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Fuel Focus

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

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National Overview

Canadian Average Retail Gasoline Price Decreased by 3 cents per litre from last week

After falling for six consecutive weeks, the average retail price for gasoline increased the week of August 12. The average price rose by more than 2 cents per litre to reach \$1.34. The Canadian price then dropped this week, settling at \$1.31 per litre.

Although diesel prices dropped this week, they continue to trend higher than last summer. The year over year margin currently sits at approximately 4 cents per litre. Natural gas prices for vehicles have not changed since the last Fuel Focus Report two weeks ago.

Recent Developments

• Energy Related Research & Development

Energy-related R&D rose 18.4% from 2011 to \$2.0 billion in 2012, mostly as a result of increases in R&D expenses related to fossil fuel technologies. R&D spending on fossil fuel technologies was concentrated in oil sands and heavy crude oil technologies, up 53.6% to \$886 million, and in crude oil and natural gas technologies, almost unchanged at \$554 million. (Source: Statistics Canada, The Daily)

• Brent Crude Drops to Lowest Since June 2013 as Supply Risks Ease

Brent crude oil sunk by more than \$2 a bbl to its lowest price in over a year on Monday (August 18) as investor concerns over conflict in Ukraine and Iraq eased, and as higher Libyan oil output added to already ample supplies. Brent crude fell \$2.16 to \$101.37 a barrel by 11:46 a.m. EDT after notching a session low of \$101.11, the lowest since June 24, 2013. (Source: Reuters, <http://in.reuters.com/article/2014/08/18/market-s-oil-idINKBNOGI1LD20140818>)

• Are diesel cars a good choice for Canadians?

An article in the Globe and Mail discusses some of the pros and cons of diesel powered vehicles. Diesels make up about half of all car sales in Europe, but the engine has only a 3 per cent share of the North American market.

Source: <http://www.theglobeandmail.com/globe-drive/culture/technology/the-diesel-dilemma-popularity-in-europe-hard-to-find-here/article20139895/>

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

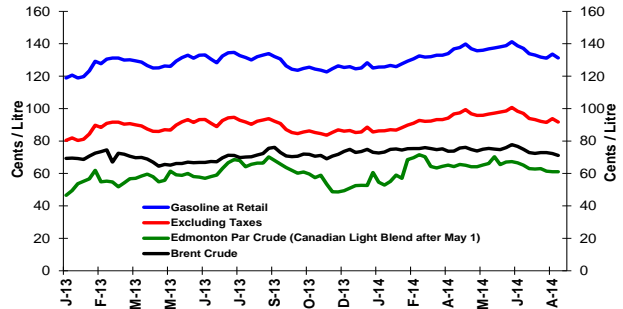
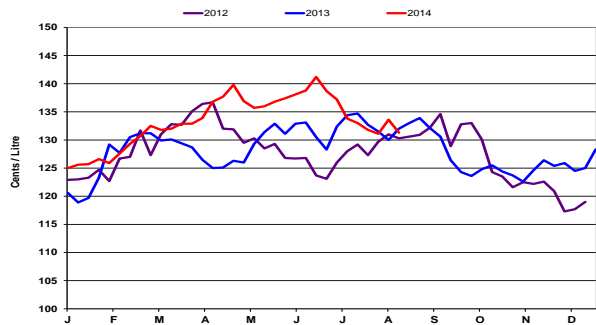


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2014-08-19	Previous Week	Last Year
Gasoline	131.3	-2.3	-0.7
Diesel	129.7	-0.4	+4.3
Furnace Oil	124.5	+0.2	+5.8

Source: NRCan

Natural Gas Prices for Vehicles

2014-08-19	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	118.3	78.0	80.9
Edmonton	115.1	75.9	78.7
Toronto	128.3	84.6	87.8

Source: ¢/kg Kent Marketing Services Limited

In this Issue

	Page
National Overview	1
Recent Developments	1
Retail Gasoline Overview	2
Wholesale Gasoline Prices	3
Gasoline Refining and Marketing Margins	4
Crude Oil Overview	5





