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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 6, Issue 1

January 28, 2011

Canada

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Fuel Focus

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National Overview

Canadian Retail Gasoline Prices Down 1 Cent per Litre from Last Week

For the week ending January 25, 2011, Canadian average retail gasoline prices decreased from the previous week by 1 cent per litre to $1.15 per litre. Prices are now 15 cents per litre higher than last year at the same period. Retail gasoline prices moved downward despite slightly higher gasoline wholesale and crude oil prices. Average Canadian retail pump prices have been hovering at their highest level since October 2008.

Diesel fuel prices remained at $1.16 per litre from the previous week, but 18 cents per litre higher from the same period last year. Furnace oil prices are up by nearly 2 cents per litre compared to last week, and are 11 cents per litre higher from this time last year.

In the next few months, refineries will conduct regular maintenance to prepare for their turnarounds to produce more gasoline for the upcoming summer demand. When refiners perform maintenance work, they usually need to stop processing some hydrocarbons which sometimes firm up prices temporarily. For more information on refinery maintenance operations, please consult Fuel Focus report Volume 2, Issue 12 http://nrcan.gc.ca/eneene/sources/pripri/reprap/2007-06-22/supsup-eng.php

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

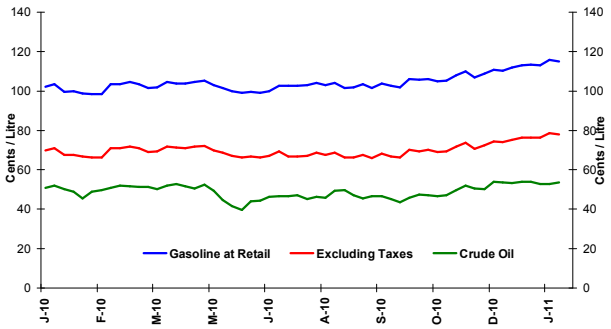
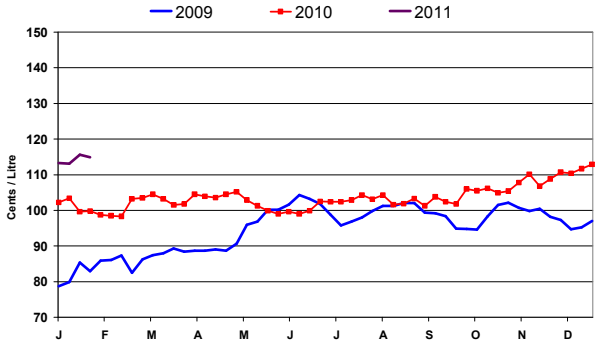


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Increase in Domestic Gasoline Sales:** Motor gasoline sales increased 13% to 42 billion litres in the first eleven months of 2010 compared to the same period in 2009. Diesel fuel sales rose 16% to 27 billion litres, while light fuel oil (furnace oil) increased 1.5% to 3 billion litres in the same time period. (Source: NRCan and Statistics Canada)
- **Iran Cuts Subsidies on Prices**: Iran has embarked on a sweeping program of cuts in its costly and inefficient system of subsidies on fuel and other essential goods that has put a strain on state finances and held back economic progress for years. Iran's foreign exchange revenues also sank in recent years as oil prices fell from pre-recession highs. The higher oil prices rise, the greater the "opportunity costs" in lost exports. (Source; The New York Times, January 16, 2011)
- **Inflation Up**: Consumer prices rose 2.4% in the 12 months to December, following the 2.0% increase posted in November. The 0.4 percentage point gain was mainly a result of higher gasoline prices. Excluding gasoline, the Consumer Price Index rose 1.8% in December 2010, identical to the increase recorded in November. (Source: The Daily, http://www.statcan.gc.ca/daily-quotidien/110125/dq110125a-eng.htm)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2011-01-25	Previous Week	Last Year
Gasoline	114.9	-0.7	+15.1
Diesel	116.1	+0.1	+17.6
Furnace Oil	101.3	+1.7	+11.1

