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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 18, Volume 9

October 3, 2014

Canada

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National Overview

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

For the week ending September 30, 2014, Canadian average retail gasoline prices increased by less than 1 cent per litre from the previous week to $1.30 per litre.

Retail pump prices are nearly 6 cents per litre higher than during the same period last year. Pump prices were driven up by higher wholesale gasoline prices across North America.

Diesel fuel prices decreased by less than 1 cent per litre to $1.28 per litre. Furnace oil prices declined by 1 cent per litre to $1.23 per litre from the previous week.

Recent Developments

- **Propane Inventories Rise**: Canadian propane stocks increased by 356 thousand cubic metres (+25%) in September 2014 to 1.8 million cubic metres compared to the same period last year. Western Canada inventories increased by 167 thousand cubic metres and Eastern Canada inventories increased by 189 thousand cubic metres. (Source: National Energy Board, http://www.neb-one.gc.ca/clf-nsi/rnrgynfmtn/sttstc/lqdptrlmgs/lqdptrlmgs-eng.html)
- **More European Refineries to Shut Down**: According to the French company Total SA and the world's largest oil trader Vitol, the newest oil refinery in Saudi Arabia reached full capacity last month, increasing the international competition that will force the closing of more European plants. European refineries are facing a global overcapacity and should close about 10 percent of refining capacity by 2020 because of falling domestic demand and rising competition. (Source: Bloomberg, September 24, 2014)
- **Domestic Gasoline Sales Up 2%**: Canadians consumed 22 billion litres of gasoline in the first six months of 2014, or nearly 500 million litres more than the same period last year. In the same period, diesel fuel sales increased by 2.5% to 14.7 billion litres, while furnace oil sales declined by 4% to 1.4 billion litres. (Statistics Canada, Cansim Table 134-0004)

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

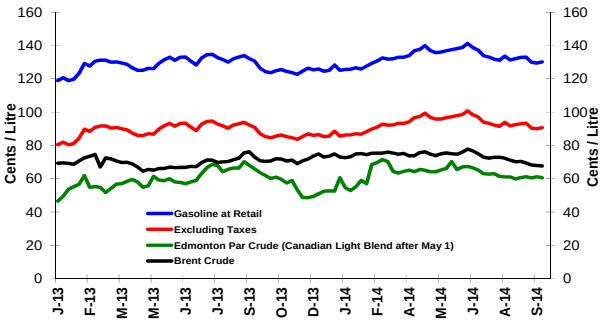
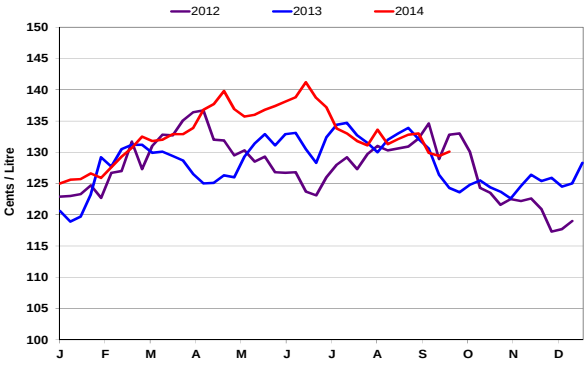


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2014-09-30	Previous Week	Last Year
Gasoline	130.1	+0.7	+5.8
Diesel	128.1	-0.4	+1.4
Furnace Oil	122.7	-1.2	+3.3

Source: NRCan

Natural Gas Prices for Vehicles

2014-09-30	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	119.9	79.1	82.0
Edmonton	115.1	75.9	78.7
Toronto	128.3	84.6	87.8

