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Fuel Focus

*Understanding Gasoline Markets in Canada
and Economic Drivers Influencing Prices*

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Natural Resources Canada
Petroleum Resources Branch
580 Booth Street, 17th Floor
Ottawa, Ontario K1A 0E4
Phone: (613) 992-9612
TTY Service: (613) 996-4397 (Teletype for the hearing-impaired)
Fax (613) 992-0614
Web site: <http://nrcan.gc.ca/eneene/focinf-eng.php>

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National Overview

Canadian Retail Gasoline Prices Increased 4 Cents per Litre from Last Week

For the week ending February 3, 2015, the Canadian average retail gasoline price was nearly 97 cents per litre, up 4 cents per litre from the previous week. This represents a 1.5 cent-per-litre decrease since the beginning of the year. However, compared to last year at this time, average retail pump prices are 29 cents per litre lower.

Diesel fuel prices remained unchanged at \$1.09 per litre compared to the previous week. This is a decrease of 35 cents per litre from the same period last year. Furnace oil prices rose by 0.1 cent per litre from the previous week to an average of \$1.06 per litre.

Recent Developments

- **U.S. Gasoline Inventories Climb:** As oil prices have tumbled during the past few months, U.S. refiners have been sucking up as much of the abnormally inexpensive crude as they can, turning it into gasoline, diesel and other fuels. Prices at the pump have plunged to almost \$2 a gallon, the lowest nationwide average in more than five years. Even though U.S. drivers are filling their tanks more often, they can't keep pace with surging gasoline supplies. So a lot of the fuel that refiners are producing is sitting in storage tanks. Gasoline inventories stood at 240 million barrels as of January 9th —the highest they have been at this time of year since at least 1990. Refining capacity utilization has increased to more than 93% in the four weeks ending January 9, 2015, with U.S. refiners processing an average of 16 million barrels of oil a day—unusually high for this time of year. (Source: Wall Street Journal)

- **Domestic Gasoline Sales Up 2%:** Canadians consumed 38 billion litres of gasoline in the first nine months of 2014, or more than 800 million litres more than the same period last year. In the same period, diesel fuel sales increased by 3% to 26 billion litres, while furnace oil sales increased by 2% to 3 billion litres. (Statistics Canada, Cansim Table 134-0004; NRCan)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

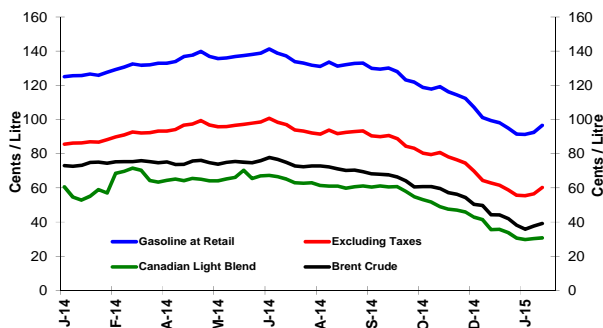
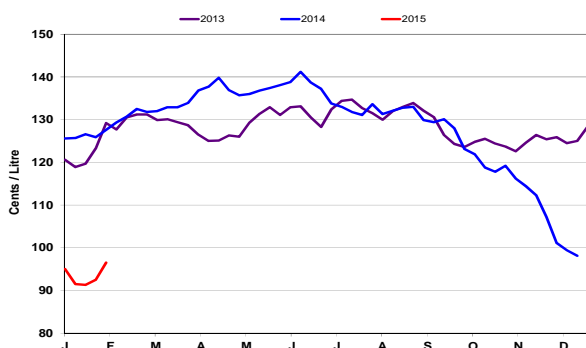


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2015-02-03	Previous Week	Last Year
Gasoline	96.5	+3.9	-29.4
Diesel	108.5	0.0	-35.4
Furnace Oil	105.5	+0.1	-26.7
Natural Gas Prices in \$CA/GJ			
Alberta (NGX)	2.51	-0.06	-2.64
Ontario (Dawn)	3.35	-0.28	-5.65

