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Fuel Focus

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

Volume 4, Issue

April 24, 2009

Canada

Copies of this publication may be obtained free of charge from:
Natural Resources Canada
Petroleum Resources Branch
580 Booth Street, 17th Floor
Ottawa, Ontario K1A 0E4
Phone: (613) 992-8742
TTY Service: (613) 996-4397 (Teletype for the hearing-impaired)
Fax (613) 992-0614
Email: erb.dre@nrcan-rncan.gc.ca
Web site: http://www.fuelfocus.nrcan.gc.ca/index_e.cfm

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ISSN 1918-3321

Aussi offert en français sous le titre *Info-Carburant*



National Overview

Canada's Average Retail Gasoline Prices Increase Slightly

The Canadian average retail gasoline price increased slightly week over week, but still hovered around 89 cents per litre for the week ending April 21, 2009. Compared to a year ago, the average price is lower by 34 cents per litre.

Prices have been fairly stable since March with the average retail price creeping up by 1 cent a litre over the last five weeks.

Diesel fuel dropped less than a cent from last week to 86 cents per litre while furnace oil registered at 76 cents per litre. Diesel prices are now 48 cents per litre lower than at this time last year.

For the last five weeks, crude prices have remained fairly stable due to the historically high and increasing inventories of crude in the U.S. (as a result of a weak demand for petroleum products).

Recent Developments

- Gasoline Sales Down:** Statistics Canada reported that in February 2009, the sale of motor gasoline decreased 3.6%, or 118.4 thousand cubic metres from February 2008. Sales of regular unleaded gasoline, which represented about 91% of total gasoline sales, fell 2.4%, while sales for premium and mid-grade gasoline dropped by 6.7% and 44.9 %, respectively. (The Daily <http://www.statcan.gc.ca/daily-quotidien/090408/dq090408b-eng.htm>)
- New Motor Vehicle Sales Down in February:** Sales of new motor vehicles in Canada fell 2.2% to 115,187 units in February. The decline was entirely a result of falling truck sales. Monthly sales have averaged around 115,000 units since December 2008, whereas the average over the previous three years was almost 140,000 units. Preliminary data obtained from the industry indicate that the number of new motor vehicles sold rose about 6% in March. (The Daily, <http://www.statcan.gc.ca/daily-quotidien/090415/dq090415a-eng.htm>)
- U.S. First-Quarter Oil Demand Slumps to Lowest Level Since 1998:** U.S. demand for oil slumped by more than 3% during the first three months of the year to the lowest level for the first quarter period in more than a decade, American Petroleum Institute (API) data shows, and reflects a drop in economic activity because of the recession. Despite the slump in demand, U.S. gasoline production rose 1.5% from first-quarter 2008 while distillate output was up more than 4% to a first-quarter record of 4 million barrels per day. (Energy API, http://www.api.org/Newsroom/us_oil_demand_mar09.cfm)

NEW: Wholesale Petroleum Product Prices are available at: www.fuelfocus.nrcan.gc.ca

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

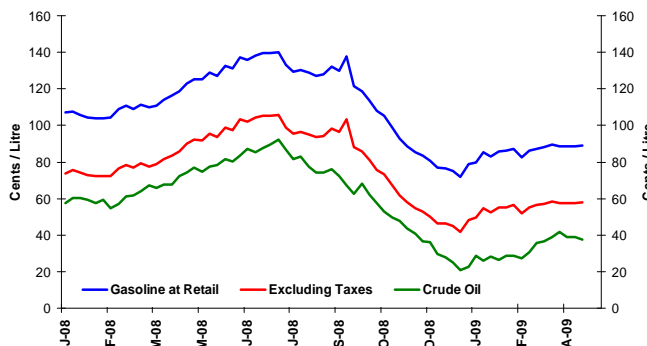
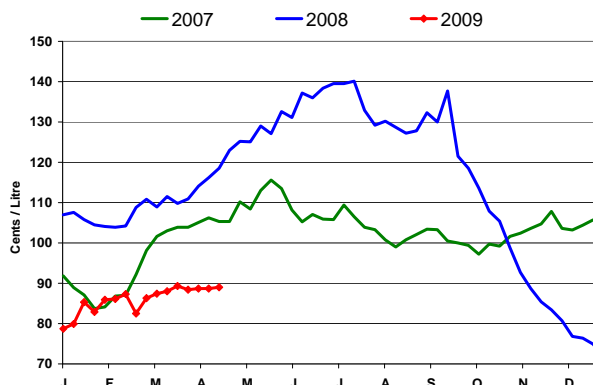


