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Fuel Focus

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

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Canada

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National Overview

Canadian Retail Gasoline Prices Up 3 Cents per Litre from Last Week

Average Canadian retail gasoline prices for the week ending May 14, 2013 increased by 3 cents per litre to \$1.29 per litre from the previous week—a six week high. Higher wholesale gasoline prices, particularly in Western centres, along with an increase in crude oil prices, pushed retail pump prices upward.

Diesel fuel prices decreased slightly by less than 1 cent per litre to \$1.24 per litre from the previous week. Prices are 2 cents per litre lower compared to the same period last year. Furnace oil prices are up by less than 1 cent per litre compared to last week, and are 4 cents per litre lower than at this time last year.

Recent Developments

- 2012 Annual Report:** On April 30, 2013, the National Energy Board (NEB) tabled its 2012 Annual Report to Parliament. In 2012, the NEB regulated approximately 98 companies, which operate approximately 73,000 kilometres of pipelines and approximately 1,400 kilometres of international power lines across Canada. These pipelines shipped approximately \$106.3 billion worth of crude oil, petroleum products, natural gas liquids and natural gas to Canadian and export customers at an estimated transportation cost of \$6.9 billion. (Source: NEB, <http://www.neb-one.gc.ca/clf-nsi/rpblctn/rprt/nnlrprt/2012/nnlrprt2012-eng.html>)
- Oil Product Markets Ahead of Summer:** Product markets showed a mixed performance in the second half of last year. Gasoline and middle distillates were bullish, due to the tight market during the driving season. Stocks fell below their five-year average on the back of several refinery closures in the Atlantic Basin. Additionally, a number of refineries across the globe saw unscheduled shutdowns due to operational limitations and hurricanes in the Americas. In the U.S., export opportunities, mainly due to increasing gasoline and gasoil requirements from Latin America, should help the product market. Healthy margins, boosted by relatively cheaper domestic crude, will encourage U.S. refiners to keep run-levels high, despite weaker domestic demand. (Source: Monthly Oil Market Report, OPEC, http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_April_2013.pdf)

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

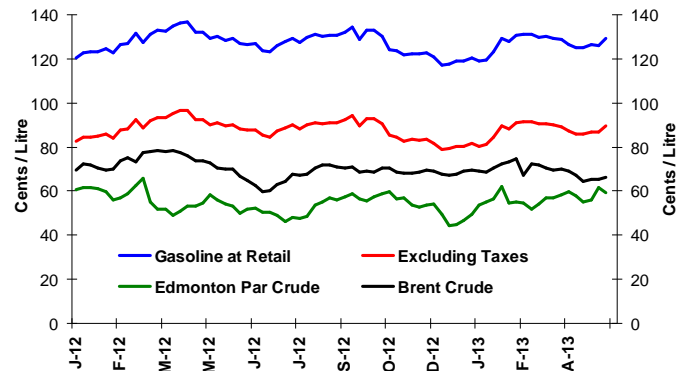
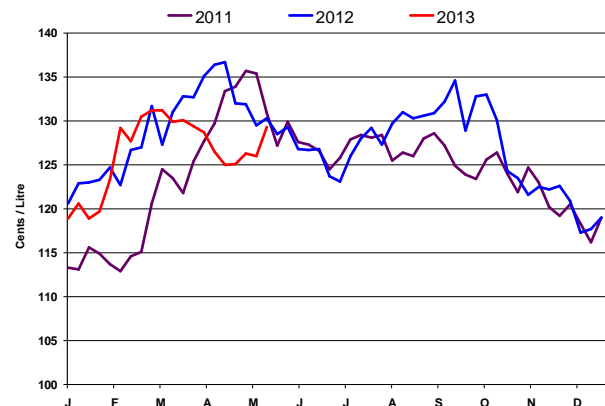


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2013-05-14	Previous Week	Last Year
Gasoline	129.3	+3.3	-1.0
Diesel	124.1	-0.1	-2.1
Furnace Oil	116.3	+0.1	-3.6

