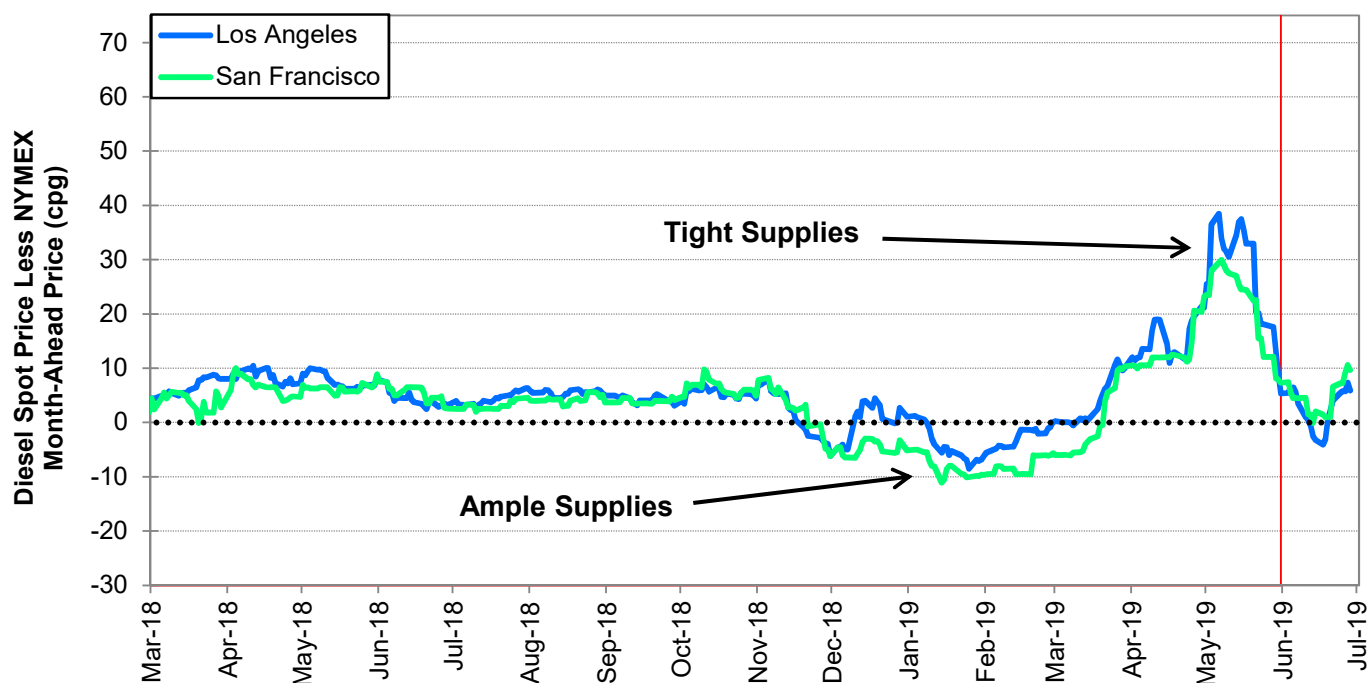
Figure 6: Gasoline Production and Inventories



Source: California Energy Commission PIIRA data

SPOT MARKET SPREADS

Figure 7: California Spot Diesel to NYMEX Futures Price Spread



Source: U.S. Energy Information Administration and OPIS

DIESEL SPOT - FUTURES SPREAD

June 2019 vs 2018

Los Angeles	\$0.02 lower
San Francisco	\$0.01 lower

June 2019 Averages

Los Angeles	\$0.03
San Francisco	\$0.05

June 28, 2019

Los Angeles	\$0.06
San Francisco	\$0.10

June opened with California diesel spot to NYMEX price spreads still in decline from record highs in May (**Figure 7**). LA futures spread began the month at \$0.05 above NYMEX while SF was \$0.07 above, then both spreads bottomed out mid-month. LA hit a low of \$0.04 below NYMEX on June 17 and SF was even (zero difference) to NYMEX on June 13. Both LA and SF spreads peaked on June 27 at \$0.07 and \$0.11, respectively. In comparison to May, diesel differentials in June were less volatile. LA monthly average price spread was \$0.03, \$0.24 less than May's average spread. SF monthly average price spread was \$0.05, \$0.17 less than the average spread in May (**sidebar**).

