

Energy

Prices Gain Strength

Third Quarter 2012

Crude oil prices have rebounded from June lows, rising over the third quarter. The spot price of West Texas Intermediate (WTI) crude has averaged \$95 per barrel so far in September, and Brent crude has averaged \$112 (Chart 1). In June, WTI averaged \$82 and Brent \$95.

Retail gasoline and diesel prices have been climbing since July. Regular-grade gasoline was \$3.85 a gallon at the beginning of September, slightly above year-ago levels (Chart 2). However, the market expects gasoline prices to decline the remainder of 2012 with the end of the summer driving season. For the fourth quarter, the Energy Information Administration (EIA) forecasts an average retail price of \$3.58 per gallon. The national average price for diesel was \$4.13 a gallon at the beginning of September, a 37-cent increase over the average for June.

World Supply and Demand

The latest data available from both the EIA and the International Energy Agency show a very small decrease in the global supply of oil in August versus July.

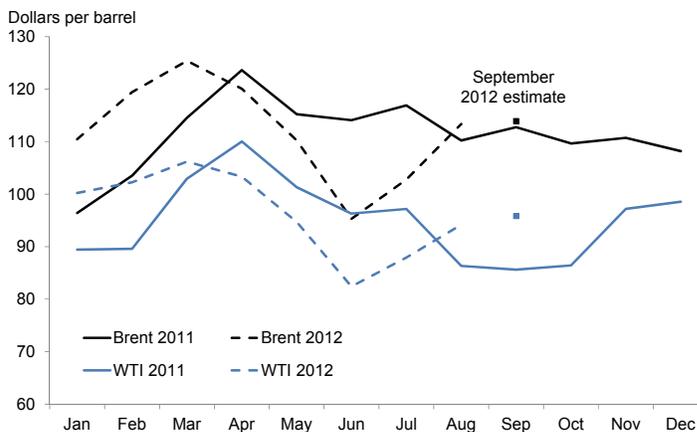
The EIA estimates crude oil production from the Organization of the Petroleum Exporting Countries (OPEC) to be 30.6 million barrels per day (mb/d) for the third quarter, down 0.4 mb/d from the second quarter. Iran's production was 2.7 mb/d in August, down 0.1 mb/d from July and 0.75 mb/d since the beginning of the year. Most of the production drop from Iran has been offset by increases from Saudi Arabia, Iraq and Libya.

Official production numbers may overstate the amount of crude oil available to world markets. Since the imposition of sanctions in July, Iran has been unable to export oil at normal levels. Thus, actual world supply is probably less than official EIA numbers indicate.

Due to seasonal factors that include the summer driving season in the Northern Hemisphere and higher consumption in the Middle East for electricity generation, global demand for oil products generally increases in the third quarter. In August, world consumption of petroleum was 89.48 mb/d, while production was only 88.55 (Chart 3).

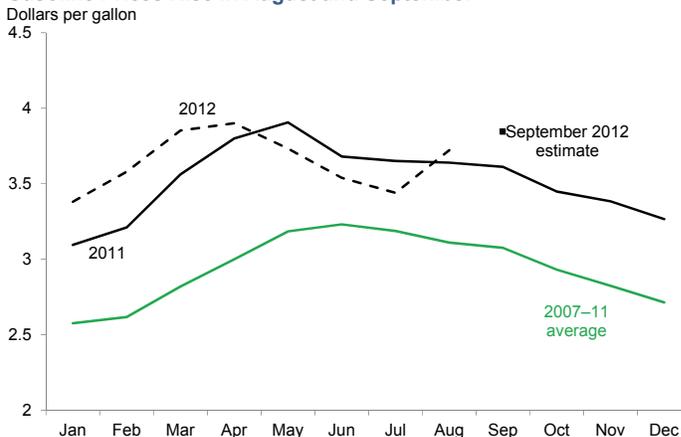
Worldwide inventories of petroleum products are decreasing as a result of consumption exceeding production. The

Chart 1
Crude Oil Prices Rebound from June Lows



SOURCES: Wall Street Journal, Financial Times.

Chart 2
Gasoline Prices Rise in August and September



SOURCE: Energy Information Administration.

EIA forecasts intermittent inventory withdrawals through second quarter 2013 (Chart 4).

Demand for oil products from countries outside the Organization for Economic Cooperation and Development continues to grow. The rate of growth, however, has slowed. China's product consumption was particularly weak in the second quarter but recovered somewhat at the beginning of the third. While China's gasoline consumption is increasing, the country's consumption of all petroleum products other than gasoline appears to have declined in recent months (Chart 5). Gasoline consumption makes up about 20 percent of China's total consumption, so increases in gasoline