Source: NRCan, Bloomberg, NGX

Natural Gas Prices for Vehicles

2015-02-03	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	114.5	75.5	78.3
Edmonton	115.0	75.9	78.7
Toronto	128.4	84.7	87.8

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

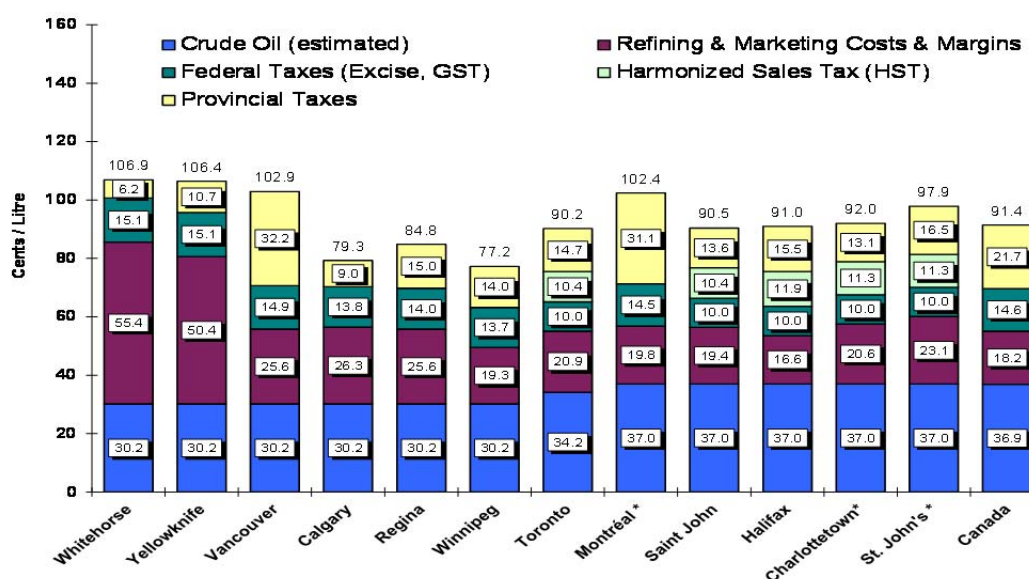
The **four-week average** Canadian pump price in selected cities across Canada was 91 cents per litre for the period ending February 3, 2015. This represents a 35 cent-per-litre decrease compared to the same period in 2013.

For the period ending February 3, 2015, the overall **four-week average** crude oil price decreased by nearly 3 cents per litre to 37 cents per litre compared to two weeks ago.

Retail gasoline prices in Western centres ranged from 77 cents per litre to \$1.03 per litre while prices in Eastern centres ranged from 90 cents per litre to \$1.02 per litre.

Refining and marketing costs and margins registered at 18 cents per litre, an increase of 0.2 cent per litre from two weeks ago. Margins are 6 cents per litre lower than last year at this time.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (January 13 to February 3, 2015)



Source: NRCan

* Regulated Markets

Note: Toronto crude oil cost includes pipeline tolls of \$4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

CPI Annual Review 2014

In 2014, the annual average increase in the Consumer Price Index (CPI) was 2.0%. This increase followed gains of 0.9% in 2013 and 1.5% in 2012.

The transportation index rose 1.1% on an annual average basis in 2014, led by higher prices for the purchase of passenger vehicles (+1.3%). Meanwhile, gasoline prices rose 0.2%, the lowest annual average increase since 2009. After increasing in the first half of 2014, the gasoline index posted six consecutive monthly declines. The monthly declines in November and December were the largest since 2008.

Among the provinces, eight posted larger annual average increases in consumer prices in 2014 than in 2013. Ontario recorded the largest acceleration in consumer price inflation. Prince Edward Island and Manitoba were the only two provinces where annual average price increases were smaller in 2014 than in the previous year.

Source: The Daily, <http://www.statcan.gc.ca/daily-quotidien/150123/dq150123c-eng.htm>





Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 43 to 51 cents per litre in selected centres for the **week of January 29, 2015**. Overall, compared to the previous week, Canadian and American centres recorded price increases in the range of nearly 1 to more than 4 cents per litre.