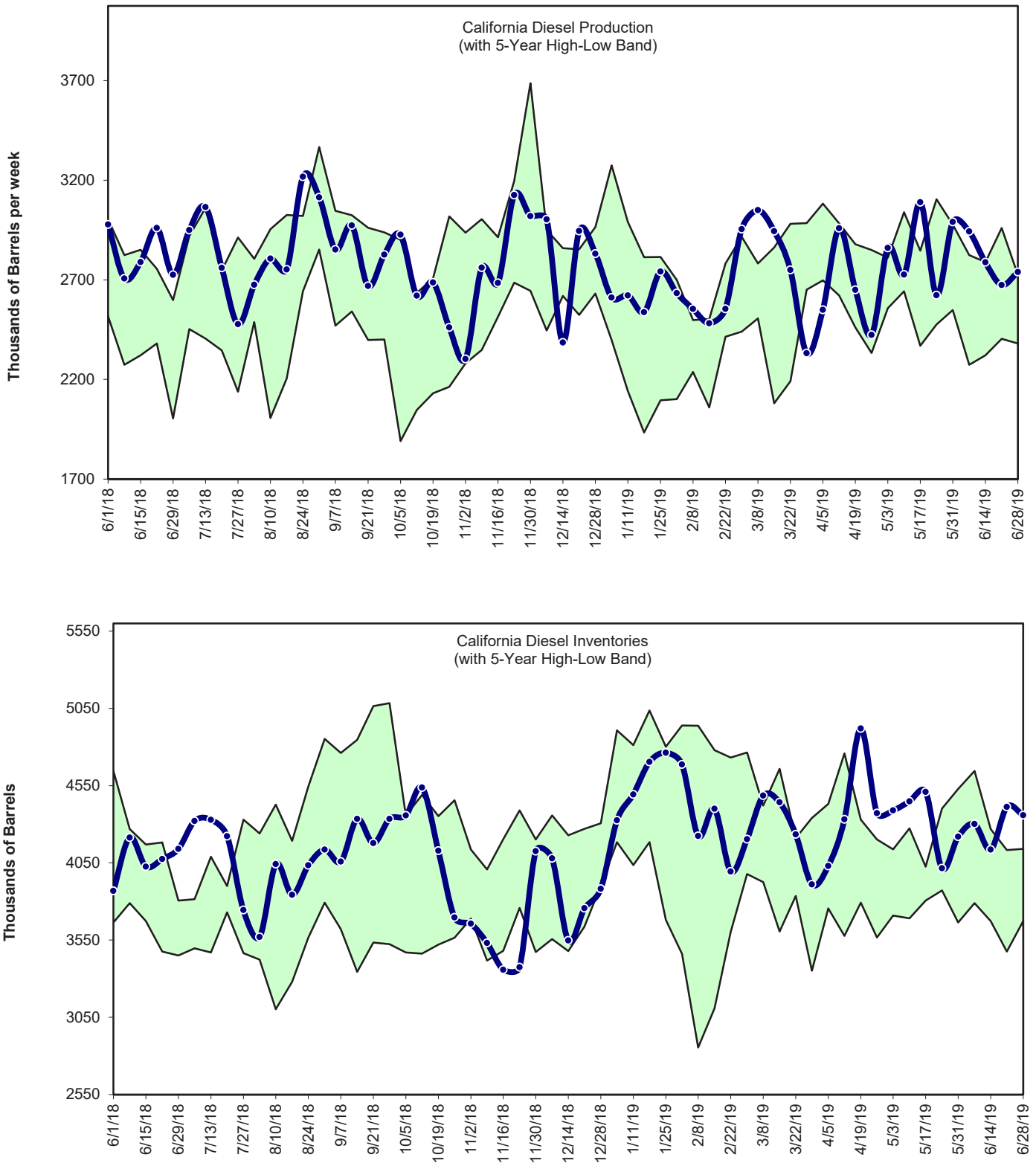
June's *Petroleum Watch* discussed unplanned refinery outages in May raising diesel price spreads in California. Refinery operations recovered in June, as West Coast refinery utilization increased from 85 percent on May 10 to 92 percent by June 14.⁸ The recovery brought down price volatility from May as spot markets calmed from indications of recovery.

California diesel production averaged 2.8 million barrels per week, keeping within the upper half of the five-year band (page 9). June diesel inventories did well in comparison to the past five years, averaging 190,000 barrels more per week than June 2018 (**page 9**). June typically brings about the end of planting season for farming. California spot prices in July should continue to stay low if inventories remain at current levels until harvesting season in October.

⁸ *Weekly West Coast (PADD 5) Percent Utilization of Refinery Operable Capacity*, U.S. EIA, July 8, 2019: https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=W_NA_YUP_R50_PER&f=W.

