



## National Overview

### Retail Pump Prices Decline 3 Cents per Litre in the Last Three Weeks

The average Canadian retail gasoline price decreased to \$1.04 per litre for the week ending January 29<sup>th</sup>, down by almost 1 cent per litre from last week and 3 cents per litre compared to three weeks ago.

The decline in Canadian retail gasoline prices for the third consecutive week could suggest a downward movement due to seasonal decline in demand. However, retail gasoline prices remain considerably higher – up almost 20 cents per litre on average for the month of January – than they were at the same time last year.

The strong crude oil price remains the main reason for higher petroleum product prices, including gasoline, diesel and furnace oil, despite the recent downward pressures as shown in Figure 6. Still, Canadian retail gasoline prices remain somewhat sheltered from the high crude oil prices by the strength of the Canadian currency compared to the U.S. dollar.

Diesel fuel prices decreased by 1 cent per litre from last week to \$1.10 per litre, but are still more than 18 cents per litre higher than at this time last year. Furnace oil prices also declined slightly to \$1.02 cents per litre compared to the previous week, but up 23 cents per litre from a year ago.

## Recent Developments

- **Shopping for a New Vehicle That Will Save You Fuel and Money?** : Afraid that pump prices might be pushed up by high crude oil prices? Have no fear. Natural Resources Canada's *2008 Fuel Consumption Guide* is here. The Guide provides fuel-consumption ratings for passenger cars, light-duty pickup trucks, vans and special purpose vehicles, and is available at participating new vehicle dealerships, motor vehicle licence bureaus or by calling 1-800-387-2000, or at NRCan's Office of Energy Efficiency website: <http://oee.nrcan.gc.ca/transportation/tools/fuel-consumption-guide/fuel-consumption-guide.cfm?attr=8>
- **Canadian Vehicle Survey:** Vehicles registered in Canada travelled an estimated 89 billion kilometres from April to June 2007, up 7.6% over the same period in 2006, the highest total for the second quarter ever recorded by the survey. Light vehicles drove 91% of all kilometres. Overall, Canadians were driving more fuel efficient vehicles in the second quarter of 2007 than they were a year earlier. (Statistics Canada, The Daily, <http://www.statcan.ca/Daily/English/080128/do80128b.htm> )

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

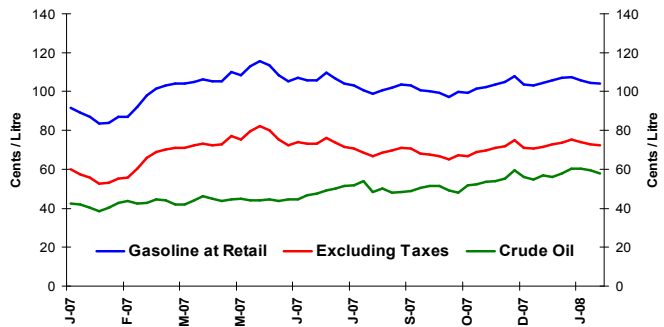
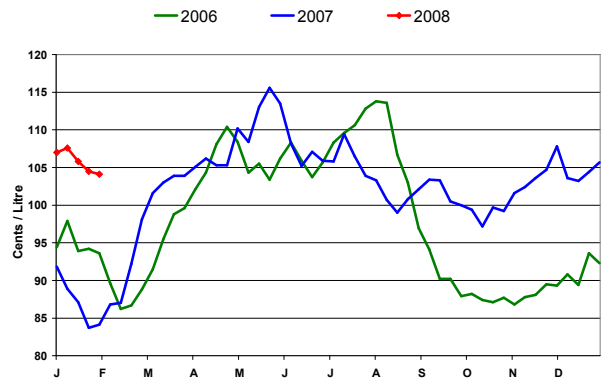


Figure 2: Weekly Regular Gasoline Prices



### Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2008-01-29	Previous Week	Last Year
Gasoline	104.1	-0.5	+20.0
Diesel	110.2	-1.4	+18.2
Furnace Oil	101.8	-0.3	+23.3

Source: NRCan

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**Fuel Focus Supplement:** In this issue we examine the interaction between the increases in world crude oil prices and of the non-commercial futures market traders.





## Retail Gasoline Overview

The **four-week average** Canadian gasoline price for the period ending January 29, 2008 was \$1.06 per litre, a decrease of 1 cent per litre from the last report on January 18, 2008. However, this represents an increase of 20 cents per litre from the same period in 2007.