Source: NRCan

In this Issue

Retail Gasoline Overview

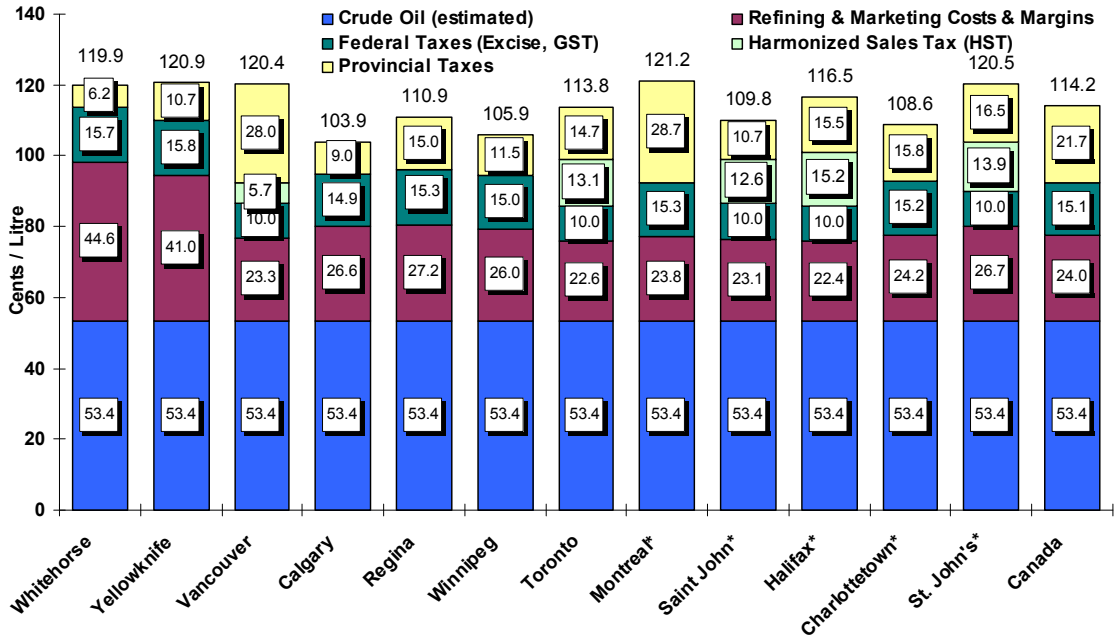
The **four-week average** regular gasoline pump price in selected cities across Canada was $1.14 per litre for the period ending **January 25, 2011**. This is 13 cents per litre higher than those recorded at the same time last year.

The **four-week average** crude oil price component of gasoline registered at 53 cents per litre, up by 2 cents per litre from two weeks ago. Compared to the same period in 2010, the crude oil price component of gasoline is 3 cents per litre higher.

Ranging from $1.04 per litre to $1.20 per litre, retail gasoline prices in most Western centres increased, on average, by 4 cents per litre when compared to two weeks ago. Prices in Eastern centres increased on average by almost 3 cents per litre, and ranged from $1.09 per litre to $1.21 per litre.

At the national level, refining and marketing costs and margins increased by less than 1 cent per litre from two weeks ago, and are 6 cents per litre higher than last year at this time.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (January 4 to 25, 2011)



Source: NRCan

** Regulated Markets*

Retail Gasoline Prices Explained

Gasoline prices can be difficult to understand because they do not behave like the prices of many of the other goods that consumers buy every week. Gasoline is a commodity, like gold or pork bellies, and its wholesale price reacts to a number of factors. The most obvious ones are supply and demand. When there is more demand (in summer when everyone drives more), there is more pressure to ensure that there is sufficient supply to meet demand, so the price goes up. When there is less demand, such as during the winter months, supply and demand are better balanced and prices are generally lower. Over the longer term, demand has been growing as drivers choose bigger and bigger vehicles and drive greater distances. This puts pressure on the supply and can also lead to higher prices.

Another factor that has the greatest influence on gasoline prices over time is the cost of crude oil, the raw material from which gasoline is made. The supply and demand for crude oil are balanced in a worldwide market, so that every refiner around the world has to pay the world price for oil.