Source: NRCan

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Retail Gasoline Overview

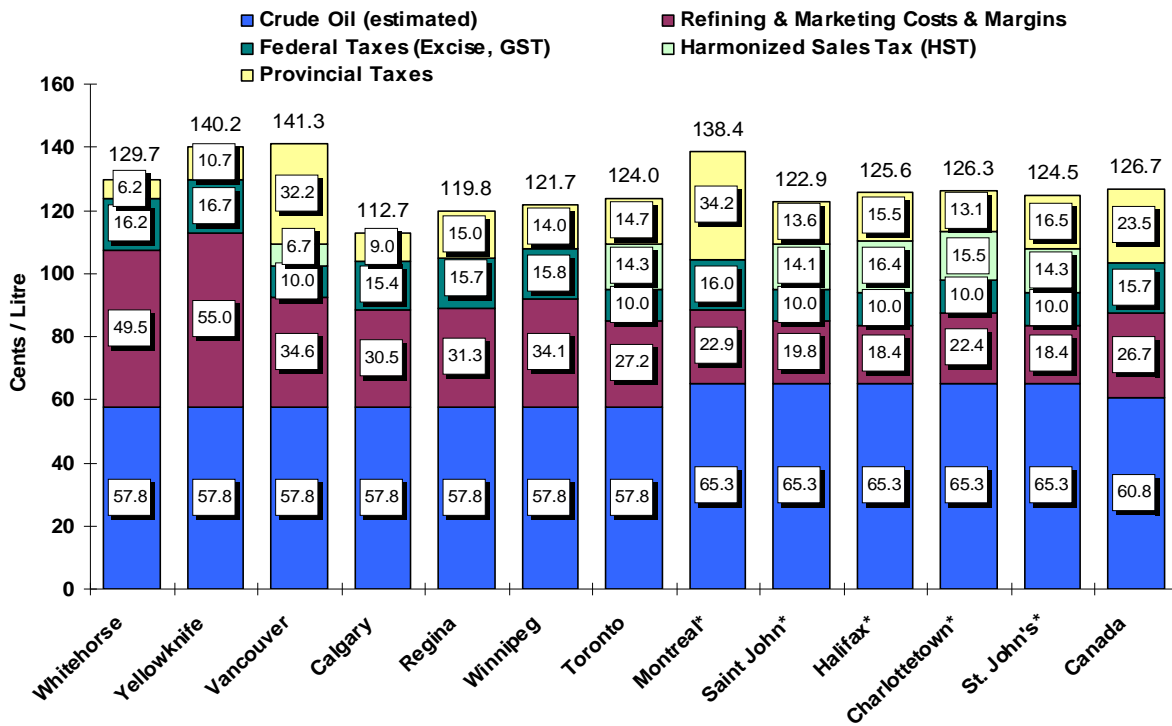
The **four-week average** Canadian pump price in selected cities across Canada was \$1.27 per litre for the period ending May 14, 2013. This represents a 4 cent-per-litre decrease compared to the same period in 2012.

For the period ending May 14, 2013, **four-week average** crude oil prices remained unchanged at 61 cents per litre from the previous week. The crude oil price component of gasoline is 2 cents per litre lower than at the same time last year.

Over the last two weeks, the average gasoline price increase in the individual centres was 1 cent per litre. Price fluctuations ranged between an increase of 5 cents per litre in Vancouver to a decrease of 2 cents per litre in Saint John.

The refining and marketing costs component rose by 1 cent per litre to 27 cents per litre. Compared to a year ago, margins are down by nearly 3 cents per litre.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (April 23 to May 14, 2013)**



Source: NRCan

* Regulated Markets

Inflation Rises 1% in March 2013

Statistics Canada's Consumer Price Index (CPI) indicates that the CPI rose 1% in the 12 months to March, following a 1.2% gain in February. The slower increase in the CPI was mainly the result of gasoline prices, which fell 0.3% on a year-over-year basis in March, after rising 3.9% in February. Provincially, gasoline prices declined year over year in seven provinces.

Prices for transportation posted no change on a year-over-year basis in March, after advancing 2.0% the previous month. Gasoline prices decreased year over year, while prices for the purchase of passenger vehicles rose 0.8% in the 12 months to March, following a 2.5% increase in February.