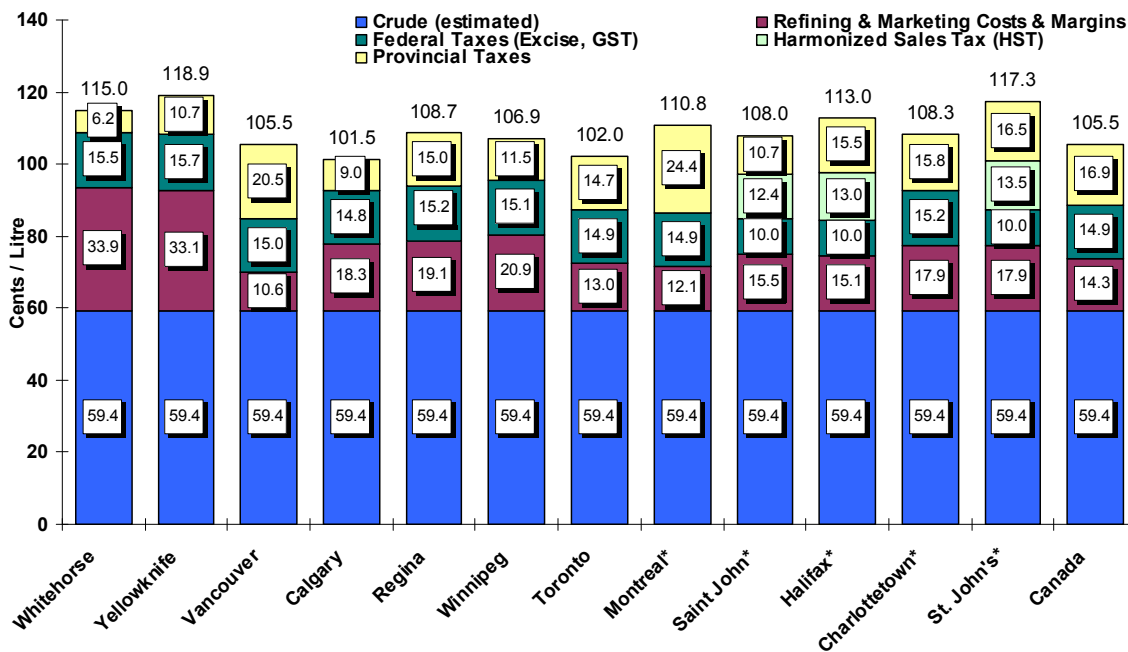
The **four-week average** crude oil prices increased by almost 1 cent per litre to 59 cents per litre compared to two weeks ago. Crude oil cost represents 56% of the total pump price compared to 47% at the same time last year (up 19 cents per litre).

Retail gasoline prices in most Western centres increased about 1 cent per litre when compared to those in the previous report two weeks ago. Conversely, prices decreased in Eastern cities by 1 cent per litre.

Overall refining and marketing costs and margins declined by 1 cent per litre from the last report and remain virtually unchanged from last year at the same period despite higher retail prices.

The federal and provincial tax components increased slightly by 0.4 cent per litre compared to the same period last year. However, the increase is partly offset by the reduced tax rates in the GST and HST.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
4-Week Average (January 8 to 29, 2008)**



Source: NRCan

\* Regulated Markets

### Inflation Rises 2.4% in December 2007 vs. 2006

Statistics Canada's Consumer Price Index (CPI) report released on January 25, 2008, indicates that prices rose 2.4% in December 2007 compared to the same period in 2006. Gasoline prices again were the main factor behind the 2.4% increase in the 12-month change in the all-items index. Prices at the pump rose almost 15% between December 2006 and December 2007.

The rise in gasoline prices coincided with a significant increase in crude oil prices on international markets. Gasoline prices represent 4.9% of the current CPI basket. They have accounted for a substantial share of the growth in consumer prices since September, reflecting the significant fluctuations in gasoline prices at the pump.

Consumers also paid 27% more for heating oil in December 2007 than in December 2006, the biggest increase since October 2005. Higher crude oil prices, falling temperatures and low inventories appeared to have had a combined impact.

Statistics Canada, The Daily, <http://www.statcan.ca/Daily/English/080125/do80125a.htm>





## Wholesale Gasoline Prices

Wholesale gasoline prices decreased in seven of the ten selected centres for the **week of January 24<sup>th</sup>**, compared to the previous week. Overall, the wholesale prices declined in the range of less than 1 to 2 cents per litre.