Chart 3
World Consumption Exceeds Production in Third Quarter

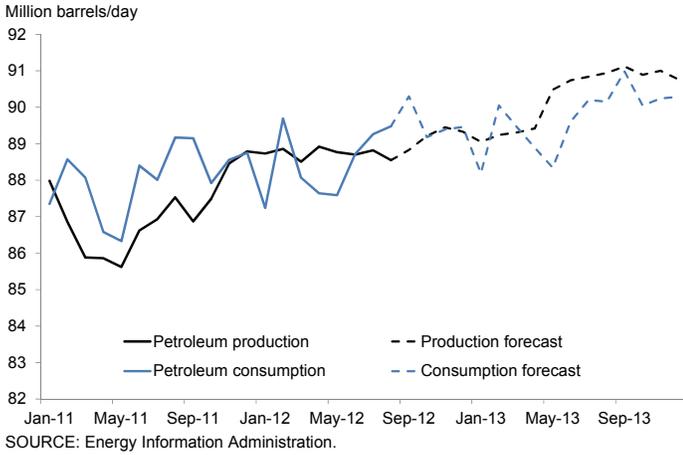


Chart 4
Change in Petroleum Inventories Negative for Rest of 2012

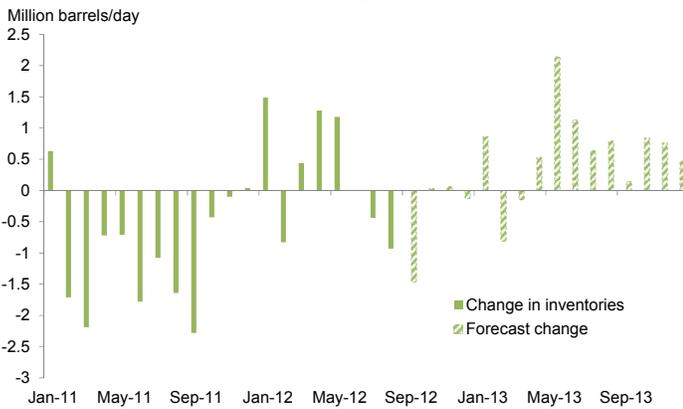
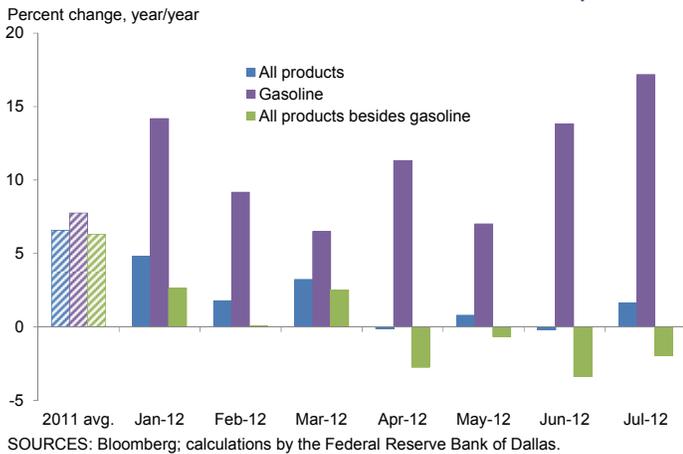


Chart 5
China Sees Slower Growth in Petroleum Products Consumption



consumption have not always led to increases in the consumption of all products.

U.S. Demand

Gasoline demand in the U.S. dropped in July but rebounded in August (*Chart 6*). While the preliminary data for July and August are subject to revision, actual average gasoline demand for the first half of 2012, 18.5 mb/d, was 0.4 mb/d lower than the average for the first half of 2011.

The EIA cites retail gasoline price increases and more-fuel-efficient vehicles as reasons for the decrease and forecasts almost flat year-over-year gasoline consumption for 2012.

Natural Gas Prices and Inventories

At the beginning of September, the Henry Hub natural gas spot price was \$2.78 per million Btu (MMBtu). Natural gas prices are up slightly from the second-quarter average of \$2.28 per MMBtu but remain low.

Generally, natural gas inventories rise in the summer, but the rate of increase in the third quarter is significantly lower than it was in previous years. Higher demand in August due to relatively high temperatures, and slower supply increases due to low prices, combined to cause the reduced rate of inventory increases. However, inventories remain 13 percent above year-ago levels (*Chart 7*).

—Amy Jordan and Michael Plante

About the Authors

Jordan is a research analyst and Plante is a research economist in the Research Department at the Federal Reserve Bank of Dallas.

Chart 6
U.S. Gasoline Demand Strengthens in August

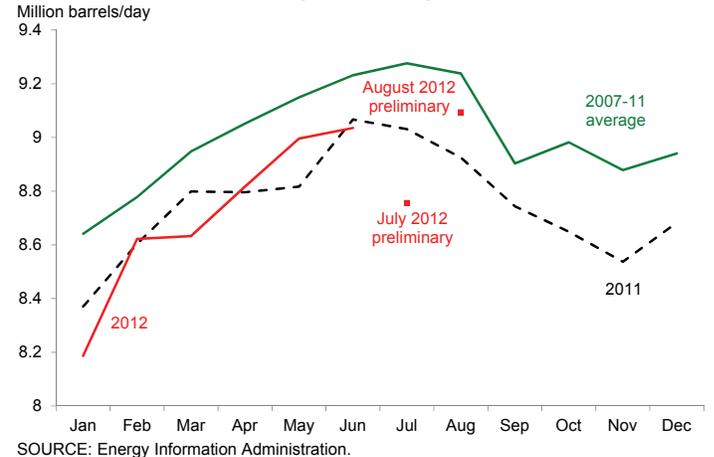


Chart 7
Surplus in Natural Gas Inventories Continues to Shrink

