



## National Overview

### Slight Increase in Retail Pump Prices of Less than 1 Cent per Litre from Last Week

Overall Canadian retail gasoline prices rose by less than 1 cent per litre to \$1.28 per litre from last week following a two week decline. However, prices have declined 12 cents per litre since their highest level in mid-July reflecting lower wholesale gasoline prices and declining world crude oil prices. Meanwhile, diesel and furnace oil prices have now declined by 16 and 20 cents per litre respectively since their highest level this year.

While Canadian gasoline prices have declined by 13 cents per litre from their peak of \$1.40 in mid-July, crude oil prices have dropped by 18 cents per litre from their highest levels of 93 cents per litre.

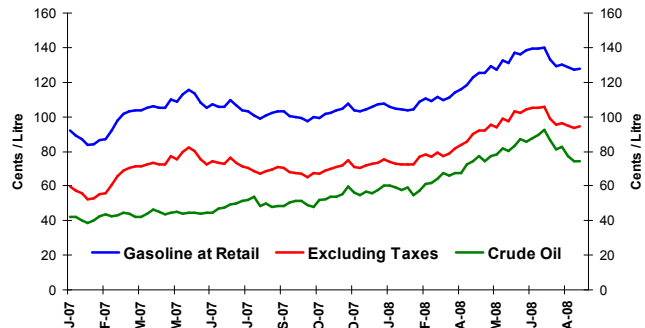
However, the cost of crude oil is not the only factor which determines the price at the pump. Processing costs, transportation costs, seasonal demand, inventory levels or curtailment of supply play a large part in the cost of gasoline.

While crude oil prices have declined more rapidly than gasoline prices lately, price increases for both crude oil and gasoline have mirrored each other in the first six months of the year, as shown in Figure 1. The Supplement on page 6 provides further details on the decline of crude oil prices relative to gasoline prices.

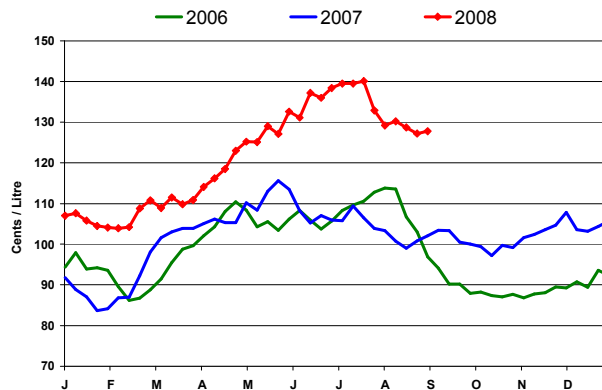
### Recent Developments

- **New Motor Vehicle Sales Down In June:** Dealerships in Canada sold 143,270 vehicles in June 2008, down 0.4% from the same time last year. Passenger car sales rose 5% to 79,524 units from a year ago, while sales of new trucks (which include minivans, sport-utility vehicles, light and heavy trucks, vans and buses) declined 7% to 63,746 units. (The Daily, <http://www.statcan.ca/Daily/English/080815/do80815b.htm>)
- **Higher Fuel Margins for Retailers in N.B.:** An expert report submitted to the New Brunswick Energy and Utilities Board recommends raising gasoline and heating fuel prices by 2.3 and 2.8 cents per litre respectively to compensate retailers for higher transportation costs, salaries, and administration costs for credit cards. Gasoline prices in New Brunswick are regulated. <http://dailycompass.nrcan.gc.ca/showfile.asp?Lang=E&Detail=News&URL=/clips/080826/fo4649AA.htm>
- **Inflation Up 3.4% In July:** A climb in gasoline prices was the primary source of higher consumer prices in July 2008 compared to the same period last year, the highest 12-month increase since March 2003. Excluding gasoline, consumer prices grew 2.1%, up from the 1.8% 12-month growth posted for June. (The Daily, <http://www.statcan.ca/Daily/English/080821/do80821a.htm>)

**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:	
	2008-08-26	Previous Week	Last Year
Gasoline	127.8	0.6	+25.7
Diesel	133.0	-0.6	+36.1
Furnace Oil	120.8	-1.9	+37.8

Source: NRCan

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## Retail Gasoline Overview

The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.29 per litre for the period ending August 26, 2008, a decrease of 2 cents per litre from the last report on August 15, 2008. Gasoline prices are 28 cents per litre higher than those recorded at the same period last year.

