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Fuel Focus

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

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National Overview

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

For the week ending February 4, 2014, the Canadian average retail gasoline price was \$1.26 per litre, down 1 cent per litre from the previous week. This represents a 1 cent-per-litre increase since the beginning of the year. However, compared to last year at this time, average retail pump prices are 3 cents per litre lower.

Diesel fuel prices rose to \$1.44 per litre compared to the previous week. This is an increase of 14 cents per litre from the same period last year. Furnace oil prices rose by 3 cents per litre from the previous week to an average of \$1.30 per litre.

Recent Developments

- Higher Propane Prices:** Across North America, higher propane prices in 2013/14 have been partly the result of higher than expected demand from the continental agricultural sector. In 2013, a record corn crop harvest, particularly in the U.S., has increased the demand for propane (used to dry farm products). The increased demand for propane for agricultural purposes, combined with high propane demand due to the cold 2013/14 winter heating season, has resulted in propane inventory levels dropping below normal ranges, pushing propane prices higher in both Canada and the U.S. (Source: NRCAN, U.S. Energy Information Administration, Canadian Propane Association)
- Rise in Heating Oil Prices:** The cold weather has affected numerous energy markets, including the heating oil market in the U.S. Northeast and in Canada. Demand has outpaced supply, resulting in a drawdown of U.S. stocks. In addition to increased demand from consumers using heating oil, some commercial, industrial, and electricity generating customers that typically burn natural gas delivered under less-expensive non-firm contracts are turning to oil because their natural gas suppliers have exercised their interruption rights in order to serve customers with firm contracts. This fuel switching is creating incremental demand for heating oil and pushing prices upward. (Source: EIA, excerpts from *This Week in Petroleum*, January 29, 2014)
- BP's Energy Outlook:** BP's latest Energy Outlook 2035 report – released January 15, 2014, finds that global demand for liquid fuels from 2015 through 2035 will be heavily biased toward middle distillates, especially jet fuel and diesel. Global demand for middle distillates will grow by nearly 10 million barrels per day, whereas demand for light distillates (mainly gasoline) will grow by half that amount. Light-distillate demand growth will be partly met by new supplies of natural gas liquids and condensates. (Source: Global Refining & Fuels Report, January 21, 2014)

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

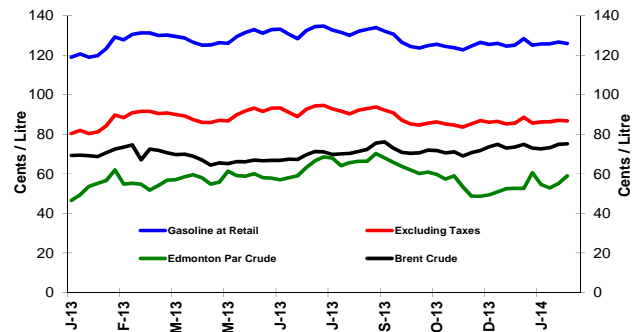
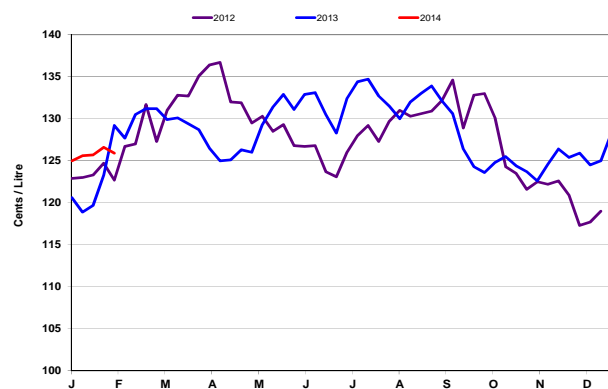


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2014-02-04	Previous Week	Last Year
Gasoline	125.9	-0.6	-3.3
Diesel	143.9	+3.3	+14.0
Furnace Oil	129.6	+2.5	+6.3

Source: NRCAN

Natural Gas Prices for Vehicles

2014-02-04	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	119.4	78.8	81.7
Edmonton	115.1	75.9	78.7
Toronto	110.6	73.0	75.6