Eastern markets in both countries registered price decreases ranging from less than 1 to 2 cents per litre compared to the previous week. Eastern centres ended the period in the range of 64 to 66 cents per litre.

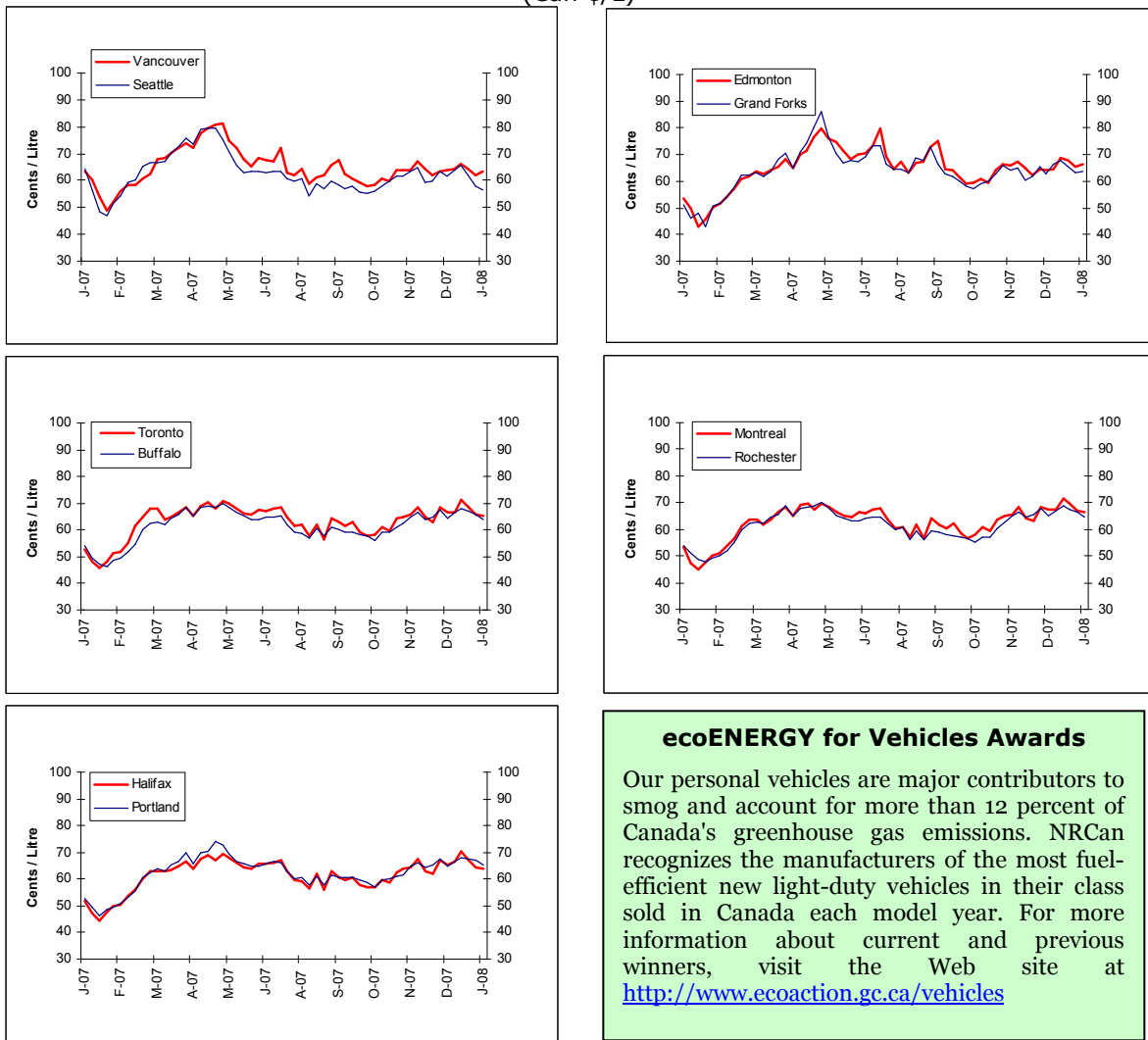
Conversely, wholesale gasoline prices in Western centres increased in most centres by almost 1 cent per

litre from the previous week, except for Seattle which declined more than 1 cent per litre. Western centres ended the period in a wider range of 57 to 66 cents per litre.

Over a four-week period, wholesale gasoline prices have declined in all selected centres ranging from 1 cent per litre in Montreal to nearly 7 cents per litre in Seattle.