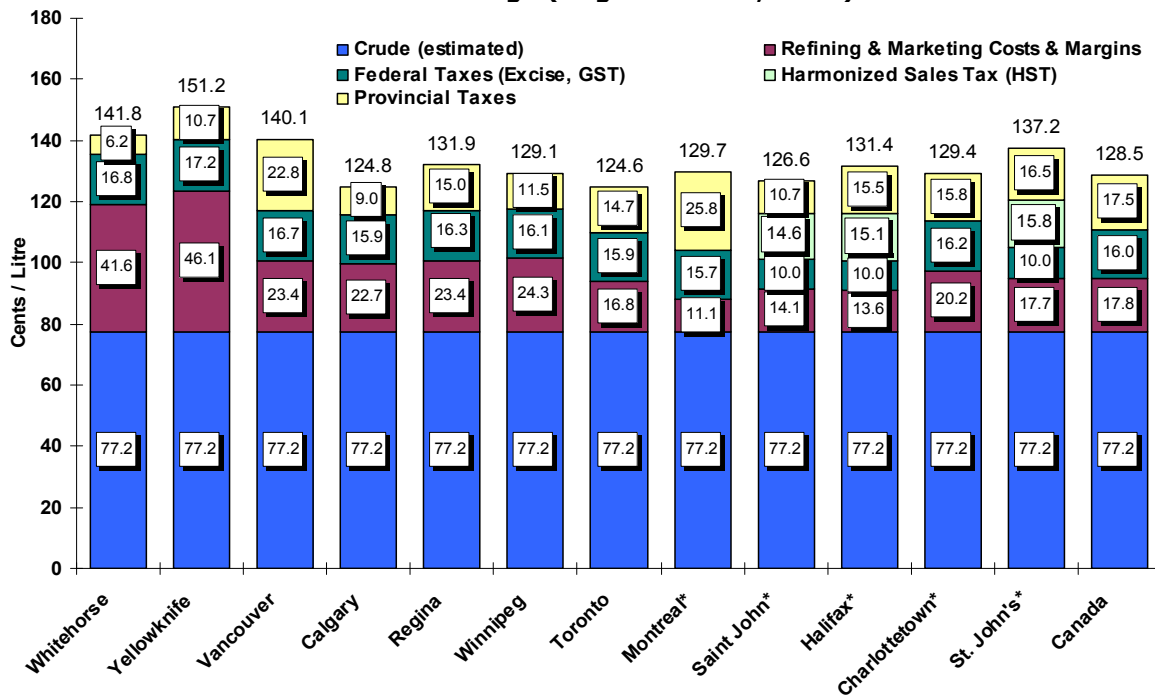
The four-week average crude oil price component of gasoline registered 77 cents per litre, down 5 cents from two weeks ago, and 27 cents per litre above the same period in 2007.

Retail gasoline prices in Eastern centres decline on average 2.5 cents per litre, ranging from \$1.25 to

\$1.37 per litre from the last report two weeks ago. Prices in Western centres decrease on average 1.4 cent per litre and ranged from \$1.25 to \$1.40 per litre despite gasoline production problems at the Petro-Canada refinery in Edmonton.

At the national level, refining and marketing costs and margins rose 3 cent per litre to 18 cents per litre from the previous report two weeks ago. This is about the same level as the same period last year despite much higher crude oil prices this year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
4-Week Average (August 5 to 26, 2008)**



Source: NRCan

\* Regulated Markets

### Impact of Higher Gasoline Prices on Canadian Drivers

The rapid rise in oil prices has raised the cost of retail gasoline prices for Canadian drivers. However, according to a recent study conducted by Statistics Canada, driving habits have been slow to change since 2002, partly because the squeeze of higher gasoline bills on household budgets has been partly offset by lower prices for other goods such as autos as well as by higher incomes.

Despite the steady escalation of gasoline prices since 2002, Canadian drivers have so far not cut back their consumption. Overall, the retail sales volume of gasoline rose 7.2% from 2002 through 2007. Gasoline consumption rose in every year, with the exception of a 0.4% dip in 2006 when hurricane damage in 2005 continued to disrupt supplies and briefly sent prices to record levels.

In the past, Canadian drivers have curtailed their consumption in the face of higher prices, namely from 1989 to 1991 when prices increased 12% and real incomes were squeezed by recessions. However, since 2002 real incomes have risen steadily. The rise in gasoline consumption since 2002 reflects both longer distances traveled and increases in the number of vehicles on the road.