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

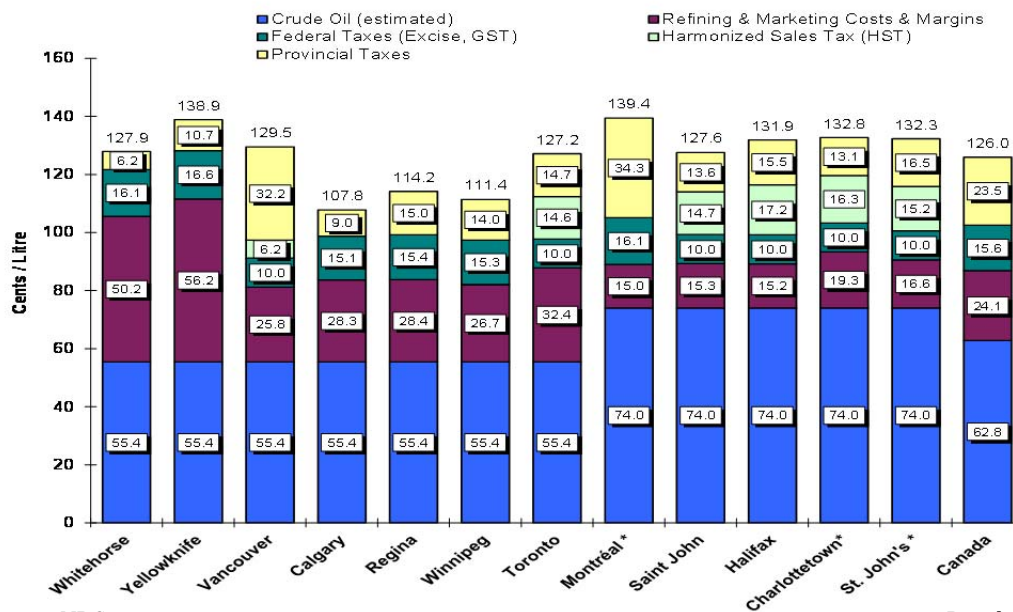
The **four-week average** Canadian pump price in selected cities across Canada was \$1.26 per litre for the period ending February 4, 2014. This represents a 2 cent-per-litre increase compared to the same period in 2013.

For the period ending February 4, 2014, the overall **four-week average** crude oil price increased by 0.3 cent per litre to 63 cents per litre compared to two weeks ago.

Retail gasoline prices in Western centres ranged from \$1.08 to \$1.30 per litre while prices in Eastern centres ranged from \$1.27 to \$1.39 per litre.

Refining and marketing costs and margins registered at 24 cents per litre, a decrease of 0.3 cent per litre from two weeks ago. Margins are 2 cents per litre higher than last year at this time.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (January 14 to February 4, 2014)**



Source: NRCan

* Regulated Markets

Understanding Gasoline Price Fluctuations

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 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 can grow if drivers choose bigger and bigger vehicles and drive greater distances. This puts pressure on the supply and can also lead to higher prices.

The 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.

Short term gasoline prices are typically driven by local market conditions. Gasoline station owners want to attract customers by lowering their prices by small amounts. Competitors react and match the lower price almost immediately. At some point, low prices mean that station owners are losing money and all owners raise prices, and the cycle begins again.





Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 72 to 84 cents per litre in selected centres for the **week of January 30, 2014**. Overall, compared to the previous week, Canadian and American centres recorded price changes ranging from an increase of 1 cent per litre to a decrease of 1 cent per litre.