Prices in all selected centres are above last year's level ranging from 10 to 21 cents per litre higher than in 2007.

**Figure 4: Wholesale Gasoline Prices**  
Rack Terminals Prices for Selected Canadian and American Cities ending January 24, 2008  
(Can ¢/L)



**ecoENERGY for Vehicles Awards**

Our personal vehicles are major contributors to smog and account for more than 12 percent of Canada's greenhouse gas emissions. NRCan recognizes the manufacturers of the most fuel-efficient new light-duty vehicles in their class sold in Canada each model year. For more information about current and previous winners, visit the Web site at <http://www.ecoaction.gc.ca/vehicles>

Sources: NRCan, Bloomberg Oil Buyers Guide





## 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 January 29<sup>th</sup>.

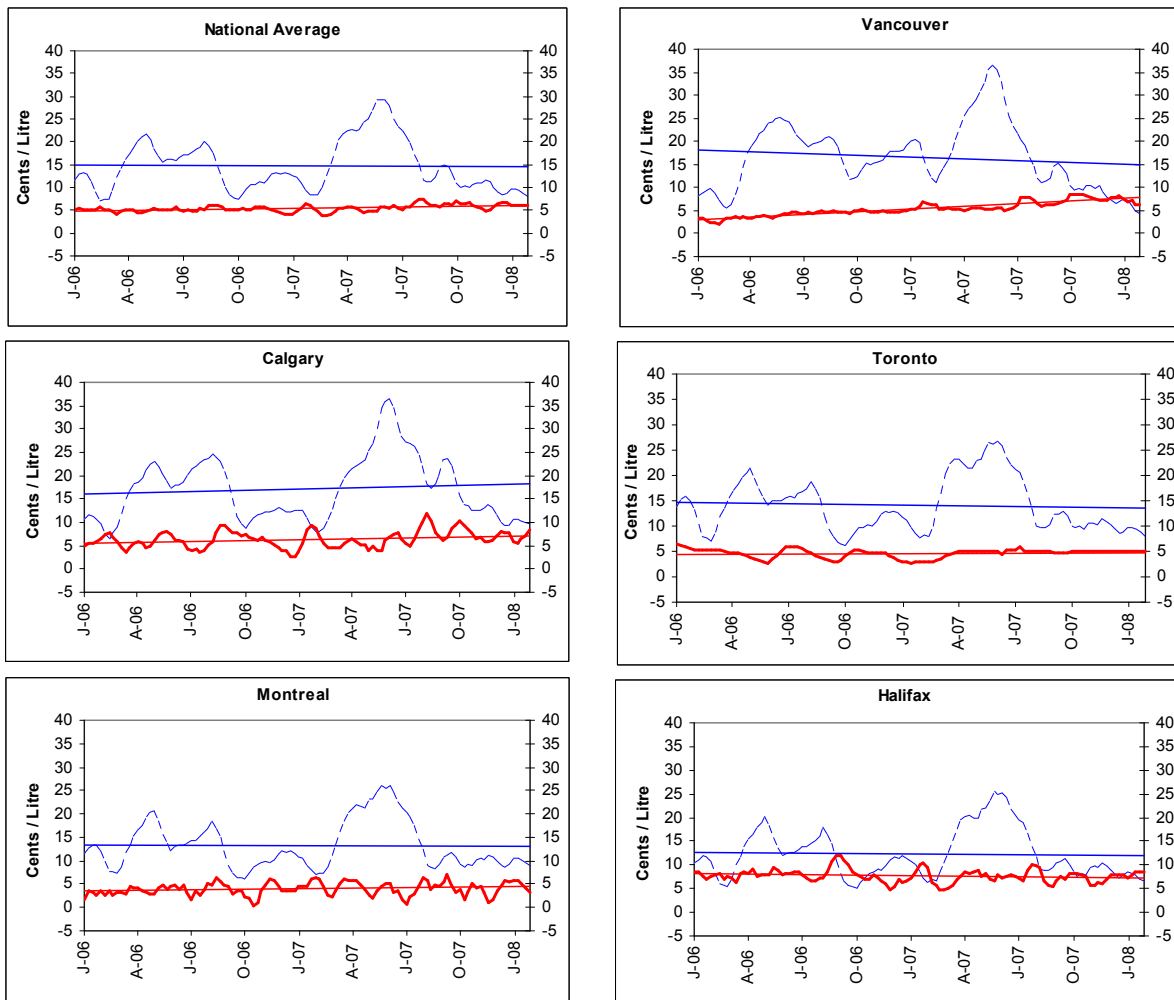
The refining margins have declined considerably since June 2007. These reductions reflect the fact that average wholesale gasoline prices over this period have declined more significantly than crude oil prices.