Source: The Daily, <http://www.statcan.ca/Daily/English/080814/do80814a.htm>





## Wholesale Gasoline Prices

Wholesale gasoline prices declined in most selected centres for the **week of August 21<sup>st</sup>**, compared to the previous week. Overall, price changes ranged from less than 1 to more than 2 cents per litre.

Wholesale gasoline prices in Eastern markets in both Canada and the United States have registered decreases ranging from less than 1 to 2 cents per litre, compared to the previous week, ending the period in the 84 to 88 cents per litre range.

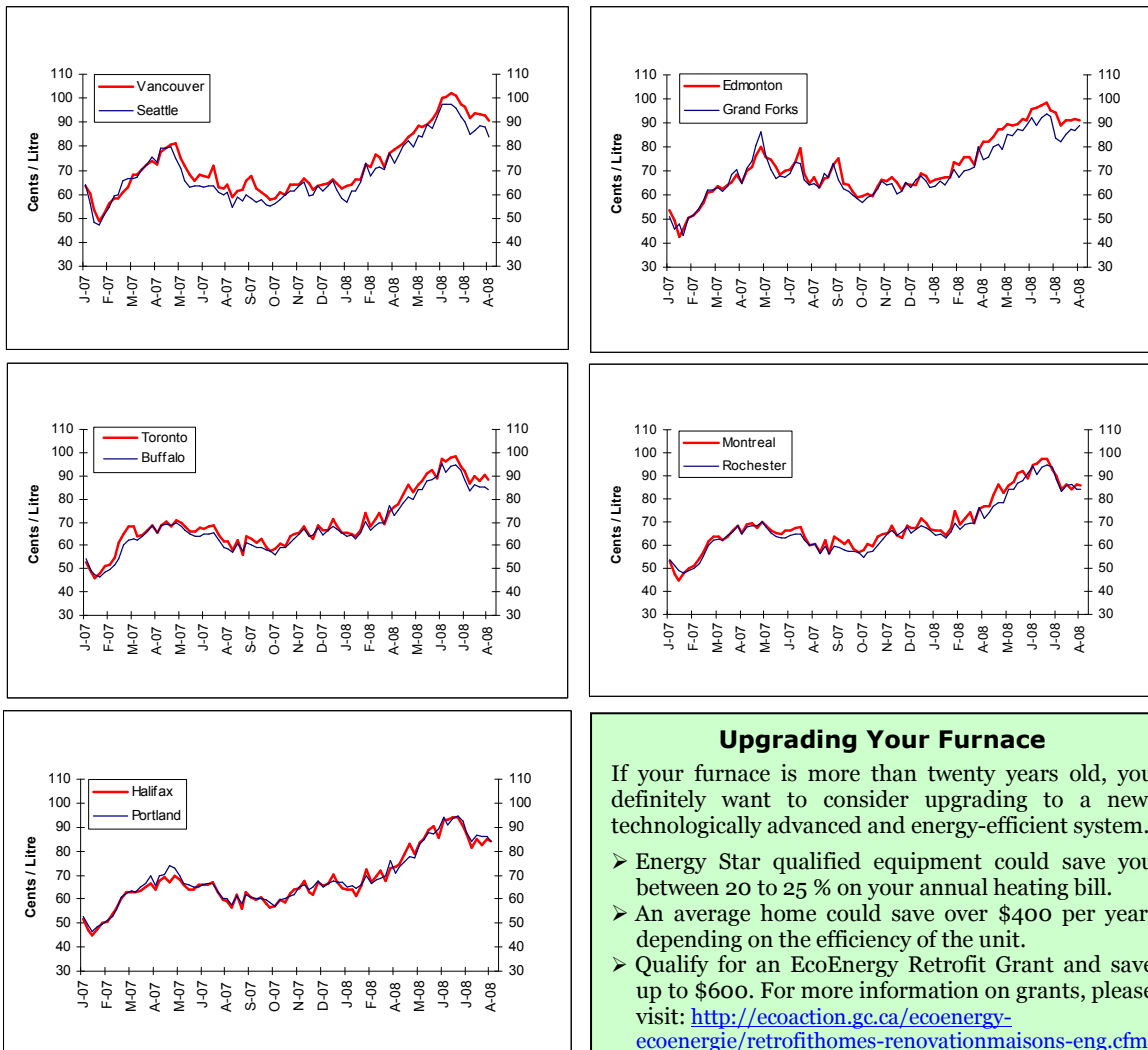
Western wholesale gasoline price changes ranged from a decline of 4 cents per litre (Seattle) to an increase of

2 cents per litre (Grand Forks) ending in the range of 84 cents per litre to 91 cents per litre.