Source: The Daily, <http://www.statcan.gc.ca/daily-quotidien/130419/dq130419a-eng.htm>





Wholesale Gasoline Prices

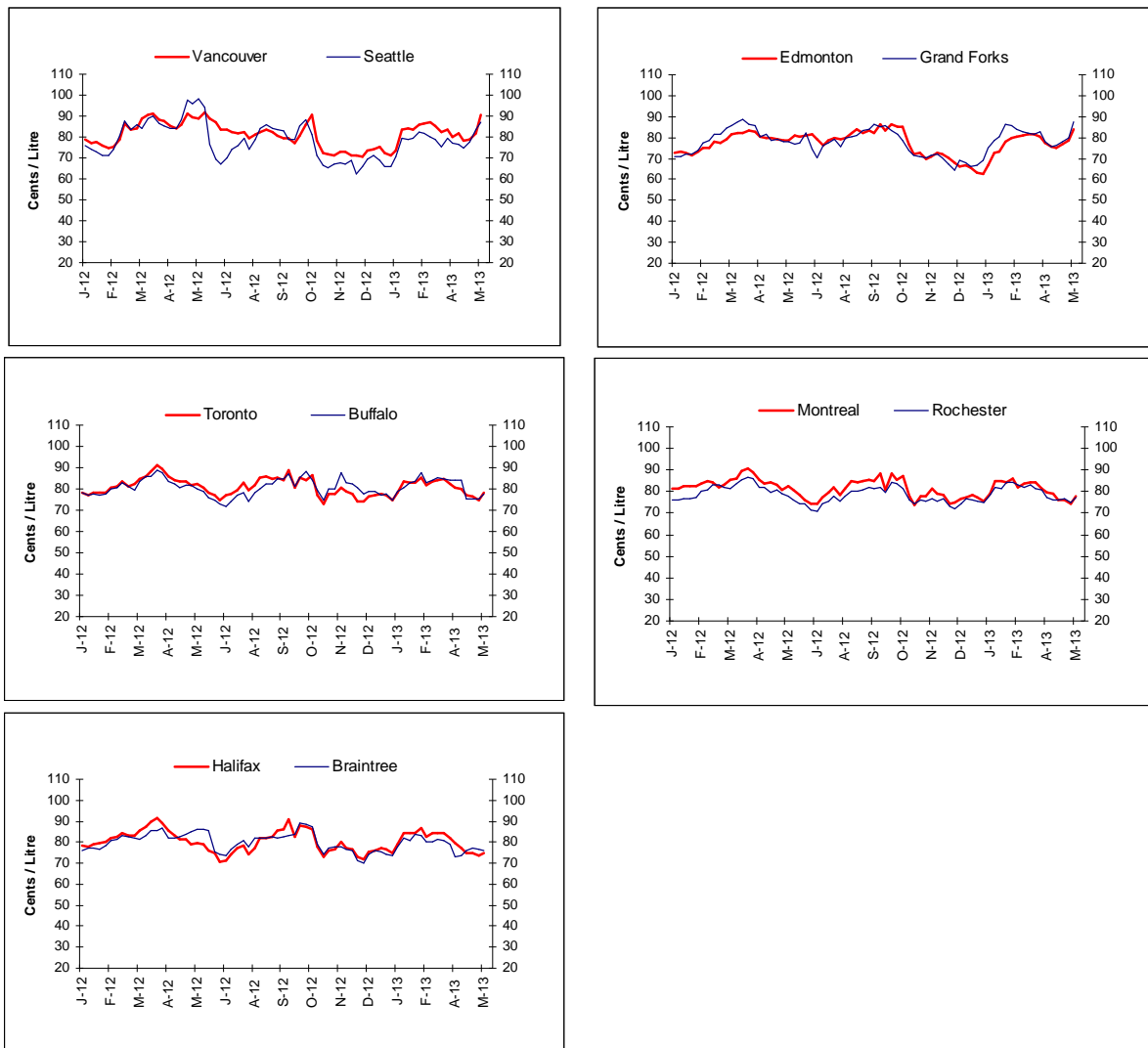
When compared to the previous week, wholesale gasoline prices for the **week of May 9, 2013**, increased in most selected Canadian and American centres. Overall, wholesale gasoline prices ranged between decreases of less than 1 cent per litre to increases of nearly 9 cents per litre.