However, the overriding factor is always the local market where gasoline station owners want to attract customers by lowering their prices by small amounts and competitors react and match the lower price almost immediately. For more information on retail gasoline prices, consult the Fuel Focus website at: http://nrcan.gc.ca/eneene/sources/petpet/reprap/2005-07/ovevue/gasess-eng.php

Wholesale Gasoline Prices

Wholesale gasoline prices increased by about 1 cent per litre for all centres for the **week of January 20, 2011,** compared to the previous week.

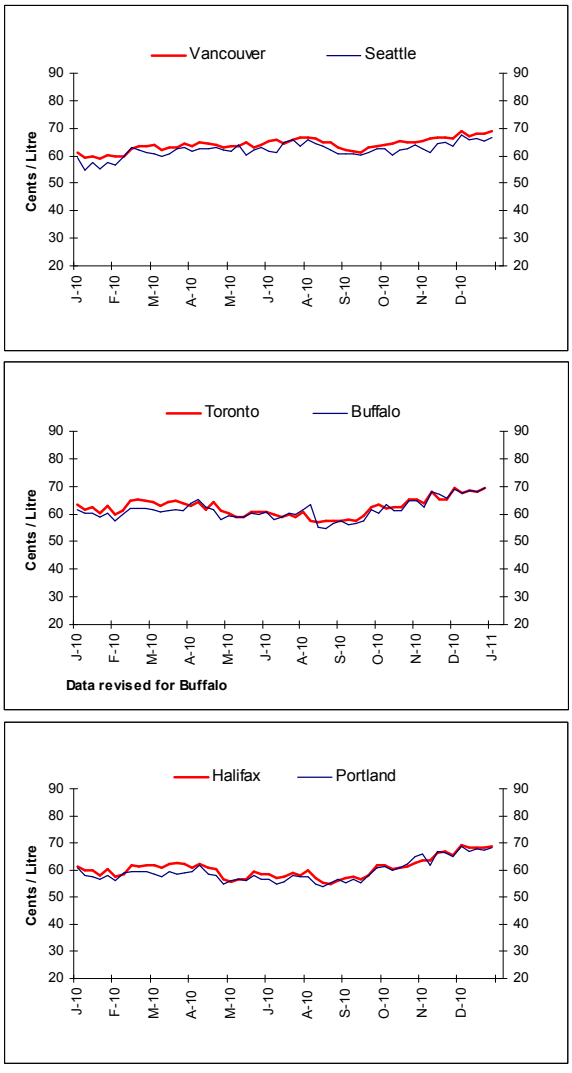
For the Eastern markets in Canada and the United States, wholesale gasoline prices fluctuated by less than 1 to slightly more than 1 cent per litre in all centres when compared to the previous week, and ended the period in the 68 to 71 cent per litre range.

Wholesale price increases in the Western centres hovered at around 1 cent per litre, ending the period in the 67 to 70 cents per litre range.

In the last **four weeks**, wholesale price fluctuations in both Canadian and American selected centres have ranged from a decline of 1 cent per litre to an increase of 2 cents per litre.

Overall, compared to a year ago, prices in all selected centres are higher by 7 to 11 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending January 20, 2011
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Three Litres a Day Per Person

From January to November 2010, Canadians used about 42 billion litres of gasoline. With about 34 million people in Canada, that equals to more than 3 litres of gasoline every day for each man, woman, and child.

Transportation consumes more than two-thirds of refined petroleum products, primarily motor gasoline, low-sulphur diesel fuel and aviation fuel. Increased demand for these products is largely responsible for the growth in total sales of refined petroleum products since 1990.