Compared to the previous week, prices in Toronto and Vancouver dropped by more than 2 cents per litre, the most of all the Canadian centres, bringing them to their mid-May levels.

Overall, prices in most selected centres are well above last year's level with increases ranging from 21 to 32 cents per litre, compared to the same period last year.

**Figure 4: Wholesale Gasoline Prices**  
Rack Terminals Prices for Selected Canadian and American Cities ending August 21, 2008  
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

### Upgrading Your Furnace

If your furnace is more than twenty years old, you definitely want to consider upgrading to a new, technologically advanced and energy-efficient system.

- Energy Star qualified equipment could save you between 20 to 25 % on your annual heating bill.
- An average home could save over \$400 per year, depending on the efficiency of the unit.
- Qualify for an EcoEnergy Retrofit Grant and save up to \$600. For more information on grants, please visit: <http://ecoaction.gc.ca/ecoenergy-ecoenergie/retrofitthomes-renovationmaisons-eng.cfm>

Source: TodaysOilheat.com





## Refining and Marketing Margins

**Four-week rolling averages** are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending August 26<sup>th</sup>.

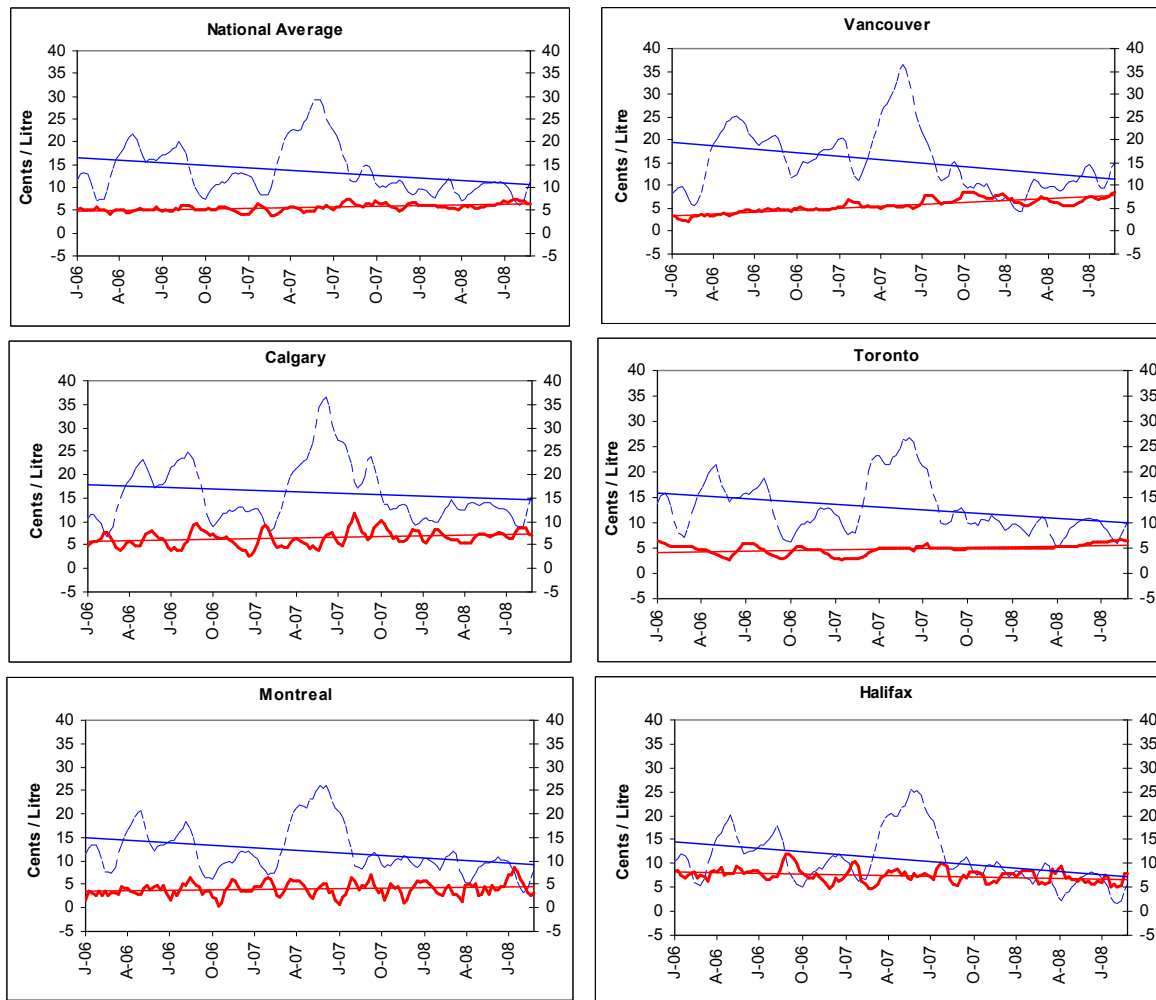
Overall, refining margins now hover around 11 cents per litre, which is 4 cents per litre higher than their lowest level reached in February 2006. Margins have been declining for most of the last year, despite record high crude oil prices.