Retail Gasoline Overview

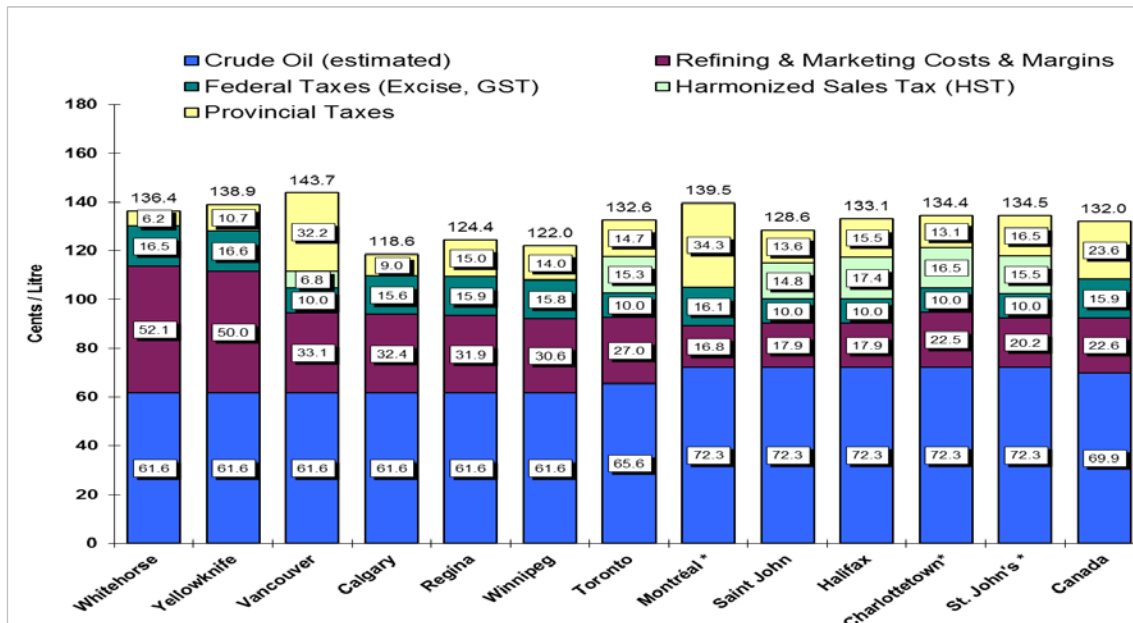
The **four-week average** Canadian pump price in selected cities across Canada was \$1.32 per litre for the period ending August 19, 2014. The average pump price is unchanged from the last report on August 5, as well as from the same period last year.

For the period ending August 19, 2014, the **four-week average** crude oil price component of gasoline registered at 70 cents per litre. This is an increase of 2 cents per litre compared to the same period in 2013.

Retail prices in eastern centres decreased, on average, by less than 1 cent per litre compared to the last report two weeks ago. Retail prices ranged from \$1.29 to \$1.40 per litre. Prices in western centres also decreased, on average, by more than 1 cent per litre and ranged from \$1.19 to \$1.44 per litre.

At the national level, refining and marketing costs increased by 1 cent per litre from the previous report to settle at 23 cents per litre. This is two cents per litre lower compared to this time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (July 29 to August 19, 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.

US Short-Term Energy Outlook

According to the U.S. Energy Information Administration (EIA) *Short-Term Energy Outlook*, released on August 12, 2014, U.S. regular gasoline retail prices fell to an average of \$3.61 per gallon (gal) in July, 8 cents/gal below the June average. Regular gasoline retail prices are projected to continue to decline to an average of \$3.30/gal in December. The EIA expects regular gasoline retail prices to average \$3.50/gal in 2014 and \$3.46/gal in 2015, compared with \$3.51/gal in 2013.

The report notes that motor gasoline consumption grew by 90,000 bbl/d (1.1%) in 2013, the largest annual increase since 2006. The EIA forecasts that motor gasoline consumption will grow by 40,000 bbl/d in 2014 and then fall by 10,000 bbl/d in 2015 as improving fuel economy in new vehicles increasingly offsets highway travel growth. Distillate fuel consumption increased by 90,000 bbl/d (2.5%) last year, reflecting colder weather and economic growth. Consumption of that fuel is forecasted to rise by 140,000 bbl/d and 70,000 bbl/d in 2014 and 2015, respectively.

