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Energy Risk
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HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending January 2, and we offer our thoughts within the context of our forecast U.S. refinery balances. In a nutshell, the data were bearish across the board.

Turning first to crude oil, stocks rose by 6.7 million barrels. Supplies now total 325.4 million barrels and are 39.0 million barrels above last year. Stocks in PAD II increased by 1.2 million barrels, including a rise at Cushing of 4.1 million barrels. Supplies in PAD III gained by 3.9 million barrels. Adding up all other districts yields a net inventory increase of 1.8 million barrels.

Refinery crude oil runs recovered by 332 MB/D on the week to average more than 14.5 MMB/D. Gross crude oil imports rose by more than 1.2 MMB/D and averaged almost 10.5 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by almost 6.3 million barrels.

With regard to refined products, the DOE reported that distillate fuel oil inventories rose by 1.8 million barrels to a total of 137.8 million barrels, lying some 4.0 million barrels above last year. The aggregate increase was composed of a 4.1 million barrel rise in ultra low-sulphur diesel stocks, a 1.4 million barrel decline in other diesel stocks, and a 900,000 barrel fall in heating oil inventories.

Refinery production of distillate fuel rose by 8 MB/D from the previous week and averaged almost 4.6 MMB/D. Gross distillate imports increased by 157 MB/D to average 307 MB/D.

Implied distillate demand rose by 8 MB/D from the prior period and averaged around 4.3 MMB/D. Over the last four weeks implied distillate demand rose by 0.3% versus the prior year. Year-to-date data will not be provided by the DOE until numbers for the week ending April 3 are issued.

Finally, the DOE reported that primary gasoline inventories rose by 3.3 million barrels. Stocks now stand at 211.4 million barrels and retain a 7.1 million barrel deficit to last year. The increase included a 1.4 million barrel gain in finished mogas supplies and a 2.0 million barrel increase in blendstocks.

Refinery output of finished gasoline rose by 176 MB/D from the previous period and averaged about 9.1 MMB/D. Gross imports of total gasoline dropped by 293 MB/D to average 852 MB/D.

Implied gasoline demand eased by 116 MB/D on the week and averaged less than 9.0 MMB/D. Over the last four weeks implied demand has declined by 2.2% versus the prior year.

On balance, despite all the talk about weather-related delays to imports, the crude oil stock build reflected the landing of cargoes held offshore until December 31 for tax purposes. From year to year the data will reflect such behavior either during the first or second week of January, depending upon reporting procedures. This time around, it came a bit earlier than usual.

Such early-year stock recovery is to be expected, with lower crude oil prices the customary result until the upcoming "weak" second quarter is fully discounted, setting the stage for a seasonal price recovery as we move through the second quarter as our Base Case assumes.

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