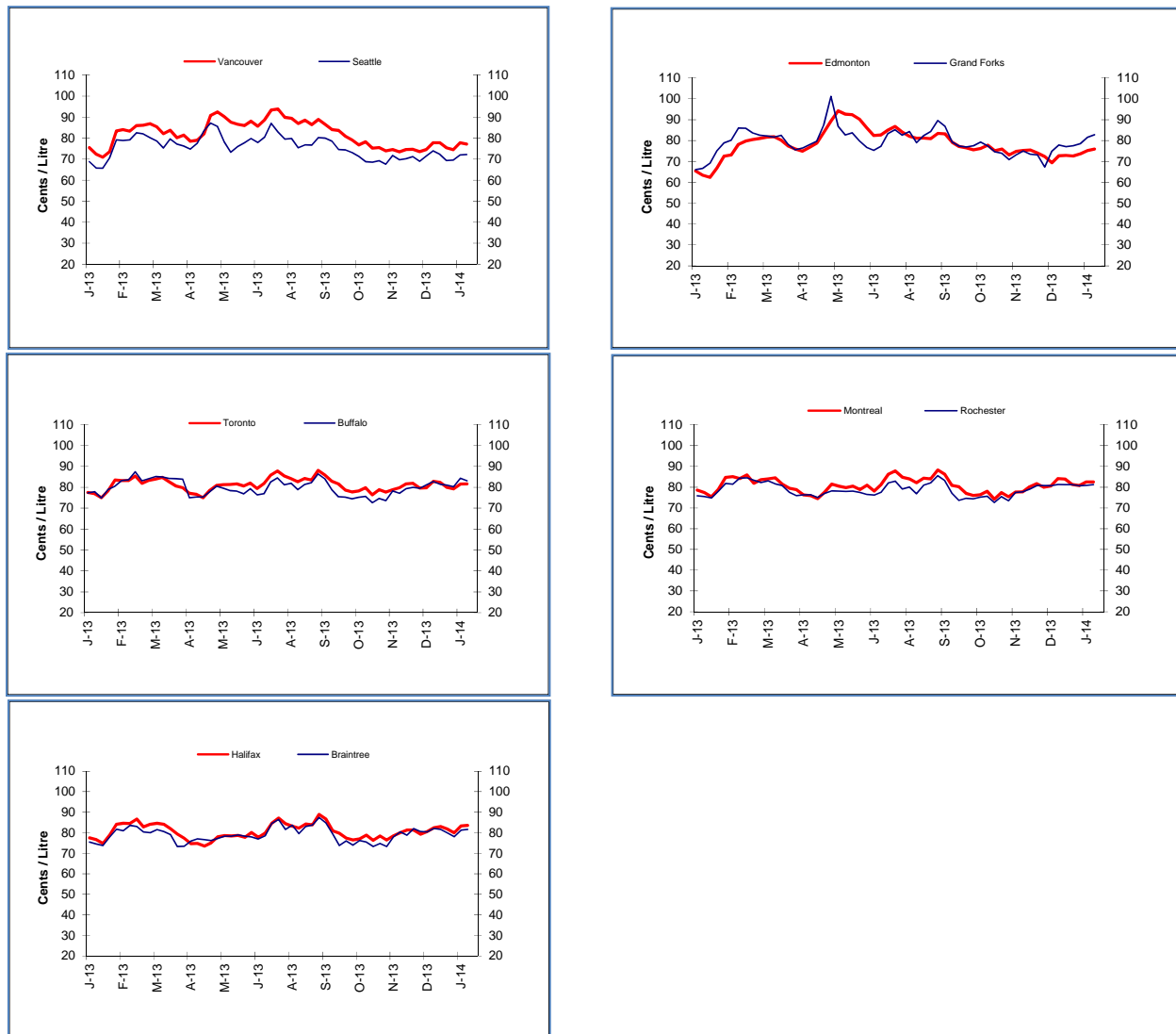
In the Western centres, price changes ranged between an increase of 1 cent per litre to a decrease of less than 1 cent per litre compared to the previous week, with prices ending at 72 to 83 cents per litre.

Prices in Eastern centres rose by less than 1 cent per litre and ended at 81 to 84 cents per litre.

In the last four weeks, wholesale prices in most Canadian and American selected centres ranged between a decrease of 1 cent per litre to an increase of nearly 6 cents per litre.