Source: U.S. Energy Information Administration, <http://www.eia.gov/forecasts/steo/index.cfm>





Wholesale Gasoline Prices

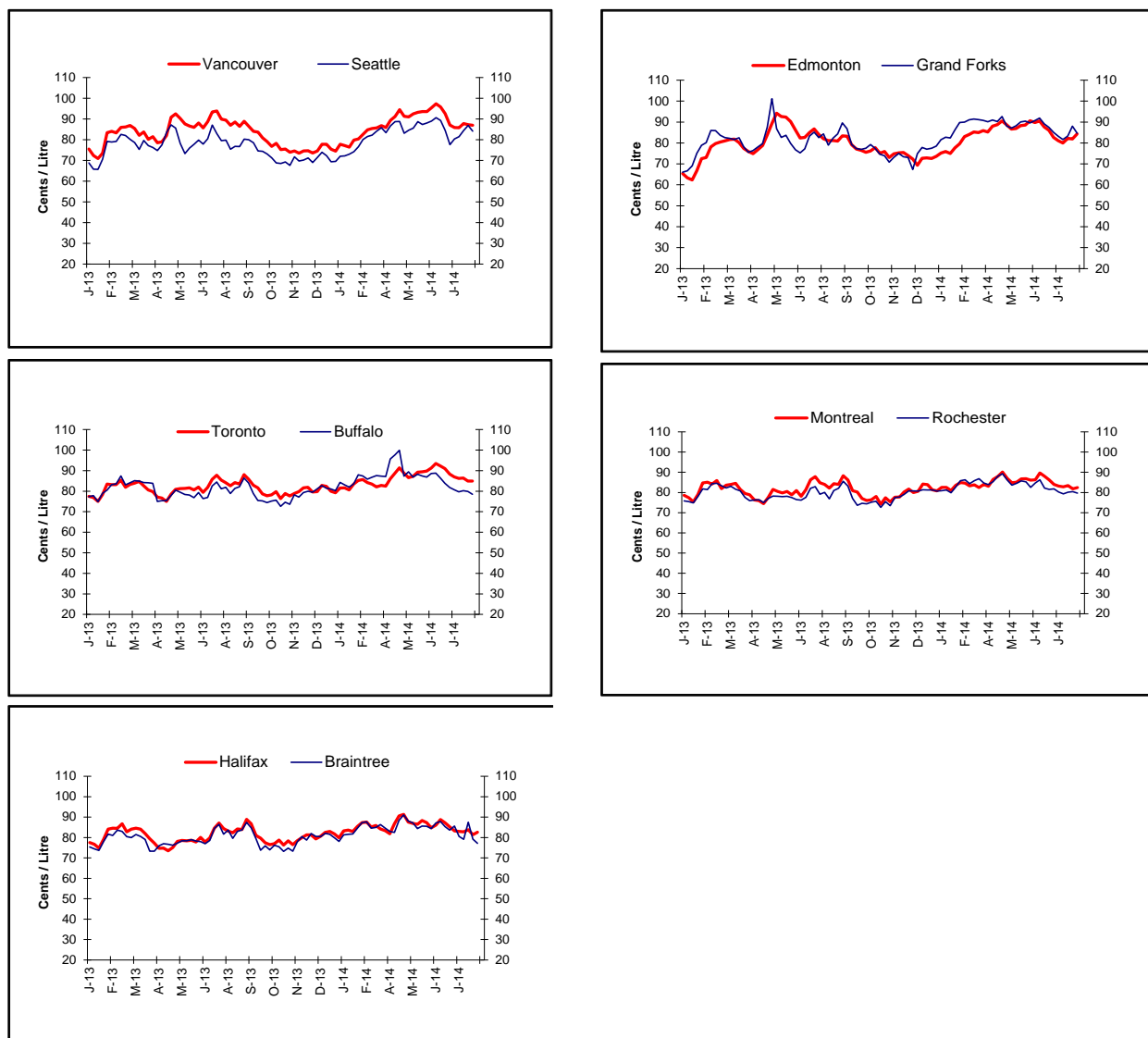
Compared to the previous week, wholesale gasoline prices for the week **ending August 14, 2014** increased in most of the selected Canadian centres. Prices in each of the selected American centers decreased.

Wholesale gasoline price changes in Canada ranged from an increase of more than 2 cents per litre to a decrease of less than 1 cent per litre. Price decreases in the United States were all less than 4 cents per litre. Prices finished the period in the 77-to 87-cent-per-litre range.