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2009-04-21	Previous Week	Last Year
Gasoline	89.0	+0.3	-34.0
Diesel	85.5	-0.5	-47.5
Furnace Oil	75.7	-0.3	-46.7

Source: NRCan

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Retail Gasoline Overview

The average Canadian pump price in selected cities for the **four-week average** ending April 21, 2009, was 89 cents per litre, unchanged from the last report. Compared to the same period in 2008, retail gasoline prices are now 29 cents per litre lower as a result of reduced crude oil prices.

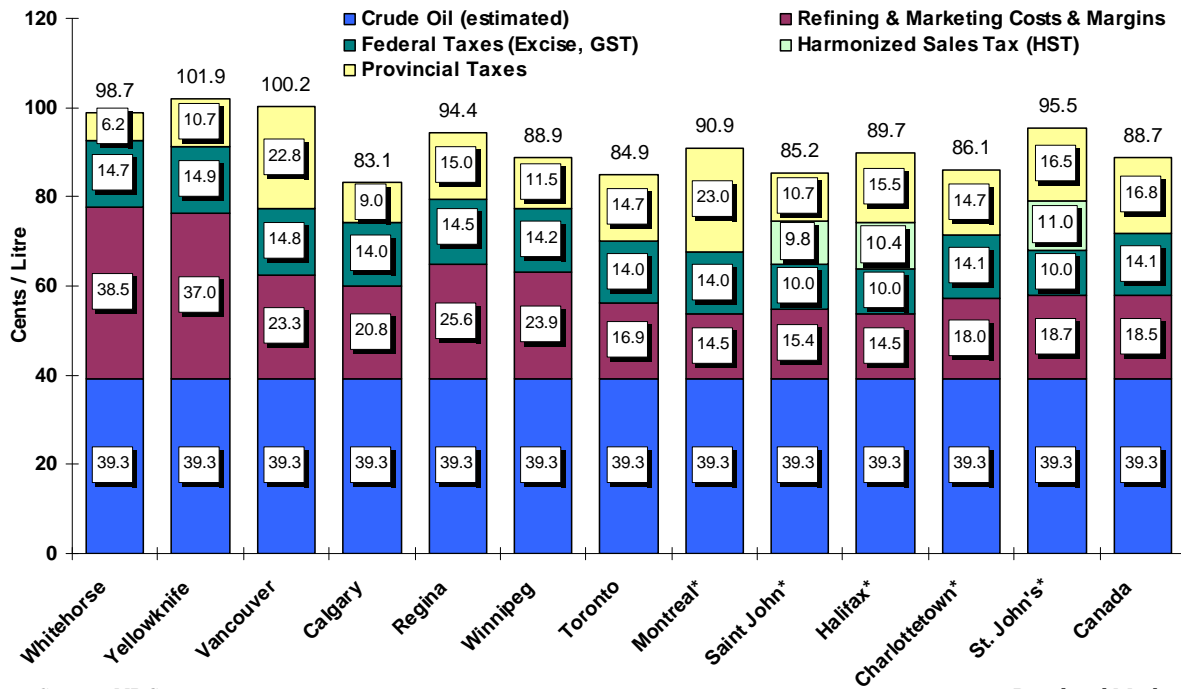
The **four-week average** crude oil price component remained at 39 cents, unchanged from 2 weeks ago. And, while crude oil is 31 cents per litre lower than

last year at this time, it still makes up the largest component of the pump price at 35 percent.

Overall, over the last two weeks, gasoline prices in all the individual centres have remained fairly static with the most significant change occurring in Halifax where prices increased by less than 2 cents per litre.

The refining and marketing costs component remained essentially unchanged at less than 19 cents. Compared to a year ago when margins were significantly depressed, this is about 4 cents per litre higher.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (March 31 to April 21, 2009)



Source: NRCan

* Regulated Markets

Inflation Up 1.2% in March 2009

Consumer prices rose 1.2% in the 12 months to March 2009, down from the 1.4% increase in February. The upward pressure on the Consumer Price Index (CPI) came primarily from two sources: higher food and shelter costs.