Wholesale gasoline prices in the Western centres fluctuated with increases ranging between 4 and 9 cents per litre, while price changes in the Eastern centres ranged between a decrease of less than 1 cent

per litre to an increase of 4 cents per litre. The sharp rise in wholesale gasoline prices in Western centres was partly due to a combination of planned annual turnarounds and unexpected shutdowns of gasoline production units at western refineries.

Overall, prices in most selected centres are below last year's level with price changes ranging from a decrease of 8 cents per litre to an increase of 8 cents per litre, compared to the same period last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending May 9, 2013
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

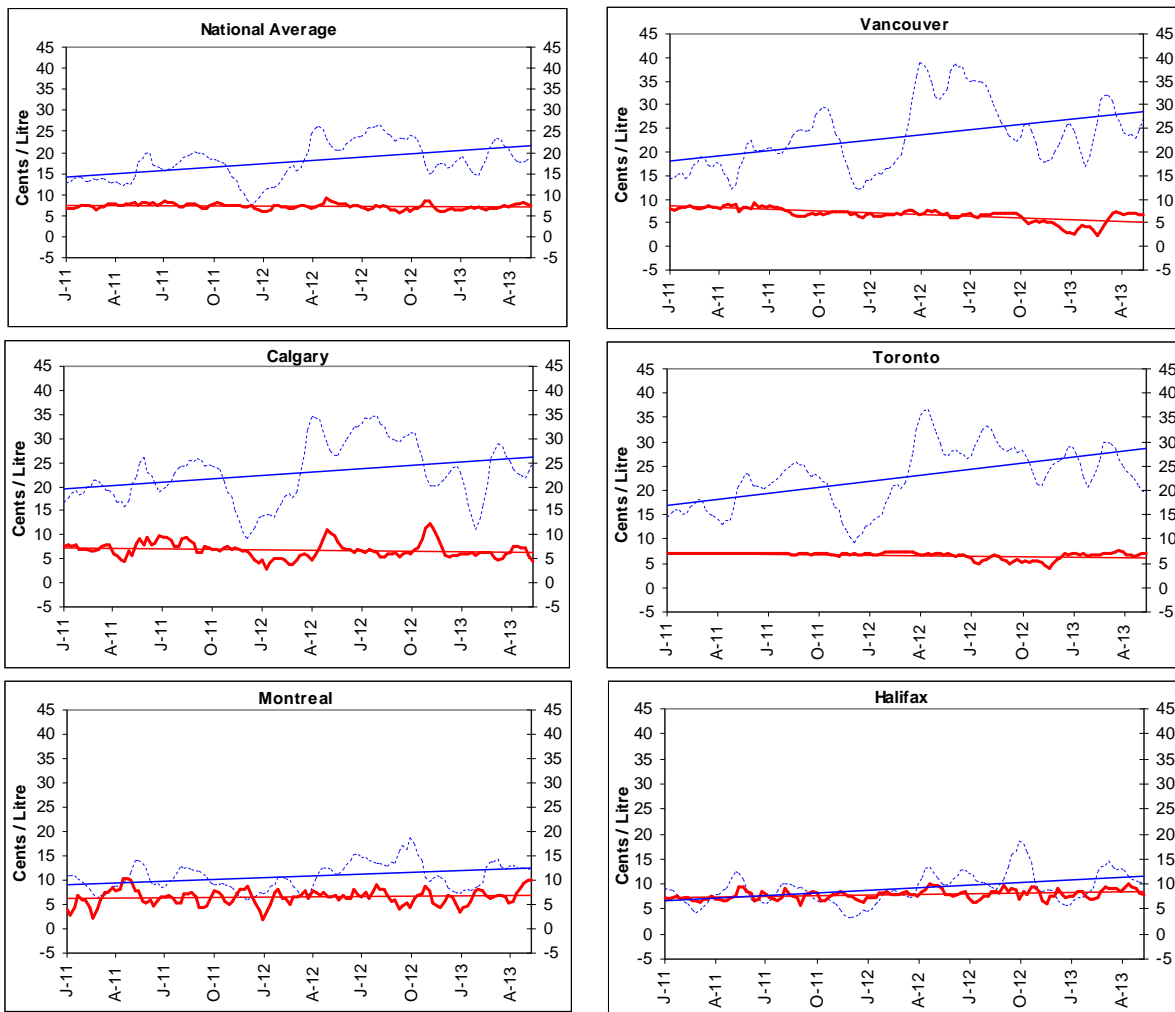
Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins fluctuated upward in the last two weeks, after a five-week decline, which is indicative of a tightening in supplies. Seasonal refinery maintenance and outages in North America also tend to constrict supply of refined products, firming up retail pump prices.