In the Eastern markets of Canada and the United States, wholesale gasoline prices fluctuated within a narrow band of 3 cents per litre. Price changes in the Western centres ranged from a decrease of more than 3 cents per litre to an increase of more than 2 cents per litre.

Generally speaking, wholesale gasoline prices in the East are lower than they were at this time last year. Prices in the western centres are mainly trending higher.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending August 14, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

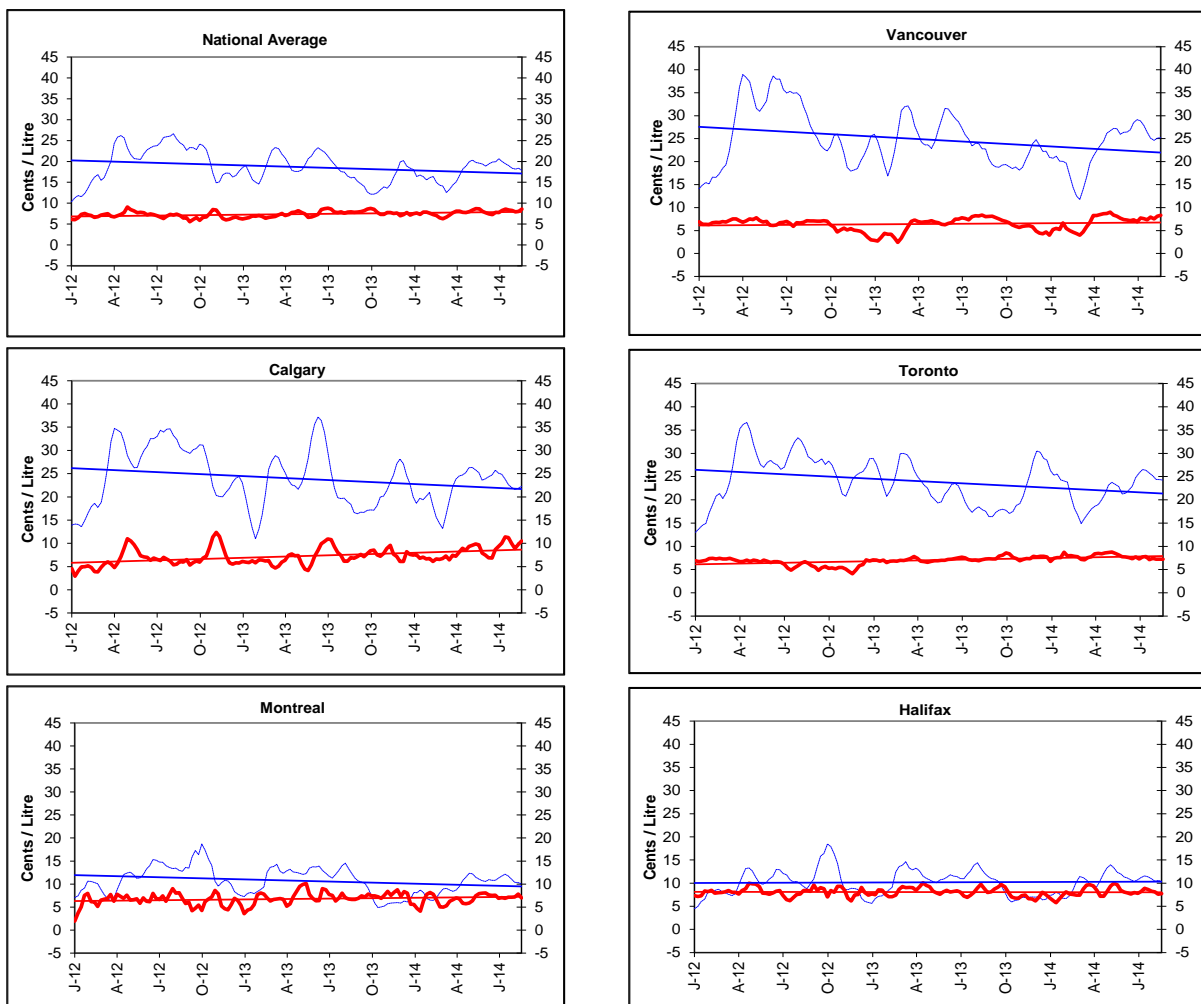
Four-week rolling averages are used for the gasoline refining and marketing margins. Figure 5 shows the trends for the period ending August 19, 2014.