Food prices, the largest factor, rose 7.9% during the 12-month period to March, on the heels of a 7.4% rise in February. March's increase was the largest since November 1986. Mitigating the overall increase in the CPI was a 6.2% decline in transportation costs. Year-over-year price drops for gasoline and for purchasing and leasing passenger vehicles were the primary downward contributors. Increasing prices for passenger vehicle insurance mitigated the overall 12-month drop in transportation costs.

Excluding gasoline, the CPI rose 2.4% in the 12 months to March. Overall, energy prices fell 11.2% during the same period, a larger drop than February's decline of 8.8%.

Source: The Daily, <http://www.statcan.gc.ca/daily-quotidien/090417/dq090417a-eng.htm>





Wholesale Gasoline Prices

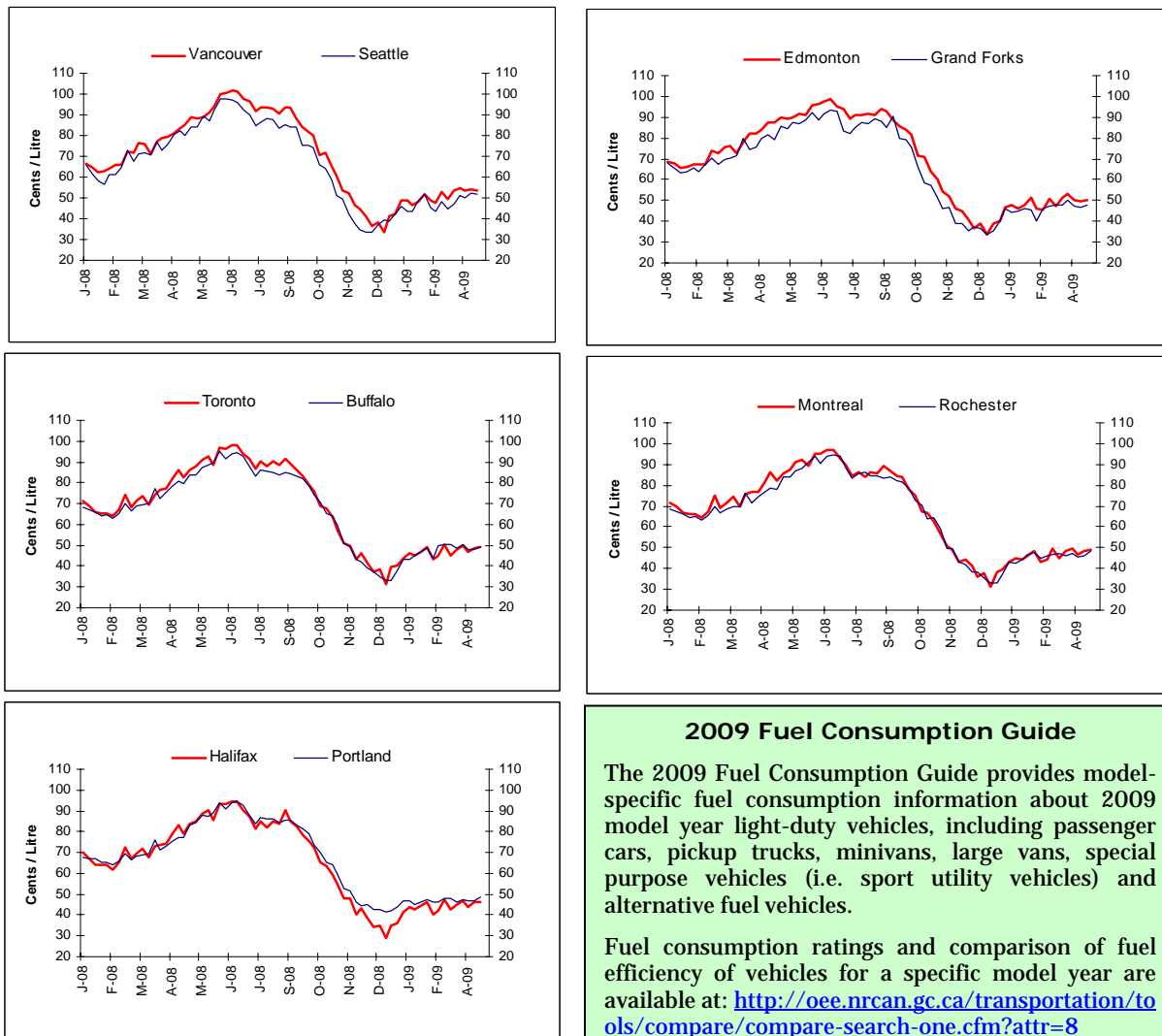
For the week **ending April 16, 2009**, wholesale gasoline prices only moved slightly compared to the previous week.