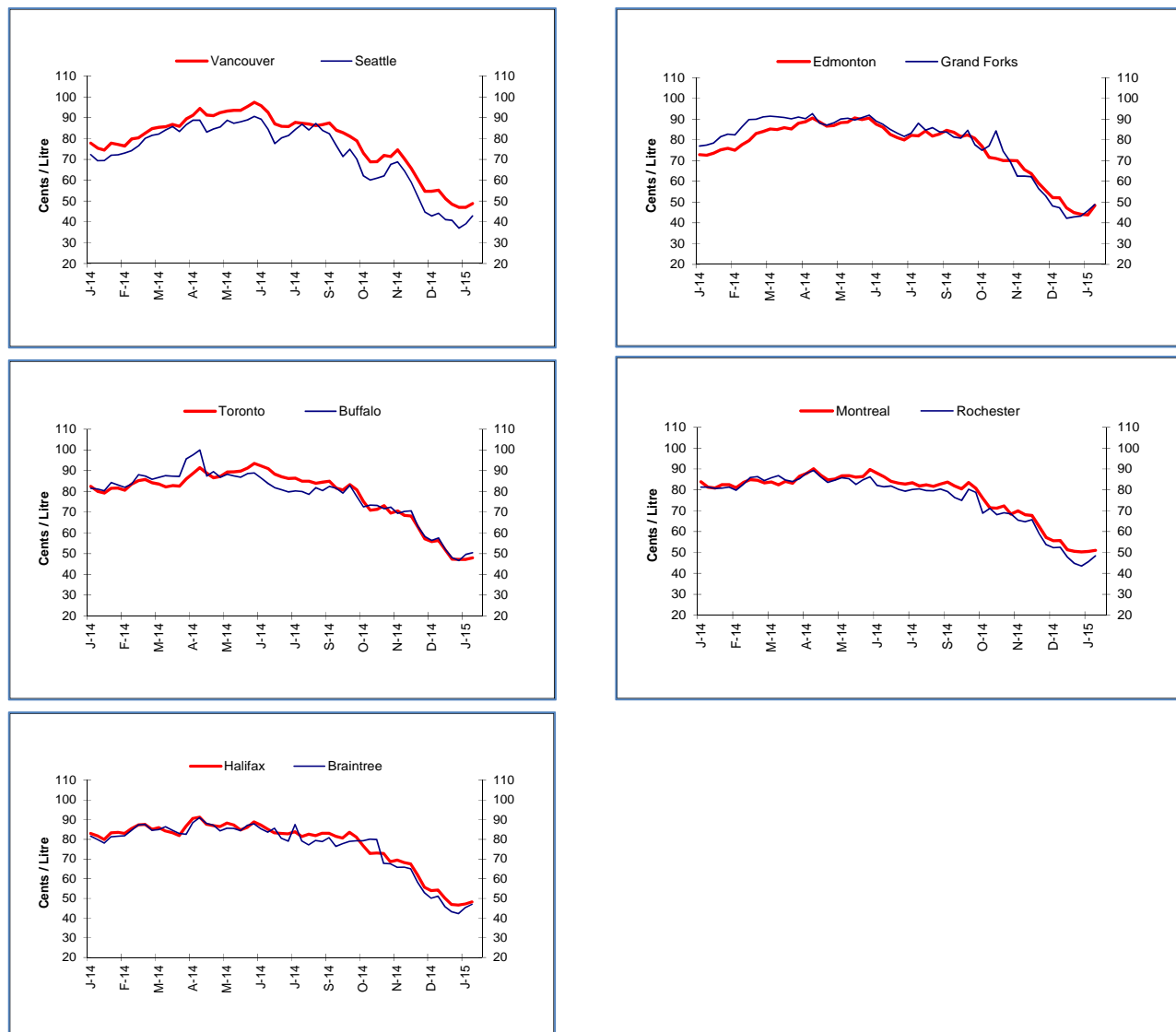
In the Western centres, prices increased from 2 to 4 cents per litre compared to the previous week, with prices ending at 43 to 49 cents per litre.

Prices in Eastern centres rose from less than 1 to 3 cents per litre and ended at 47 to 51 cents per litre.