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

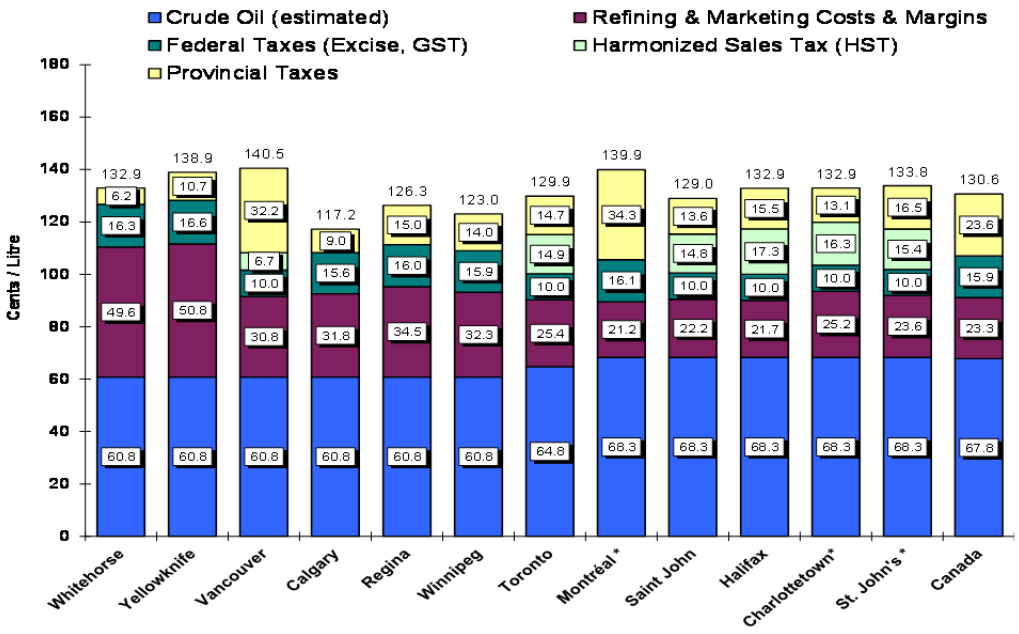
The average Canadian pump price in selected cities for the **four-week average** ending September 30, 2014, was $1.31 per litre. This represents a decrease of 1 cent per litre compared to the same period in 2013.

The **four-week average** crude oil price decreased by less than 1 cent per litre to 68 cents per litre compared to two weeks ago.

Retail gasoline prices in most Western centres—Vancouver to Winnipeg—decreased by 1 cent per litre when compared to the previous report and ranged from $1.17 per litre to $1.41 per litre. Prices in Eastern cities—Toronto to St. John's—decreased by 1 cent per litre and ranged from $1.23 to $1.40 per litre.

At the national level, refining and marketing costs, and margins declined by 1 cent per litre to 23 cents per litre. This represents an increase of 2 cents per litre compared to last year at this time.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (September 9 to 30, 2014)



Source: NRCan ** Regulated Markets*

Note: Toronto crude oil cost includes pipeline tolls of $4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

Inflation Rose 2.1% in August 2014

According to Statistics Canada's Consumer Price Index (CPI) report, released September 19, 2014, inflation rose 2.1% in the 12 months to August, matching the increase in July.

Transportation costs rose 1.2% on a year-over-year basis in August, following a 1.3% increase in July. The purchase of passenger vehicles index advanced 2.9% in the 12 months to August, after rising 1.3% the previous month. Conversely, gasoline prices decreased 0.1% in August compared with the same month a year earlier. This decline followed a 2.1% gain in July.

Saskatchewan's CPI advanced 2.7% in the 12 months to August. Among the provinces, Saskatchewan recorded the highest year-over-year increase in the purchase of passenger vehicles index (+6.1%). It was also one of three provinces, along with Ontario and Alberta, where gasoline prices rose in August compared with the same month a year earlier.

Source: The Daily, http://www.statcan.gc.ca/daily-quotidien/140919/dq140919a-eng.htm