On average, prices remained relatively the same in Canadian markets while prices in U.S. markets increased by about 1 cent a litre, ending the period in the 49 to 50 cents per litre range. Compared to the same time last year, prices in the American and Canadian centres are, on average, 29 and 32 cents per litre lower, respectively.

Wholesale gasoline prices in the Western centres continue to be higher with prices ranging between 48 and 54 cents per litre while prices in the Eastern centres ranged between 47 and 49 cents per litre.

Overall, since February, wholesale gasoline prices have remained relatively stable, especially when compared to last year when prices started to trend upwards due to the rise in crude oil prices. Now, however, lower crude prices and high gasoline inventories in the U.S. are dampening wholesale and retail prices.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities Ending April 16, 2009
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Refining and Marketing Margins

Four-week rolling averages are used for the gasoline refining and marketing margins. See Figure 5 for the period ending April 21, 2009.

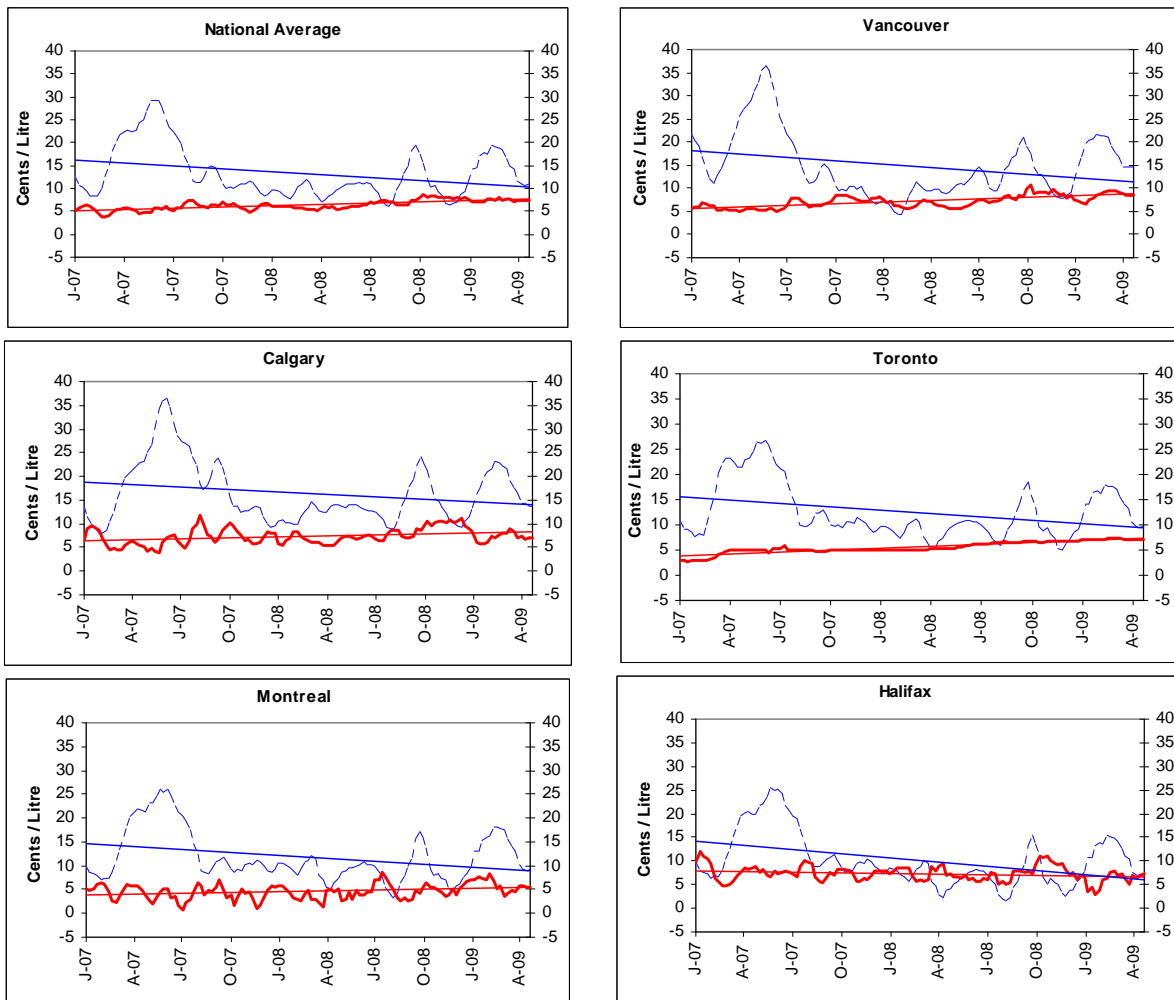
Gasoline refining margins in the last two weeks have shown no gains and ended the week at 11 cents per litre. This trend reflects the decrease in demand for gasoline and an adequate supply in the distribution system in North America. Strong U.S. gasoline and crude oil inventories have created downward pressure on prices which, in turn, lower refining margins.