Source: NRCan. For more information on petroleum products: http://nrcan.gc.ca/eneene/sources/pripri/aboapr-eng.php#exploration

Gasoline Refining and Marketing Margins

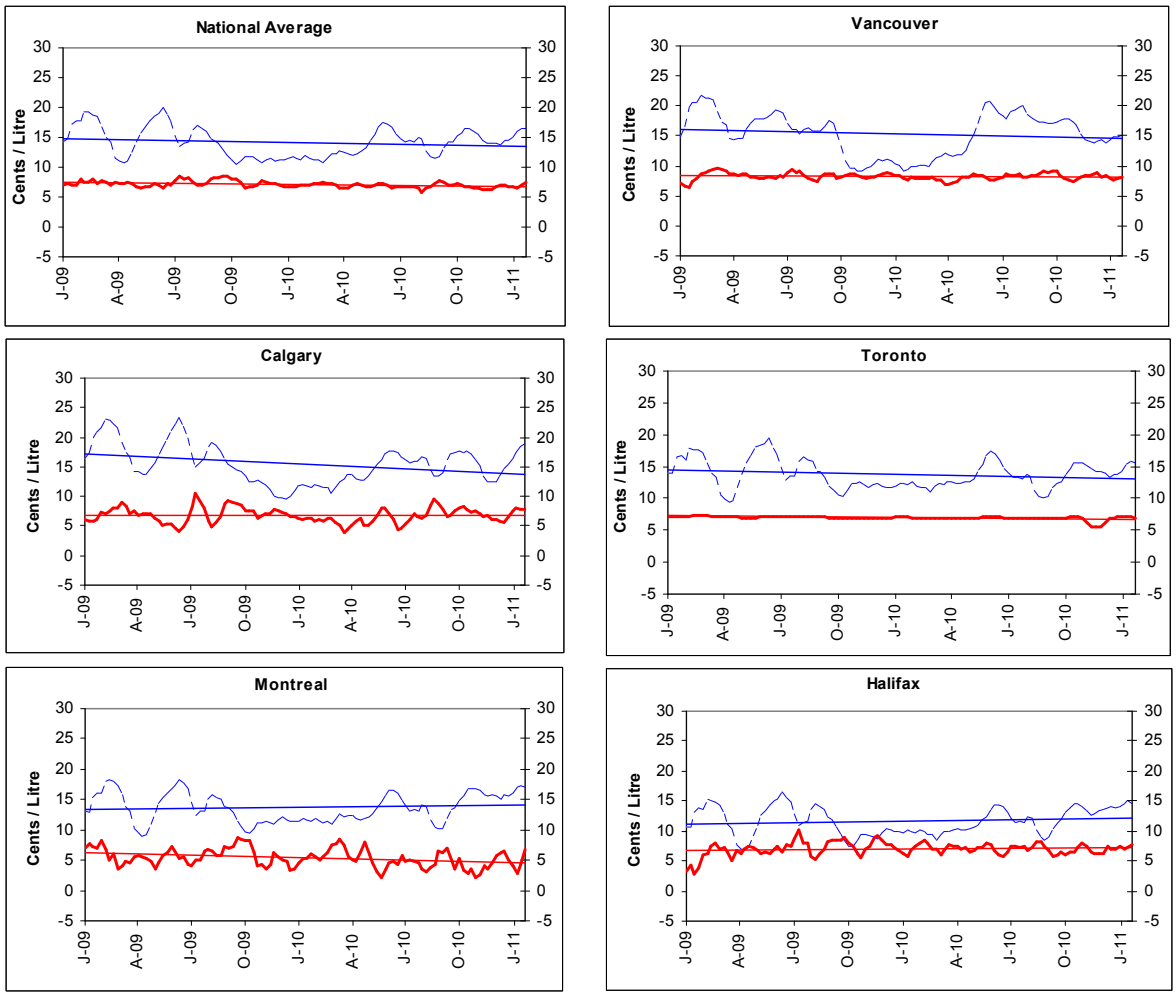
Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins for gasoline in Canada were on a downward slope in the early part of 2010, reflecting the decrease in North American demand for gasoline and a well-supplied market. However, these margins have been improving gradually and have been hovering at around 16 cents per litre in the last three weeks.

For the four-week period ending January 25, 2011, refiner margins were nearly 5 cents per litre above last year's level of 11 cents per litre.