Wholesale Gasoline Prices

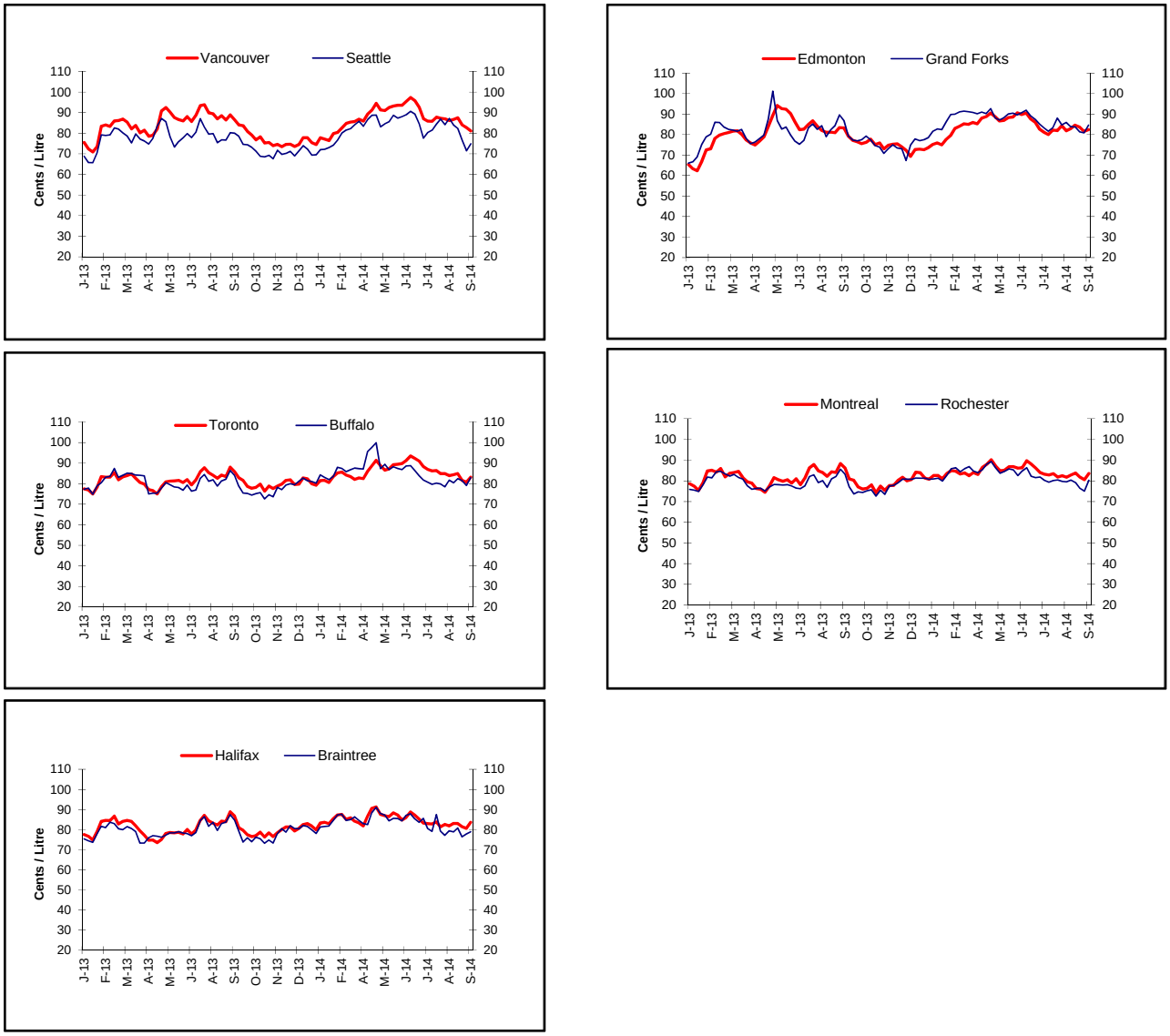
Wholesale gasoline prices increased in most selected Canadian and American centres for the week ending September 25, 2014.

Wholesale gasoline prices ranged from a decrease of nearly 2 cents per litre to an increase of 5 cents per litre. Prices ended the period in the 75 to 85 cent-per-litre range.

In the Eastern markets of Canada and the United States, wholesale gasoline prices ranged from 79 cents per litre to 84 cents per litre. All Eastern centres experienced price increases ranging from 1 cent per litre to 5 cents per litre.

Wholesale gasoline prices in the Western centres ranged from a decrease of 2 cents per litre to an increase of nearly 4 cents per litre, ending in the range of 75 to 85 cents per litre. Prices in Canadian and American centres increased in the range of less than 1 to nearly 8 cents per litre compared to last year at the same period.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending September 25, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