Overall, marketing margins hovered around 8 cents per litre. For the five centres, marketing margins ranged from a low of 5.4 cents per litre in Montreal to a high of 7.4 cents per litre in Halifax.

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: Refining and Marketing Margins
Four-Week Rolling Average Ending April 21, 2009

----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Prices Continue to Hover Around \$US50 a Barrel

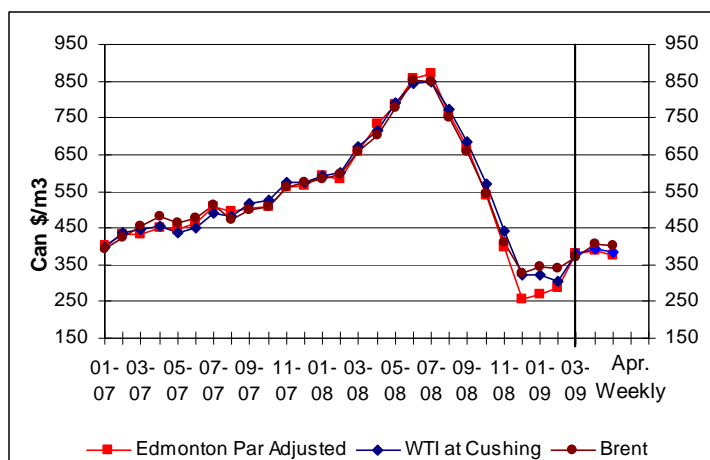
For the week ending April 17, 2009, prices for the three marker crudes averaged between \$ 376/m³ and \$ 401/m³, (\$US49 to \$US52 per barrel). This is a decrease of \$6 to 14/m³ (\$US1 to \$US2 per barrel) compared to the previous week.

For the last five weeks, WTI has remained relatively stable, trading in the \$US48-54 per barrel range, despite historically high and continually growing crude inventories in the U.S. For the last few weeks, WTI has been trading at a discount to Brent. This is a reflection of the record high U.S. inventories, which, for the week ending April 10, 2009, were 366.7 million barrels—up 5.3 million barrels over the previous week, and up 16% when compared to the same period last year.

Many analysts are predicting that the U.S. economy will remain strained in the foreseeable future and that any recovery will be slow and lengthy. The International Energy Agency now believes we may need to wait until 2010 before seeing a meaningful recovery in oil demand and is forecasting a 2.4 million barrel per day contraction in oil demand for 2009. However, some analysts remain confident that, despite the severe demand drops in the U.S., crude oil prices will move gently upwards, barring any significant demand deterioration and provided that OPEC maintains production discipline.

Regardless of when demand starts to recover, significant excess production capacity and commercial inventories will help dampen price impacts.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2009-04-17		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	376.21	48.77	-14.48	-1.53	-367.02	-68.93
WTI	384.41	49.80	-7.05	-0.59	-339.35	-63.89
Brent	401.03	51.96	-6.04	-0.45	-310.70	-59.83

Source: NRCan

U.S. Short-Term Energy and Summer Fuels Outlook

According to the U.S. Energy Information Administration *Short-Term Energy and Summer Fuels Outlook April 2009*, global economic slowdown is projected to reduce the average price to \$53 per barrel this year. Assuming an economic recovery next year, WTI prices are expected to average \$63 in 2010.

Gasoline prices have increased to more than \$2 per gallon, rising slowly but steadily since the beginning of the year in conjunction with rising crude oil prices and refiner margins recovering from recent near-historic lows. During this summer driving season—April through September—retail regular grade gasoline prices are projected to average \$2.23 per gallon, down almost \$1.60 from last summer.