Average Canadian gasoline refining margins are unchanged from the report two weeks ago, settling at 18 cents per litre. Gasoline supply in North America remains adequate, contributing to the lower refining margins witnessed over the last number of weeks.

Marketing margins can be volatile from week to week. Over the past number of weeks, margins in some Western centres have varied by as much as 8 cents per litre. Nationally, marketing margins are averaging around 9 cents per litre.

Marketing margins for the five centres ranged from a low of 7 cents per litre to a high of almost 11 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending August 19, 2014
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Prices Remain Stable

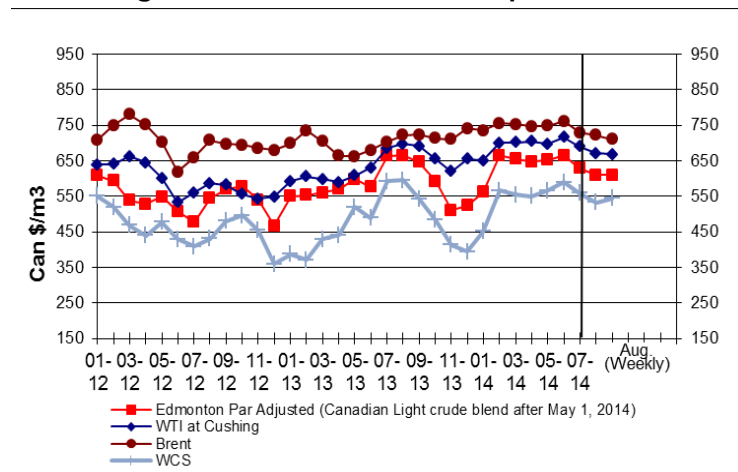
For the week ending **August 15, 2014**, prices for the three marker light crudes averaged between \$610/m³ and \$711/m³ (US\$89 to US\$104 per barrel). The price of Canadian Light Sweet increased marginally compared to last week, while the price of WTI and Brent fell by \$3/m³ and \$11/m³, respectively.

The price of Brent fell as Iraqi and Kurdish forces made gains against Islamic insurgents, reducing investor concerns about threats to Iraq's oil production and exports.

The price of Brent crude oil continues to trade at a premium to WTI. For the week ending August 15, 2014, the margin averaged \$43/m³ (US\$6 per barrel).

Over the last two weeks the price spread between WTI and Canadian Light Sweet crude has been fairly narrow, ranging from \$55/m³ to \$66/m³ (US\$8 to US\$10 per barrel).

Figure 6: Crude Oil Price Comparisons



Average Brent crude oil prices trade within \$5 per barrel range for 13 months in a row

Brent crude oil spot prices averaged \$107 per barrel (bbl) in July, marking the 13th consecutive month in which average Brent crude oil prices were between \$107/bbl and \$112/bbl.

Although supply growth from non-OPEC countries has outpaced world consumption in the past year, its potential price-reducing effect has been offset by unplanned supply outages among producers in the Organization of the Petroleum Exporting Countries (OPEC). The result has tightened world oil markets and placed upward pressure on prices.

This price stability has been remarkable compared with the volatility seen as recently as two years ago, when Brent spot prices ranged from as high as \$125/bbl in March 2012, to as low as \$95/bbl in June 2012.

Despite recent disruptions to OPEC supply and tighter world oil balances, EIA expects continued strong growth in non-OPEC supply to place downward pressure on Brent crude oil prices, causing them to gradually decrease through 2015, according to EIA's August 2014 Short-Term Energy Outlook.

Source : US EIA, Excerpts from Today in Energy (<http://www.eia.gov/todayinenergy/detail.cfm?id=17651>)

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-08-15		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Canadian Light	610.50	88.83	+0.23	+0.18	-51.80	-13.10
WTI	667.95	97.19	-3.31	-0.32	-27.73	-9.72
Brent	711.40	103.52	-11.48	-1.50	-2.08	-6.29
WCS	544.40	79.22	+10.88	+1.71	-4.68	-5.29

Source: NRCan