In the last four weeks, wholesale prices in most Canadian and American selected centres ranged between a decrease of 4 cents per litre to an increase of nearly 7 cents per litre.

Overall, compared to the same period last year, wholesale prices in all selected centres declined from 27 to 35 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending January 29, 2015
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

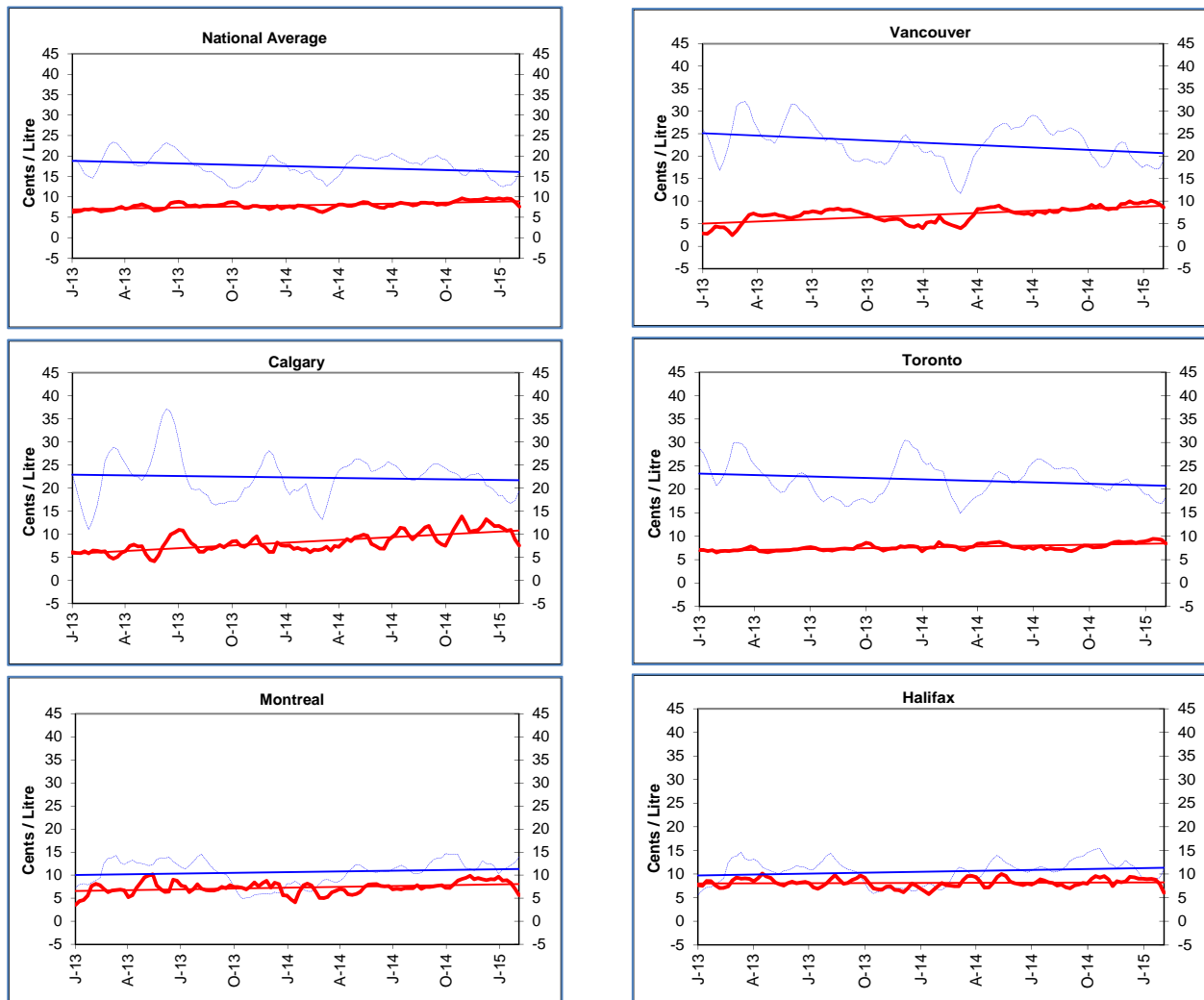
Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins for gasoline have been showing some gains which is indicative of a tightening on supplies. These margins have increased more promptly than crude oil prices. Nationally, refining margins reached 16 cents per litre, a 1.5 cent per litre increase compared to the same period a year ago.