Overall, compared to the same period last year, wholesale prices in all selected centres ranged between an increase of 4 cents per litre to a decrease of 7 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending January 30, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

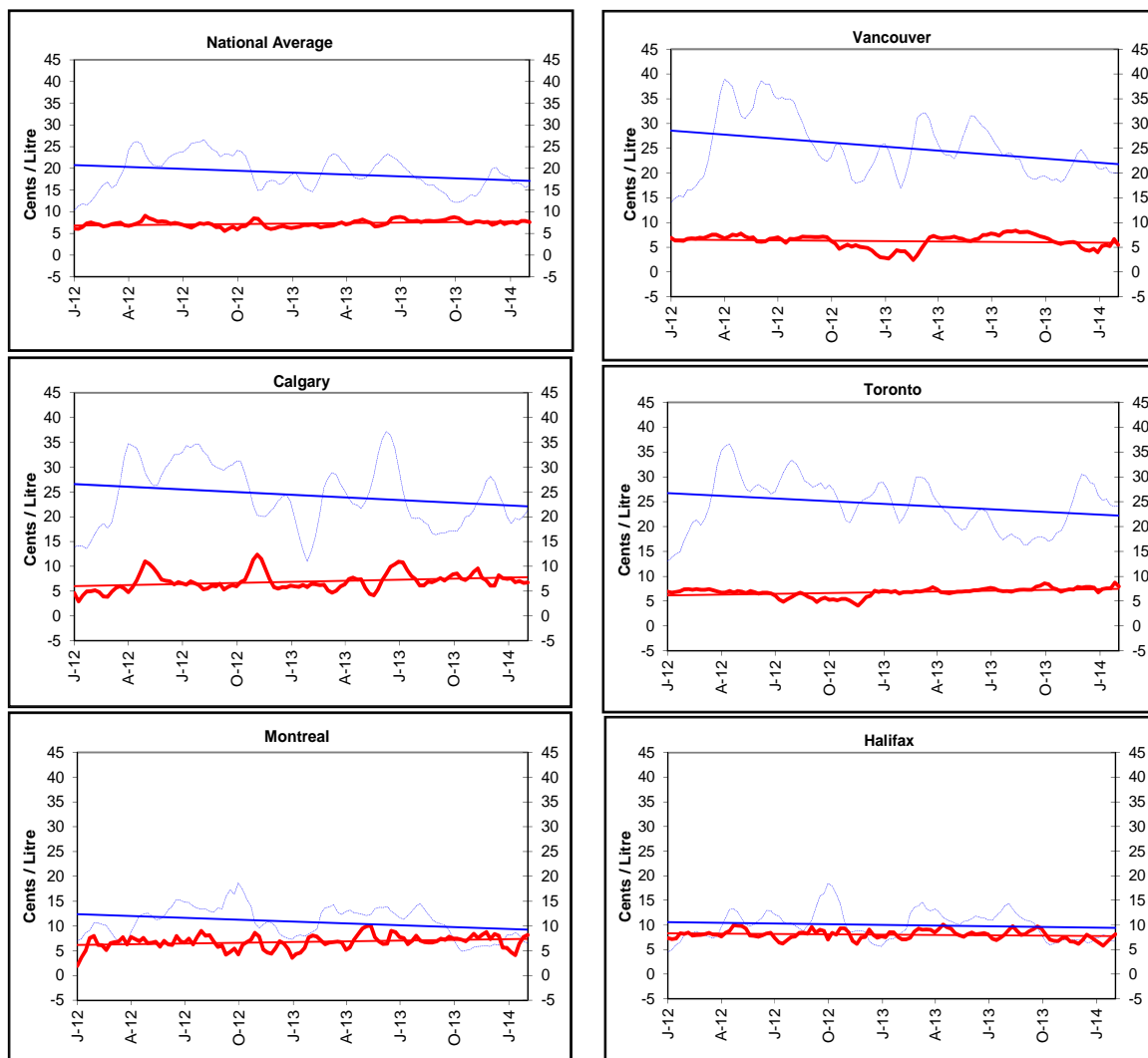
Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins for gasoline in Canada have been drifting lower since April 2012. There is a major difference in refining margins between centres. Eastern refineries generally cannot access lower cost Western Canadian crudes, due to a lack of pipelines, and so most purchase crude at higher global prices.