The refining margins shown here are derived numbers based on the difference between the estimated crude oil price and the wholesale price of gasoline at a point in

time. While the analysis presented here is useful to track the trends in gasoline margins and to estimate how much of the price at the pump is going to the refiner, it does not represent overall refining margins.

Gasoline is only one of many products produced from a barrel of crude oil and generally accounts for about 30-35% of a refinery's output. As one of the higher-valued products, gasoline generates a disproportionate share of the revenues. Gasoline margins are offset by much lower margins on other products such as heavy fuel oil and asphalt, products that can often sell for less than the cost of the crude oil used to make them.

**Figure 5: Refining and Marketing Margins**  
Four-Week Rolling Average Ending August 26, 2008  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### Crude Oil Prices Hovers Around \$US113/bbl

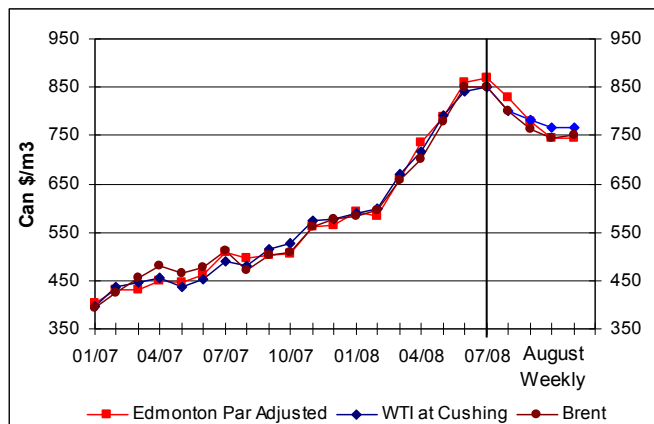
For the week ending August 22<sup>nd</sup>, 2008, crude oil prices averaged between \$744/m<sup>3</sup> and \$767/m<sup>3</sup> (\$US112 to \$US115 per barrel). Crude prices remained relatively unchanged week over week. On August 18<sup>th</sup>, prices dropped below \$US113 per barrel on the New York Mercantile Exchange - their lowest level in 3 months.

With the Olympics wrapping up in Beijing, many analysts are forecasting a decline in short-term Asian imports of crude oil. This could temporarily soften prices due to the decreased demand on international markets.

As we approach the time of the year when hurricanes Katrina and Rita hit three years ago, tropical storm activity threatening the Gulf of Mexico region will likely cause increased volatility in the markets. As rigs operating in the area are typically evacuated and shut down as a precautionary measure, some supply is removed from the market causing a temporary increase in prices.

Geopolitical events in oil producing regions, particularly Iran, Nigeria and Russia continue to add a premium to prices.

**Figure 6: Crude Oil Price Comparisons**



### Debate Continues Over Role of Speculation in Crude Oil Prices

The U.S. Commodity Futures Trading Commission, in collaboration with various Federal agencies, formed the Interagency Task Force on Commodity Markets to study the fundamental and market factors affecting the crude oil market.

Different views have emerged since the publication of the Task Force's preliminary report, which indicated that the increase in oil prices between June 2003 and June 2008 were largely due to fundamental supply and demand factors rather than speculative activities systematically driving changes in oil prices.

Four U.S. Democratic Senators said the commission's report was based on flawed information. They believe that speculators may have played a larger part in volatile oil markets pointing to recent reports that a single large European energy conglomerate held 11% of all contracts on the NYMEX and that it should be considered as a speculator.

