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Energy Risk
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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending July 24, and we wish to offer our thoughts on the data within the context of our forecast refinery balances. In a nutshell, the crude oil build was bearish, the gasoline draw was bullish, while the distillate stock gain was larger than the market was looking for.

Turning first to crude oil, stocks rose by 5.1 million barrels. Standing at 347.8 million barrels, supplies lie some 52.4 million barrels above last year. Stocks in PAD II increased by 800,000 barrels, rising at Cushing by 1.3 million barrels. Supplies in PAD III rose by 1.7 million barrels. Adding up all other districts yields a net inventory increase of 2.7 million barrels.

Refinery crude oil runs fell by 171 MB/D from the previous week and averaged about 14.6 MMB/D. Gross crude oil imports surged by 821 MB/D to average more than 10.0 MMB/D. Taking the DOE estimate of domestic crude oil production for the week averaging some 5.1 MMB/D, total stocks “should have” risen by almost 3.7 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories declined by 2.3 million barrels. The fall included a 200,000 barrel decline in finished mogas supplies and a 2.2 million barrel drop in blendstocks. Supplies total 213.1 million barrels and are 5.3 million barrels above last year.

Refinery output of finished gasoline declined by 259 MB/D from the prior period and averaged less than 9.0 MMB/D. Gross imports of total mogas fell by 35 MB/D to average 991 MB/D.

Implied gasoline demand eased by 84 MB/D on the week and averaged under 9.2 MMB/D. Over the last four weeks implied gasoline demand is up by 0.8% from last year, while year to date has declined by 0.8% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil inventories rose by 2.1 million barrels. Stocks now stand at 162.6 million barrels and lie 34.1 million barrels above last year at this time. The aggregate stock increase was composed of a 1.4 million barrel gain in ultra low-sulphur diesel stocks, a 500,000 barrel rise in other diesel supplies, and a 200,000 barrel increase in heating oil inventories.

Refinery production of distillate declined by 65 MB/D from the previous period and averaged less than 4.0 MMB/D. Gross distillate imports rose by 2 MB/D to average 254 MB/D.

Implied distillate demand fell by 190 MB/D from the prior week and averaged under 3.3 MMB/D. For the past four weeks implied distillate demand is off by 10.7% from last year, while year to date has declined by 9.5% versus the comparable period in 2008.

On balance, the data are consistent with our refiner product management thesis, as crude runs and product yields declined. The crude oil build reflected our expected “gestation period”, where over the short term crude oil supplies back up as runs decline. Assuming the data were not an aberration, we would expect stabilization/declines in product stocks through the third quarter.

The key to flat price behavior, therefore, is the level of crude oil imports, which we have assumed will fall back into a somewhat lower normalized mean once refiners adjust purchases to lower average refinery run rates, thus eventually precluding further builds in crude oil stocks.

W.H. Brown, III

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