SPOT MARKET SPREADS

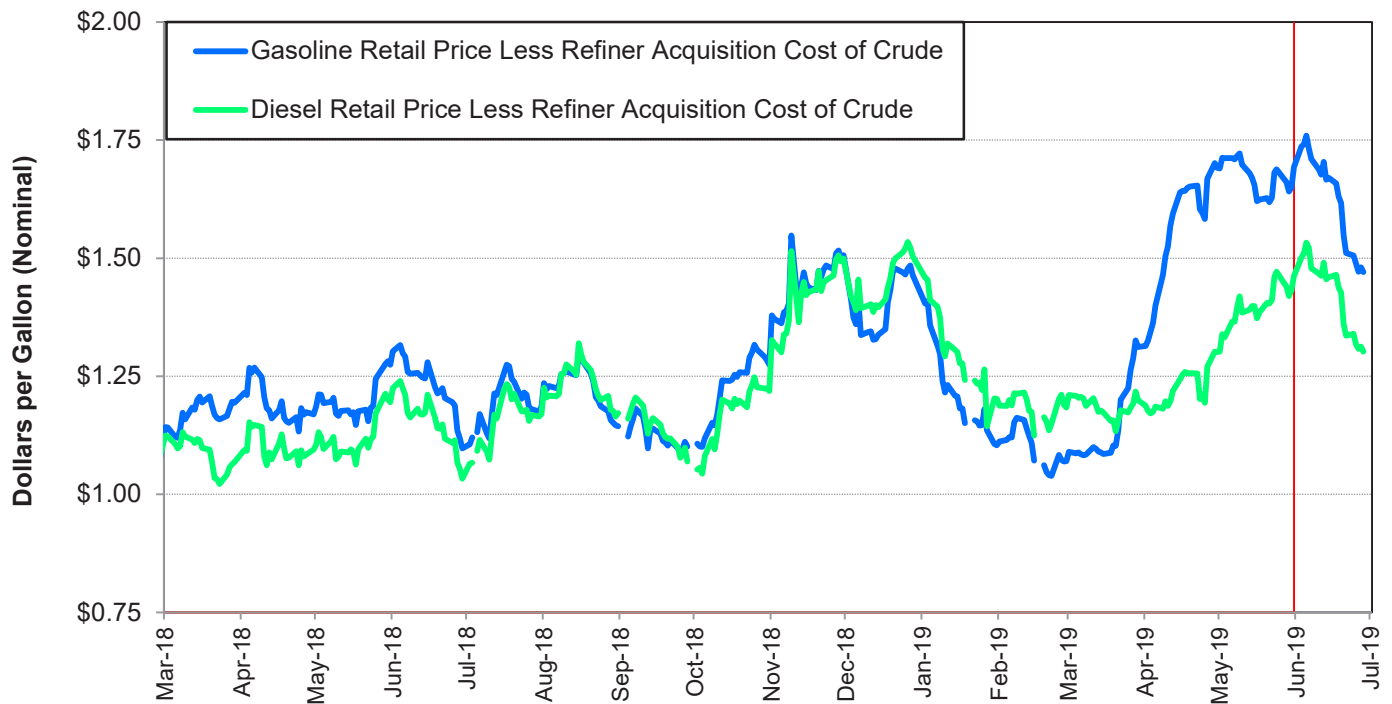
Figure 8: Diesel Production and Inventories



Source: California Energy Commission PIIRA data

GROSS MARGINS

Figure 9: Gross California Gasoline and Diesel Margins



Source: U.S. Energy Information Administration and OPIS

CRUDE TO RETAIL MARGINS

June 2019 vs 2018

(Percentage Change)

Gasoline	32% higher
Diesel	23% higher

June 2019 Averages

Gasoline	\$1.62
Diesel	\$1.42

June 28, 2019

Gasoline	\$1.47
Diesel	\$1.30

Despite an initial increase in the gasoline and diesel margins at the beginning of June, gross margins decreased noticeably over the month (**Figure 9**). The margins peaked on June 5, when the gasoline margin reached \$1.76 and the diesel margin reached \$1.53. The margins then fell steadily with the gasoline margin at \$1.47 and the diesel margin at \$1.30 on June 28.

The margins are finally seeing relief after numerous refinery issues in March, April, and May caused the margins to spike. As the refineries completed repairs, the margins started to decline. Declining California

retail gasoline and diesel prices supported the decrease in the margins (**Figures 3 and 4**). The drop in the margins was also supported by healthy inventories that were within or above the five-year band (**Figures 6 and 8**).

The June peak in the gasoline margin is the highest seen since August 2015. In February 2015, an explosion at the ExxonMobil refinery in Torrance caused the gasoline margin to spike and remain high for several months. The June peak in the diesel margin peak is equal to the peak in December 2018. The peak in December 2018 is the highest peak in the data dating back to January 2014.



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