Nationally, the marketing margins rose to nearly 8 cents per litre, slightly higher than for the same period last year. Marketing margins for the five centres ranged from less than 7 cents per litre in Montreal to 8 cents per litre in Vancouver.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending January 25, 2011
------- Refining Margin —— Marketing Margin



Source: NRCan

Crude Oil Overview

World Crude Oil Prices Firming Up

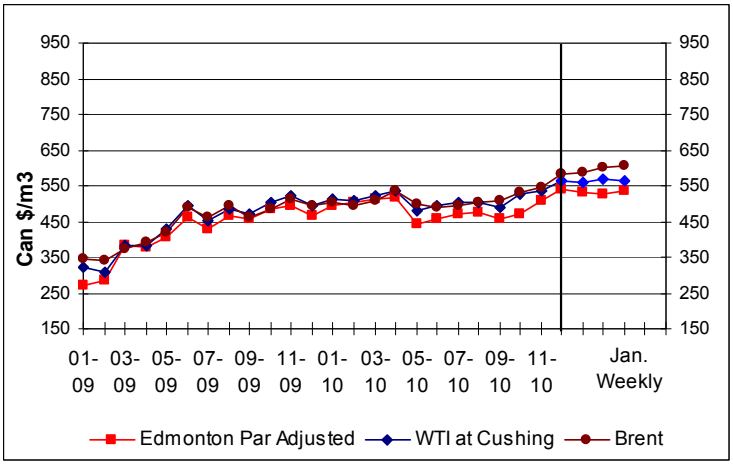
For the week ending January 21, 2011, prices for the three marker crudes averaged between $535/m³ and $606/m³ (US$86 to US$97 per barrel). This is an increase of $3 to $8/m³ for Brent and Edmonton Par compared to the previous week, while West Texas Intermediate (WTI) declined by $5 /m³.

Overall, prices for these benchmark crudes reached their highest level since prices tumbled in 2008. The WTI, the crude oil reference type often quoted in the news media, hovered in the range of US$90 per barrel for the week ending January 21, 2011, while the North Sea Brent averaged US$97 per barrel.

The price differential between the WTI and Brent continues to increase partly due to crude oil storage issues at Cushing, the major trading centre in the U.S. In Europe, which is more tied to Brent, the cold weather tends to increase demand for refined products and by extension the price for this crude.

Prices fluctuate daily within a narrow range reflecting concerns with respect to expectations as to whether global consumption will grow or contract depending on what happens in non-OECD countries. World crude oil prices firmed up partly on forecasts by the EIA and OPEC predicting increased oil demand in these countries of 1.4 and 1.2 million barrels per day in 2011, respectively.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2011-01-21		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	535.20	85.66	+7.93	+0.93	+45.69	+10.97
WTI	561.88	89.77	-4.56	-1.26	+13.11	+57.36
Brent	606.08	96.83	+3.34	-0.03	+22.41	+116.33

Source: NRCan

U.S. Short-Term Energy Outlook

EIA expects the price of West Texas Intermediate (WTI) crude oil to average about $93 per barrel in 2011, $14 higher than the average price in 2010. (All Prices are in U.S. dollars).

EIA expects regular-grade motor gasoline retail prices to average $3.17 per gallon this year, 39 cents per gallon higher than last year and $3.29 per gallon in 2012, with prices forecast to average about 5 cents per gallon higher in each year during the April through September peak driving season.

There is also significant uncertainty surrounding the forecast, with current market prices of futures and options contracts for gasoline suggesting more than a 25 percent probability that the national average retail price for regular gasoline could exceed $3.50 per gallon in the June through September period in 2011 and an 8 to 10 percent probability that it could exceed $4.00 per gallon in August and September 2011. EIA expects average household expenditures for space-heating fuels to total $990 this winter, about $22 higher than last year.

EIA projects that U.S. carbon dioxide (CO_2) emissions from fossil fuels, which increased by 3.8 percent in 2010, will decline by 0.6 percent in 2011. EIA expects that CO_2 emissions will increase by 2.4 percent in 2012 as consumption grows for all fossil fuels. Projected fossil-fuel CO_2 emissions in 2012 remain below the levels seen in any year from 2000 through 2008.

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