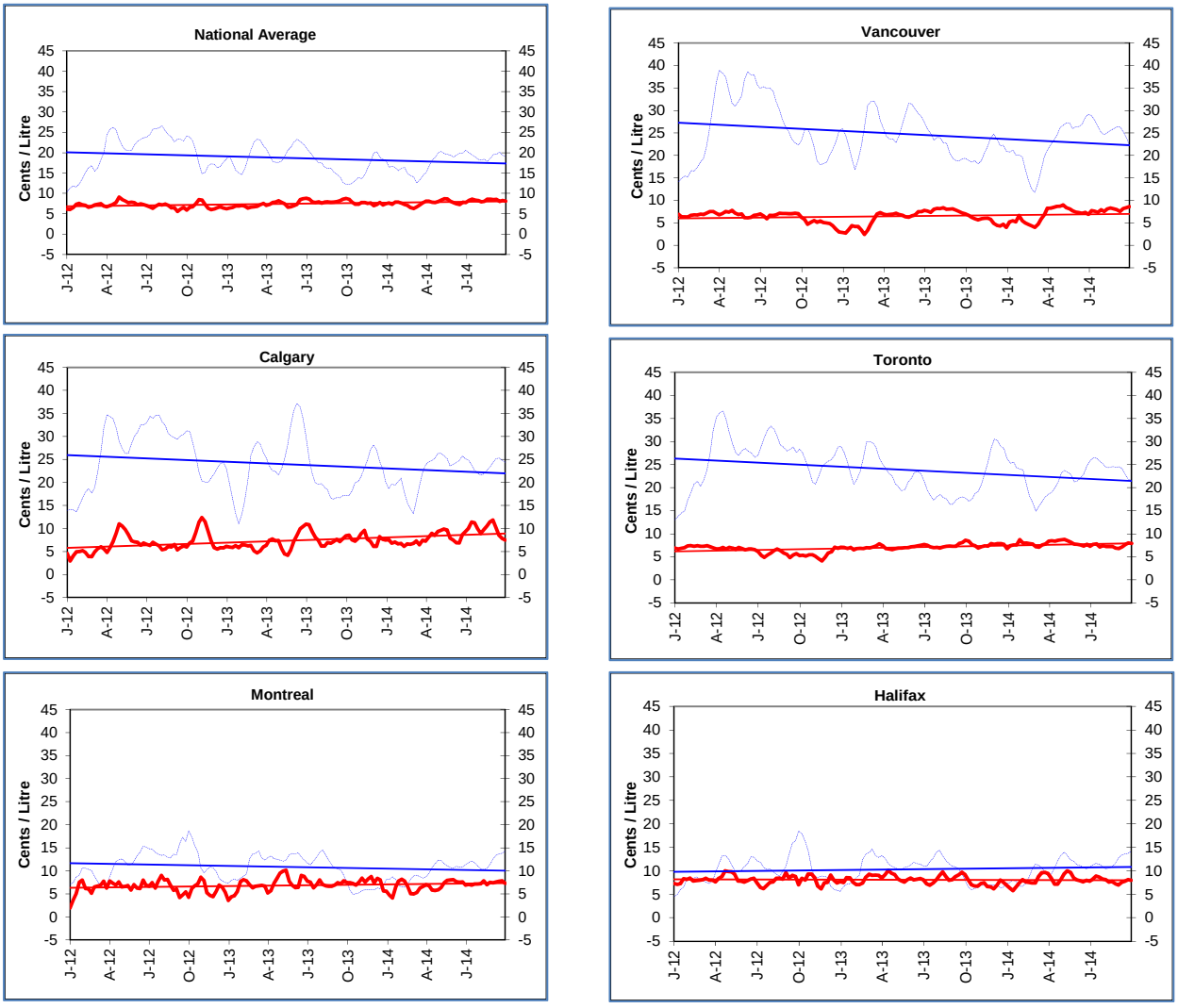
Four-week rolling averages are used for gasoline refining and marketing margins.

Gasoline refining margins in the last 2 weeks have shown a slight drop and ended the week at 19 cents per litre. Overall, these margins have remained relatively stable since May 2014. This reflects a soft demand for gasoline and an adequate supply in the North American distribution system. In addition, strong U.S. gasoline and crude oil inventories create a downward pressure on prices which, in turn, moderate refining margins.

This margin is very much a function of the gasoline supply situation and the local market conditions. In turn, the local market conditions can have a considerable impact on short-term wholesale gasoline prices.