Total consumption of natural gas is projected to fall by nearly 2 percent in 2009, leading to lower natural gas prices. Industrial natural gas consumption is expected to decline by more than 7 percent as industrial production declines during the current economic downturn.

Source: U.S. Energy Information Administration
http://www.eia.doe.gov/emeu/steo/pub/content_s.html





Wholesale Petroleum Product Prices

A new feature has been added to the Fuel Focus Web site (www.fuelfocus.nrcan.gc.ca). Wholesale (rack) prices in 21 Canadian centres for regular, mid-grade and premium gasoline as well as diesel and furnace oil are now available. The prices are the daily prices as reported by the refiners at the terminals for each of the selected centres and do not include taxes. For the daily wholesale prices, only those of the last 60 days are posted. The weekly prices are five-day averages and the monthly prices are averages of the daily prices for the month. Prices are for specific urban centres and do not represent provincial averages.

How do wholesale prices affect the retail prices at the pump?

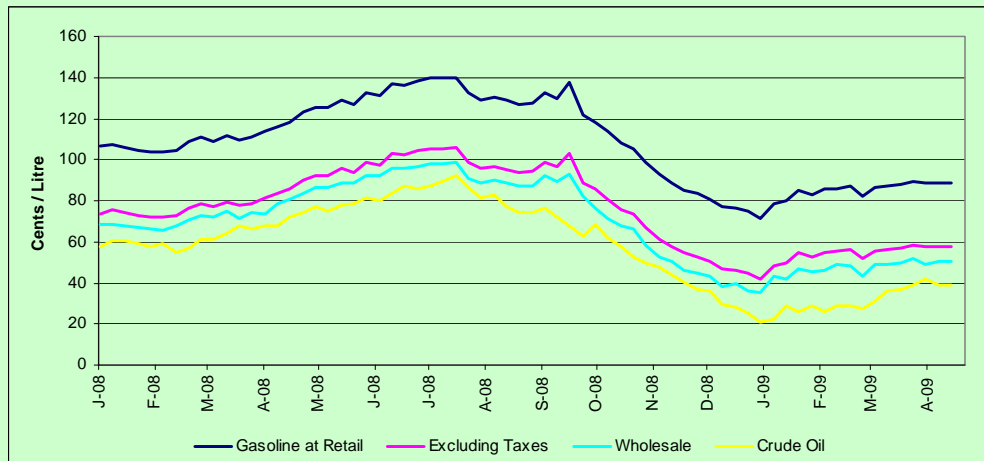
A key pricing activity for the refiners is setting the approximate wholesale price that retailers pay for the petroleum product, or what is referred to as the posted rack price. The rack price provides a reference for the wholesale price of the fuel purchased at the terminal locations. There are usually between three and five different companies that post rack prices for each market and the prices are revised on a daily basis. The refiners provide rack-pricing information to their customers directly or information can be obtained from other public sources.

In wholesale petroleum markets, refiners compete on a continental scale to sell refined petroleum products to retail marketing organizations. Canadian wholesale prices are set relative to U.S. benchmark prices, such as the New York Harbour price. These benchmark prices reflect the international crude oil price and such factors as seasonal demand and inventory levels. Canadian wholesale prices must remain competitive with these benchmark markets as they represent the cost of importing gasoline into Canada. The Canadian price will generally be equal to the closest benchmark price plus transportation and any other import costs. The fact that products can trade freely across North American markets limits the ability of Canadian wholesalers to maintain prices that are out of alignment with other centres.

In addition to looking at U.S. wholesale prices, Canadian suppliers also look to other supply and demand factors to set wholesale prices. The demand for wholesale gasoline in the continental North American market is highly price sensitive and, as a consequence, prices tend to be very similar between Canadian and U.S. markets, trade within a relatively narrow range, and move up and down more or less in unison. Any given Canadian or U.S. wholesale point cannot successfully price its wholesale product substantially higher than that of other wholesale markets. To do so would invite customers to the lowest wholesale price point or suppliers to the highest priced market and result in supply issues.

The retail pump prices tend to follow the wholesale gasoline market prices (see graph below). The marketing margin is the difference between the price at the pump, excluding all taxes, and the wholesale price. The refining margin is the difference between the cost of crude oil and the wholesale price. The margins should cover the costs and provide a profit.

Comparison of Retail and Wholesale Gasoline Prices in Canada



Source: NRCAN