Overall, marketing margins declined nearly 2 cents per litre to 7.6 cents per litre. For the five centres, marketing margins ranged from a low of 5.7 cents per litre in Montreal to a high of 8.6 cents per litre in Vancouver.

Marketing margins have to cover the costs associated with operating an outlet and generating a profit for the station owner. These margins can vary significantly depending on the region, volume sold, and availability of other product offerings. Most of the costs of operating an outlet are fixed and do not decline with lower gasoline prices.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending February 3, 2015
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Slight Rebound in Global Light Crude oil Prices

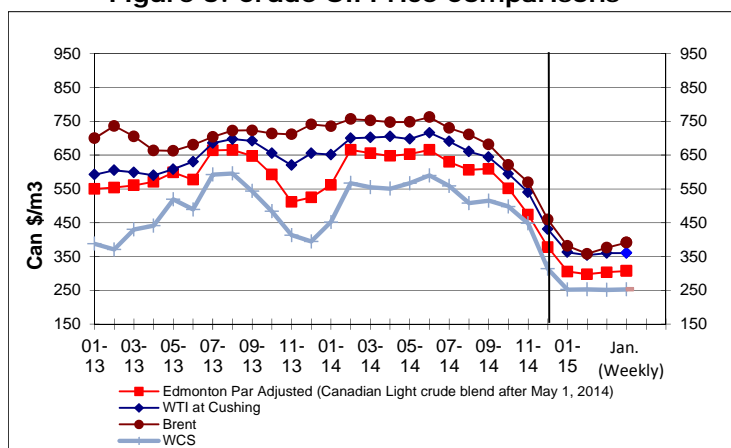
For the week ending **January 30, 2015**, light crude oil prices averaged between \$307/m³ and \$391/m³, (US\$39 to US\$50 per barrel). Prices for the light crude increased, compared to last week, in the range of less than \$1/m³ to \$15/m³.

The price for Canadian heavy oil (Western Canada Select) averaged \$253/m³ (US\$32 per barrel) for the week ending January 30, 2015. Compared to last year at the same period, WCS prices fell by 46%.

On January 28, 2015, the NYMEX crude oil prices closed at \$US 44 per barrel, its lowest point level in nearly six years. However, overall crude oil prices rebounded in the week ending January 30, 2015, on news of falling drilling rig count, which suggests a decline in oil supply will follow.

U.S. crude oil inventories remain above their five-year average range, putting downward pressure on North American crude oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2015-01-30		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Canadian Light	307.17	38.98	+3.69	-0.22	-282.47	-45.19
WTI	360.26	45.72	+0.12	-0.80	-320.94	-51.52
Brent	391.43	49.67	+15.28	+1.09	-359.94	-57.59
WCS	252.74	32.07	+1.55	-0.37	-300.27	-46.87

Source: NRCan

Crude Oil Price Forecasts
(US Dollar per Barrel)

Institution	WTI		Brent	
	2015	2016	2015	2016
Bank of America / Merrill	50	57	52	58
US EIA	55	71	58	75
RBC Capital Markets	65	74	71	83
ABN AMRO	55	70	60	75
Goldman Sachs	47	65	50	70
Deutsche Bank	55	65	59	70
Societe Generale	51	60	55	65
Den Norske Bank (DNB)	NA	NA	65	79
Suncor	59	NA	65	NA
BMO Capital Markets	56	72	NA	NA
Scotiabank	60	70	63	73
Stifel	55	65	NA	NA
Bernstein	75	85	80	90
Sproule Associates	65	80	68	83
CITI Research	55	62	63	70
CIBC	80	82	85	90
TD Bank	68	80	NA	NA
Commerzbank	69	80	73	83
Credit Suisse	70	75	75	80
Barclay's	66	NA	72	NA
Average	60	71	65	76

Source: Natural Resources Canada, forecast dates vary from December 1, 2014 to January 13, 2015.