Overall, marketing margins hovered around 8 cents per litre. Marketing margins for the five centres ranged from a low of 7.3 cents per litre to a high of 8.6 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending September 30, 2014
Refining Margin — Marketing Margin



Source: NRCan

Crude Oil Overview

Global Crude Oil Prices Push Lower

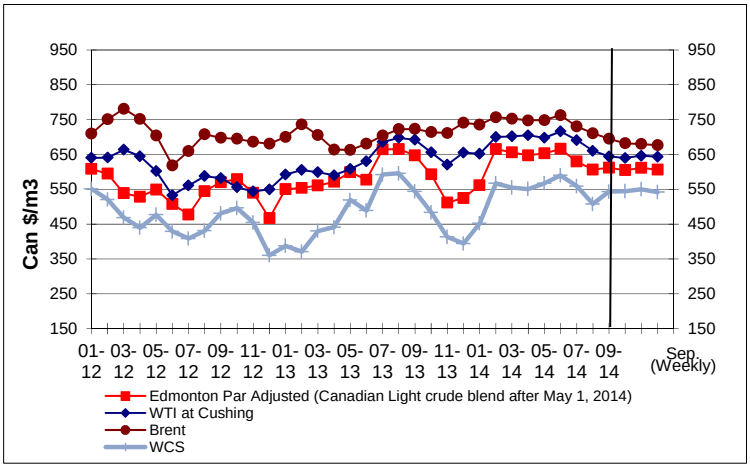
For the week ending **September 26, 2014**, prices for the three light marker crudes averaged between $606/m^3$ and $676/m^3$, (US$87 to US$97 per barrel). Compared to the previous week, the price for Canadian Light crude oil declined by $5/m^3$ (US$2 per barrel) while the WTI and Brent decreased by $3 and $4/m^3$ (US$1.28 and US$1.44 per barrel), respectively.

While all light crude oil benchmark prices were below last year's level, Western Canadian Select prices registered an increase of $59/m^3$ (US$3 per barrel) compared to the same time last year.

Global crude oil prices remained firm partly as a result of air and missile strikes on oilfields in eastern Syria in an apparent attack by U.S.-led forces against Islamic State militants.

However, strong crude oil production from Libya and forecasts of slow economic growth in Europe and China helped moderate the rise in prices. In addition, Saudi Arabia increased oil exports in August pushing further oil supply on the global energy markets.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-09-26		Change From:			
			Previous Week		Last Year	
	$Can/$ m^3	$US/ bbl	$Can/$ m^3	$US/ bbl	$Can/$ m^3	$US/ bbl
Canadian Light	605.96	86.90	-5.40	-1.61	-11.42	-8.41
WTI	643.34	92.26	-2.77	-1.28	-24.25	-10.80
Brent	676.05	96.95	-3.63	-1.44	-27.41	-11.64
WCS	541.33	77.63	-8.71	-2.00	+58.73	+3.13

Source: NRCan

Decline in Global Oil Demand

The International Energy Agency (IEA) *Oil Market Report* (OMR) for September trimmed global oil demand growth for 2014 and 2015 to 0.9 million barrels per day (mb/d) and 1.2 mb/d, respectively, because of a pronounced slowdown in demand growth in the second quarter of this year and a weaker outlook for Europe and China. Demand in 2015 is now set at 93.8 mb/d, the monthly report informed subscribers.

Global supply declined 400,000 barrels per day (400 kb/d) in August, to 92.9 mb/d, as non-OPEC production eased. Also, non-OPEC production fell by 130 kb/d in August to 30.31 mb/d as a steady recovery in Libya failed to offset lower supply from Saudi Arabia and Iraq. But compared with August 2013, global supply rose 810 kb/d as a 1.2 mb/d rise in non-OPEC output more than offset a 370 kb/d year-on-year drop for OPEC. Non-OPEC supply is set to expand by 1.6 mb/d in 2014, and 1.3 mb/d in 2015, to reach 57.6 mb/d.

The weaker demand outlook as well as robust non-OPEC supply growth led the OMR to trim its "call on OPEC crude and stock change" by 200 kb/d for the fourth quarter of this year to 30.6 mb/d and 300 kb/d for 2015 to 29.6 mb/d.

Source: IEA, Oil Market Report.

Narrowing of Global Crude Oil Price Differentials

In a previous Supplement we discussed changing North American crude oil price dynamics, and the relationship between crude oil prices and transportation costs for crude oil by pipeline and rail (Volume 9, Issue 7 of May 2, 2014, http://www.nrcan.gc.ca/energy/fuel-prices/gasoline-reports/15981#supsup).