In addition, the reductions in refining margins signify that supply of gasoline can meet the demand and that no temporary restrictions, such as refinery maintenance, or start-up delays, have been significant enough to constraint supply.

However, as we near the spring season, supply can present some challenges for the refiners as demand for heating oil continues while at the same time refiners convert their operations to produce more gasoline in readiness for the upcoming driving season. This is also the time when many refiners schedule maintenance. As a result, the timing in maintenance completion and the demand can sometime result in temporary tightening of supply and upward pressure on prices.

Of note, Vancouver is reporting the lowest refining margins of all selected centres, and is at the lowest level since December 2004. Currently, the refining margins in both Halifax and Vancouver are below the marketing margins.

**Figure 5: Refining and Marketing Margins**  
Four-Week Rolling Average Ending January 29, 2008  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### Crude Prices Decrease

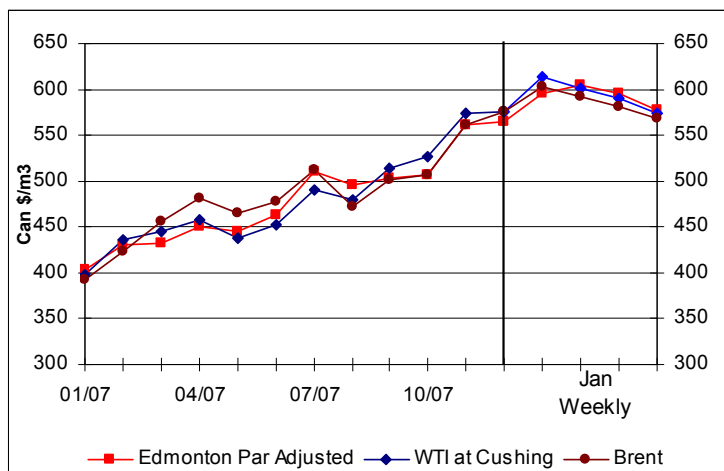
For the week ending January 25<sup>th</sup>, 2008, crude oil prices averaged between \$568 and \$578/m<sup>3</sup> (\$US90 to \$US92 per barrel). All crude types decreased week over week, with Edmonton Par seeing the largest decrease of \$17/m<sup>3</sup> (\$US2.29 per barrel).

The past couple of weeks have proven to be relatively uneventful in crude oil markets with prices trending steadily downwards. Possibly the biggest factor aiding the decrease to \$US90 per barrel was the seasonal increase in U.S. crude oil inventories. As is usually the case this time of year, over the past few weeks both petroleum product (with the exception of heating oil) and crude oil inventories have increased substantially.

While this does happen on a yearly basis, this year's increase was much higher than traders had expected and seems to have dispelled some concerns surrounding tightness of supply. Decreased geopolitical activity in oil-producing countries has also helped to ease some supply concerns.

OPEC is set to meet February 1<sup>st</sup> to decide their output levels progressing into the New Year. Several ministers have announced publicly that they do not support a production hike indicating that a supply increase from OPEC is unlikely to happen in the near term.

**Figure 6: Crude Oil Price Comparisons**



### Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2008-01-25		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	578.30	90.18	-17.35	-2.29	+177.15	+36.11
WTI	574.40	89.57	-15.17	-1.96	+175.68	+35.84
Brent	568.05	88.59	-13.73	-1.73	+162.35	+33.91

Source: NRCan

### World Refining Capacity

Global refining capacity increased slightly in 2007, while the number of refineries remained stable. According to the *Oil and Gas Journal* Annual Refining Survey, worldwide capacity is at a record level for the sixth year in a row.

In 2007, total capacity increased by 129,000 b/cd to 85,309 million b/cd in 657 refineries compared to the previous year. The increases in capacity were mainly due to expansions and capacity creep – the process of increasing the capacity of refining units resulting from debottlenecking investments. This occurs when one or more parts of a refinery is upgraded thereby allowing fuller use of other parts of the refinery without making any direct changes to them. Such relatively inexpensive investments in a refinery may result in substantial increases in the capacity of the refinery.

North America showed the largest increase in the amount of refining capacity, up 103,000 b/cd or 0.5%, while Africa showed the largest percentage increase, about 2% to 3.3 from 3.2 million b/cd. Asia-Pacific and Western Europe lost capacity while the Middle-East and South America were essentially unchanged from 2006.