Heading into the summer driving season, refiners are now producing more gasoline to meet demand and to increase their inventories.

Marketing margins, representing the costs associated with operating an outlet, hovered at around 7 cents per litre. For the five centres, marketing margins ranged from a low of 4 cents per litre in Calgary to a high of 10 cents per litre in Montreal.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending May 14, 2013
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Price Differential between Canadian Crude Oil and Brent at \$67/m³ (\$US11 per Barrel)

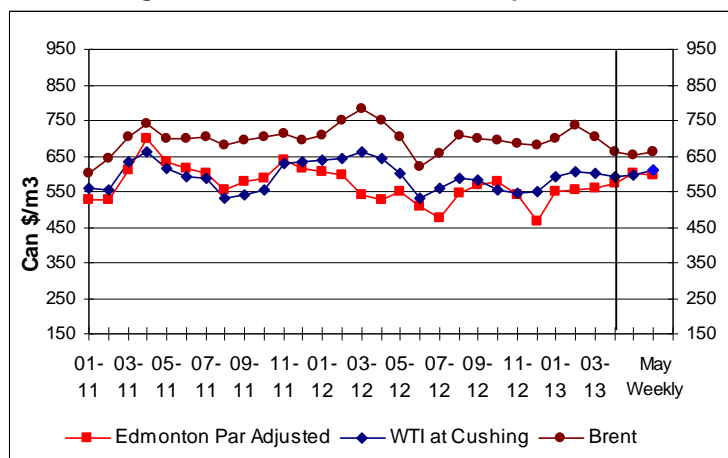
For the week ending May 10, 2013, crude oil prices averaged between \$594 and \$661/m³ (\$US94 to \$US105 per barrel). The price differential between Brent and WTI stood at \$53/m³ (\$US8 per barrel), while Edmonton Par declined by \$6/m³ (\$US1 per barrel) during the same period.

The price differential between Brent and WTI crude oil prices is at its lowest level since January 2012. Economic fundamentals in the U.S., such as concerns over falling demand and rising supply for oil contribute to the downward pressure on prices.

While the outlook in both Europe and North America is still muted, there seems to be renewed optimism about China's economy and the potential for a rise in oil demand in non-OECD countries.

Crude oil prices were dampened partly due to high crude oil inventories currently hovering above the 5-year average range since May 2012, while gasoline inventories remain at the higher end of their 5-year average range. This, in addition to a subdued demand for oil products, further moderates the rise in crude oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2013-05-10		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	594.37	93.93	-5.87	-0.62	+30.20	+4.11
WTI	608.52	96.17	+13.51	+2.45	-0.74	-0.83
Brent	661.36	104.52	+9.74	+1.88	-45.54	-8.02

Source: NRCan

International Fuel Prices

According to the Germany-based aid organization Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) 2012/2013 biannual survey of retail prices for gasoline and diesel in 170 countries, Venezuela, Saudi Arabia, Libya and Iran have the lowest gasoline and diesel-fuel prices. Retail prices for both gasoline and diesel, ranging between 1 and 33 cents per litre are kept below the price of crude oil on the world market via government price controls.

The largest categories of countries in the survey have retail gasoline and diesel prices that more than cover the costs of crude, refining, retailing, taxes and profit. This includes Canada and many other countries that do not impose government price controls or subsidize the refining industry. In this category, prices for gasoline ranged from 97 cents per litre in the United States to 1.63 in Peru. Diesel prices ranged from \$1.05 per litre in the United States to \$1.63 per litre in South Korea.

The highest categories for fuel prices are countries that impose very high taxes on retail gasoline and diesel fuel. This group includes Luxembourg (1.64 cents per litre for both gasoline and diesel fuel), at the relatively low end, and the United Kingdom (\$2.17 per litre for gasoline and \$2.27 per litre for diesel) and Norway at the very high-price end (\$2.53 per litre for gasoline and \$2.35 per litre for diesel).

Source: Global Refining & Fuels Report and NRCan. All amounts are in U.S. dollars.