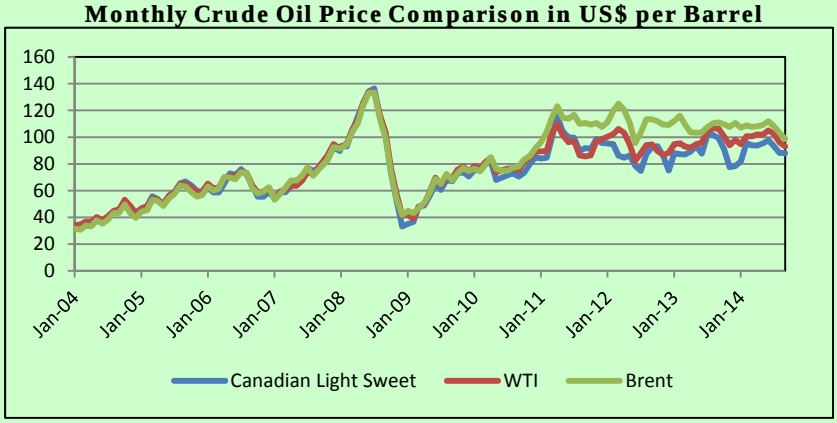
In particular we noted that the West Texas Intermediate (WTI) and Edmonton Par (Canadian Light Sweet) prices could be expected to trend towards Brent prices less the transportation costs to tidewater. Since pipeline tolls from Edmonton to tidewater in Burnaby, British Columbia and from Cushing to the U.S. Gulf Coast are in the $3 per barrel range, so long as pipeline capacity at this price is available, one could expect Edmonton Par and WTI prices to be close to Brent prices. However, in 2013, Edmonton Par and WTI prices were US$18.49 and US$10.73 per barrel lower than Brent, respectively. This was due to insufficient pipeline capacity from Edmonton to tidewater, and from Cushing to tidewater. As pipeline capacity was added, these discounts were expected to narrow.

In 2014, oil price differentials narrowed considerably. The price differentials between global light crude oil prices (e.g., Brent) and U.S. (WTI) and Canadian light crude prices, are shown in the graph below. These price differentials are considerably less than in 2013 and 2012. The Canadian Light Sweet and WTI average year-to-date prices stand at US$15 and US$7 per barrel less than Brent, respectively. These differentials have narrowed dramatically since 2012. In contrast, the price differential between WTI and Canadian Light Sweet crude oil has remained at roughly US$8 per barrel since 2012.

Average Crude Oil Price Differentials			
US$ per barrel	Brent vs. WTI	Brent vs. Canadian Light	WTI vs. Canadian Light
2012	17.77	25.70	7.93
2013	10.74	18.57	7.84
2014 YTD	7.42	15.07	7.65

The main factors that caused the discounts compared to Brent for Canadian Light Sweet crude oil and WTI to shrink in 2014 were increased pipeline capacity and increased shipping of oil by rail. The increase in the Seaway pipeline capacity in 2013, (which transports oil out of Cushing, Oklahoma, to the U.S. Gulf of Mexico) prevented a build-up of inventories in the U.S. Midwest. At the same time, crude oil by rail capacity has expanded – in 2014 reaching levels almost 15 times the amount transported by rail three years ago. Oil by rail is now reaching Montreal and Saint John refineries. Suncor Energy recently moved its first shipment of heavy crude from Western Canada by rail to a tidewater port in Quebec and from there to an oil refinery on the Italian island of Sardinia by marine tanker.

Monthly Crude Oil Price Comparison in US$ per Barrel



Other factors in the narrowing of crude oil price differentials include the weakening of Brent prices. On September 26, 2014, Brent crude (US$ 97) was trading at close to its two-year low as increasing oil supply and signs of weakening oil demand countered worries that conflicts in the Middle East could curb output. In addition, concerns have waned that an insurgency in Iraq could cut the country's oil exports. The recovery in Libyan crude oil output, combined with the weakening forecast for global oil demand, has further contributed to weaken Brent crude oil prices.

While more Western Canadian crude oil is leaving Western Canada by pipelines and by rail, and this has reduced the price spread between Canadian Light Sweet and Brent, and between WTI and Brent, we do not expect the premium for Brent over WTI or Canadian Light Sweet crudes to completely disappear in the near future.