Note: Barrels per Calendar Day (b/cd)

Source: Oil and Gas Journal, December 24, 2007, and NRCan





## Futures Market and Crude Oil Prices

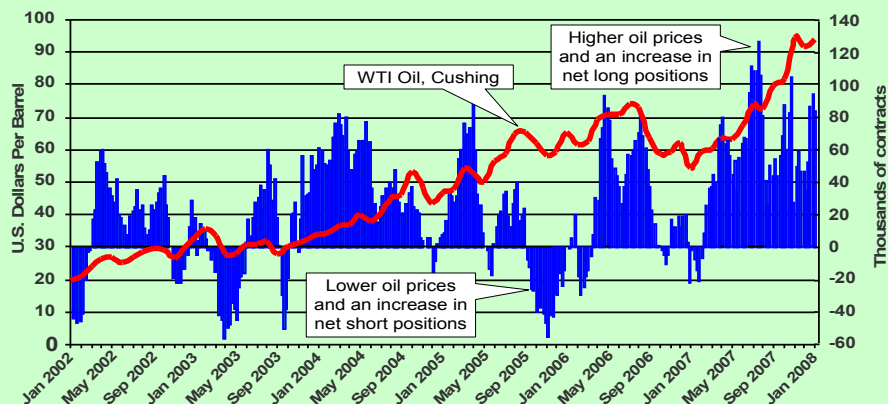
The significant rise in world crude oil prices has raised some questions as to the exact nature of the main price “drivers”. As mentioned in previous Fuel Focus issues, fundamental and non-fundamental market and economic factors will affect oil prices (see the November 23, 2007 and January 18, 2008 Issues). Market fundamental such as world oil supply and demand, OPEC’s spare capacity, tightness in oil stocks and commercial inventories, as well as non-fundamental factors such as concerns over conflicts in oil supply regions, potential oil infrastructure disruption due to weather events and more recently, the increased trading by non-commercial traders into the oil commodity market can all impact on the price of crude oil. However, the role of the non-commercial traders in recent price increases is difficult to assess even if their level of participation has increased substantially in the last few years.

The mechanics in the futures market is as follows: Traders buy and sell “paper contracts” for oil, gasoline and other commodities. The contracts are called “paper contracts” because they are bought and sold with cash representing the value of a commodity rather than physically exchanging the product. In the New York Mercantile Exchange (NYMEX), 200 to 300 million barrels of West Texas Intermediate (WTI) crude oil and up to 100 million barrels per day of gasoline can trade in a single day because there is no physical exchange of the products. The actual production of WTI crude oil is only 400 to 500 thousand barrels per day - 400 to 700 times lower than the volumes traded at the NYMEX. Similarly, total U.S. gasoline production is around 9 million barrels per day which is far lower than the daily volume of gasoline traded at the NYMEX. Clearly, the paper based futures market facilitates high volumes of commodity trades which would not be possible with a physical exchange of the products.

The major oil producing countries like Canada are not involved in hedging and speculation in commodities futures markets. Commercial traders (which includes the oil companies and refineries) invest in NYMEX futures contracts to guarantee (or hedge) the future price for the commodities they are actually producing (e.g. oil and gasoline). The oil companies use the futures markets to help stabilize revenues and costs. The oil producers do not necessarily seek to profit in the futures markets because a gain or loss in the futures market is usually offset to some degree by the corresponding loss or gain in the physical market.

Non-commercial traders, on the other hand, invest in the futures market in order to profit from market volatility and the movement of futures prices because they have no offsetting physical positions. They are neither producers nor users of oil and include investment banks, hedge funds and other market participants who have moved into oil contracts because they are trying to diversify their portfolio, spread geopolitical risk and maximize investment returns that they can no longer get from stocks, bonds or the U.S. dollar currency market. Short sellers are investors who anticipate that a security’s (oil) price will decline in the short-term future. In contrast, an investor holding a long position is betting on higher prices in the future which correspond to the increase in oil prices as shown in the figure below. In recent years, there has been a close correlation between the rising volumes of non-commercial positions in the futures market and oil prices which implies that non-commercial traders have a strong influence on the price of oil.

**Non-Commercial Positions in Crude Oil Futures Market**



Source: Commodity Futures Trading Commission, PIRA and the U.S. Energy Information Administration. Each contract represented with the columns, equal 1,000 paper barrels of crude oil.