However, gasoline market competition does not allow those refineries to charge higher gasoline prices. The result is very low refining margins in Eastern Canada. Average refining margins in Halifax were 7 cents per litre while Calgary registered 21 cents per litre.

Nationally, marketing margins ended the period at 7.6 cents per litre, unchanged from the same period last year. Marketing margins for the five centres ranged from 5.5 cents per litre to 8.2 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending February 4, 2014
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Prices Firm Up

For the week ending January 31, 2014, prices for the three marker crudes averaged between \$590/m³ and \$751/m³ (US\$84 to US\$107 per barrel). All prices increased for the three crude oil benchmarks in the range of \$3/m³ for Brent to \$38/m³ for Edmonton Par, compared to the previous week.

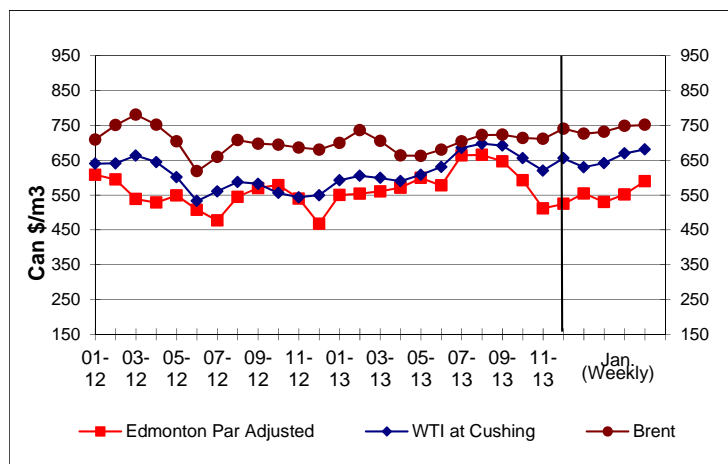
Crude oil prices were pushed upward as demand for crude oil increased with the colder weather in the U.S. Northeast and Canada. In addition, U.S. crude oil stocks have declined below their five-year average range since December 2013, helping to firm up prices.

For the period ending January 31, 2014, the Canadian dollar versus the U.S. dollar declined by 11 cents per litre compared to the same period last year, which impacts Canadian consumers as crude oil is valued in U.S. dollars.

According to the International Energy Agency's latest Oil Market Report, crude oil markets firmed in December on seasonally stronger winter demand in the Atlantic basin. Brent prices were supported by continued supply outages in Libya while WTI reflected a surge in domestic refinery throughputs.

North American crudes remain deeply discounted compared to global crudes, due to insufficient oil transportation capacity from North America to global markets (lack of pipelines and tanker export facilities).

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-01-31		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	589.64	84.17	+38.00	+4.73	-25.80	-13.47
WTI	681.20	97.24	+11.57	+0.97	+67.16	-0.17
Brent	751.37	107.26	+2.83	-0.36	+26.42	-7.74

Source: NRCan

U.S. Crude Oil Production and Global Oil Price Stability in 2013

According to the U.S. Energy Information Agency (EIA), the rising crude oil production in the United States contributed to relatively stable global crude oil prices in 2013, at around the same annual average levels of the previous two years.

West Texas Intermediate spot prices averaged \$98 per barrel (bbl) in 2013, up 4% from 2012 and the highest annual average since 2008. New pipeline and railroad infrastructure alleviated transportation constraints that had put downward pressure on WTI prices. The North Sea Brent spot price averaged \$109/bbl, down 3% from 2012. Brent prices came under downward pressure as rising U.S. light sweet crude oil production reduced the need for U.S. imports, thereby increasing supplies of Brent-quality crude oil available to the global market.

According to the EIA, domestic crude oil production increased by 1 million bbl/d—rising more than the combined increases in the rest of the world—to reach its highest level in 24 years. This increase marked the largest observed annual increase in U.S. history.

Source: US EIA, <http://www.eia.gov/todayinenergy/detail.cfm?id=14531#>