The biggest players on the commodity exchanges often operate as swap dealers who primarily invest on behalf of hedge funds, pension funds and individual investors. Using swap dealers, investment funds have raised their holdings in commodity markets from \$13 billion in 2003 to \$260 billion this year.

Sources: Interagency Task Force on Commodity Markets, Interim Report on Crude Oil, Washington D.C.; Washington Post August 21, 2008, Globe and Mail, August 22, 2008.

### Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2008-08-22		Change from:			
			Previous Week		Last Year	
	\$Can/ m <sup>3</sup>	\$US/ bbl	\$Can/ m <sup>3</sup>	\$US/ bbl	\$Can/ m <sup>3</sup>	\$US/ bbl
Edmonton Par	743.68	112.08	-1.40	+0.75	+263.28	+39.88
WTI	766.50	115.51	+0.51	+1.06	+299.08	+45.27
Brent	749.96	113.02	+5.57	+1.80	+293.20	+44.38

Source: NRCan





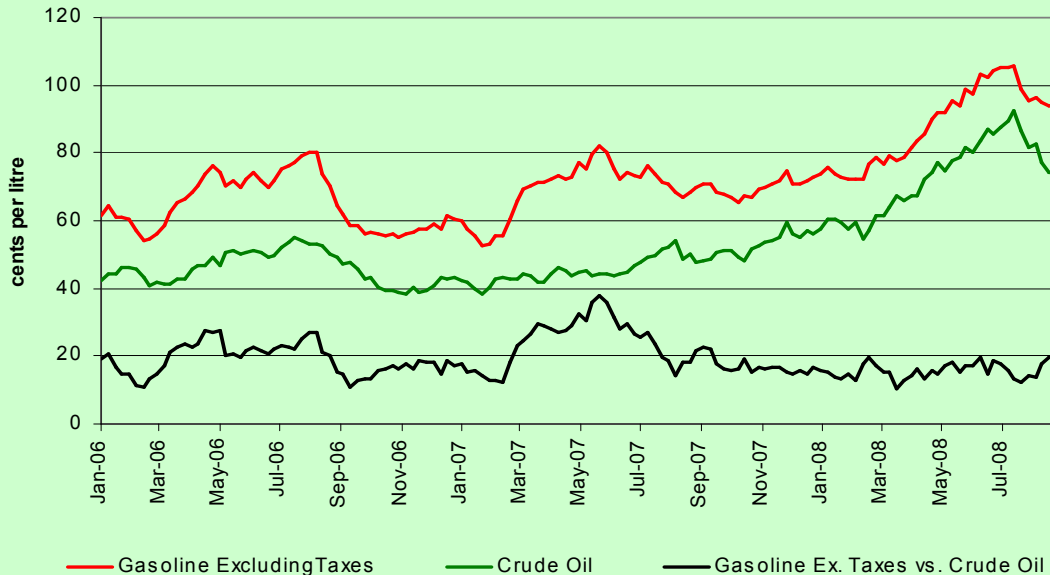
## Decline in Crude Oil Prices Relative to Gasoline Prices

The recent rapid decline in crude oil prices has many customers wondering why gasoline pump prices have been slower to react. As the figure below shows, crude oil and gasoline retail prices mirrored each other in the first six months of the year. In early July crude oil prices increased faster than gasoline prices. By mid-July crude oil prices started to decline. Overall, price variations in crude oil have been reflected in gasoline prices.

The graph indicates that:

- The relationship between gasoline and crude oil prices remains volatile but has been fluctuating over a relatively narrow range for most of the last year;
- The seasonal increase in gasoline prices that generally occurs in the summer, in addition to any crude oil price changes, did not occur in the summer of 2008;
- The single-day crude oil prices peaked at \$US147/bbl in mid-July. This price was short-lived and was never reflected in retail gasoline pump prices;
- Pump prices in Canada remained partly sustained by the seasonal demand for gasoline as Canadian driving habits have not change substantially as well as by the generally tight market in western Canada brought about by the strong economic growth in the region, the recent production problems at the Petro-Canada refinery in Edmonton and changing exchange rates.

**Decline in Crude oil Prices Relative to Gasoline Prices  
2006 to 2008**



Note: Crude oil prices are a weekly average of daily prices, while gasoline prices are Tuesday prices each week.

