



	Retail Prices		Change From Last	
	01/09/12		Week	Year
Gasoline	3.382	↑	0.083	↑ 0.293
Diesel Fuel	3.828	↑	0.045	↑ 0.495
Heating Oil	3.934	↑	0.091	↑ 0.572

Gasoline prices move higher for a third week in a row

The U.S. average retail price of regular gasoline rose just over eight cents last week to reach \$3.38 per gallon. The average price is about \$0.29 per gallon higher than last year at this time. The East Coast saw an increase of just over nine cents per gallon to reach \$3.41 per gallon. The national average diesel price rose for the first time in seven weeks, increasing almost a nickel to \$3.83 per gallon. The diesel price is \$0.50 per gallon higher than last year at this time. Prices on the East Coast saw the largest regional increase at just over six cents per gallon to put prices at \$3.91 per gallon. The residential heating oil price increased during the week ending January 9, 2012. The average residential heating oil price rose by \$0.09 per gallon last week to reach \$3.93 per gallon. This is the largest single week gain in residential heating oil prices since the beginning of the current data collection season, which started October 3, 2011. This price is also \$0.57 per gallon higher than the same time last year.

Commodity Corner Oil futures fell nearly 2% in a late-day selloff after reports emerged saying the European Union's possible embargo of Iranian oil imports would likely be delayed up to six months. New York Mercantile Exchange crude ended up closing below \$100 a barrel for the first time in 2012.

Light, sweet crude futures for February delivery ended the day down \$1.77, or 1.8%, at \$99.10 a barrel on the Nymex. Brent crude on the ICE Futures Europe exchange was down \$1.06, or 1%, at \$111.18 a barrel. Nymex futures had not closed below \$100 a barrel since Dec. 30.

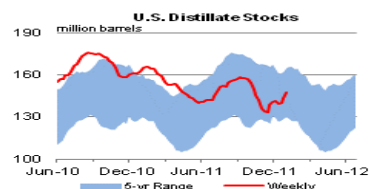
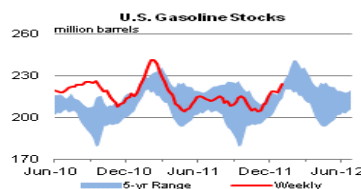
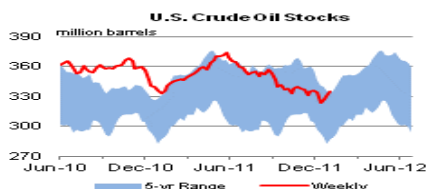
European Union officials announced an agreement in principle Jan. 4 to halt imports of Iranian oil because of Iran's nuclear development program, sending the oil market higher that day to a close of \$103.22. Still, the announcement at the time lacked a concrete timeline and offered little in the way of precise parameters. Futures had been trading higher all day Thursday, driven higher by word of a possible shutdown of Nigerian oil exports and a stronger euro, even as the market looked past bearish new economic data and weak U.S. fuel demand fundamentals. But it began a steep selloff with less than an hour to go in the session as multiple news agencies, citing unnamed EU officials, said Europe's Iran oil embargo could be delayed.

Describing the EU/Iranian situation and price impact, one analyst stated, "That's been the real driver behind this late-day selloff. That's been the only thing keeping prices in triple digits. Once you take the Iranian piece out of the puzzle, we're left with poor economic data and poor U.S. fundamental crude data. This is definitely an unwinding of that [Iran] premium."

The NYMEX heating oil contract and gasoline contract after spiking earlier in the both finished down. NYMEX HO settled .0105 lower and gasoline down .0302.

The Weekly DOE report on Wednesday showed a large 4.9 million build in crude stocks. Crude stocks now only 1.5 million above year ago levels. Gasoline stocks up 3.6 million with the majority of the builds on the East Coast, Mid West and West Coast. Total distillate stocks seen up 4.0 million with heating oil stocks down 1.5 million and diesel fuel stocks up 5.4 million. Heating oil stocks 8.8 million below year ago and diesel fuel stocks 8.4 million below year ago. Refinery run rates seen up 0.6% to 85.6%. An important part of the report was that total product demand dropped below the 18 mbpd mark to 17.811.

There have been more than a few news releases talking about the abysmal demand figures in the U.S. lately, and the DOE report on Wednesday proved to be yet one more piece of supporting evidence. Total oil demand for the first week of 2012 was just 17.8 million b/d. That's a 200,000-b/d drop in demand from the last week in 2011, and marks only the sixth time since 2000 that implied demand was reported under 18 million bbl. Gasoline demand by itself sunk 400,000 b/d to just over 8 million b/d -- the lowest level since early February 2003. Gasoline demand very low at 8.179 (down 377,000 bpd) and total distillate demand low at 3.279 (down 249,000 bpd).

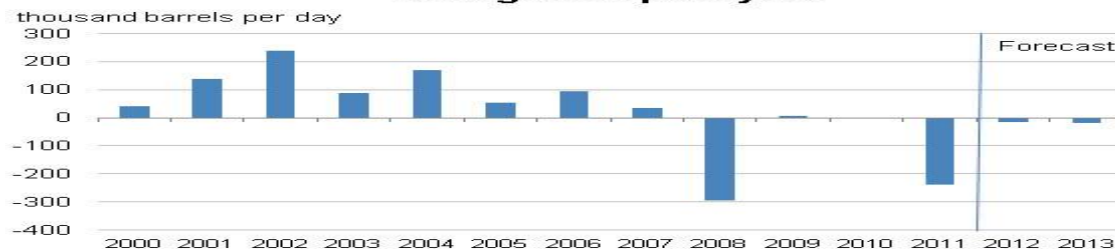


Topic of the Week: U.S. Motor Gasoline Consumption Patterns in the Near Term

After falling steeply from its 2007 peak, U.S. motor gasoline consumption will likely continue to decline in 2012 and 2013, albeit at slower pace, according to the U.S. Energy Information Administration's (EIA) latest report. There may be more downside than upside uncertainty in the forecast, however, as the strong rate of recovery expected for new car sales in 2012 and their higher fuel efficiencies could lead to greater-than-expected improvements in average fleet fuel efficiency.

U.S. motor gasoline consumption fell sharply between 2007 and 2011. In 2008, consumption fell by 300 thousand barrels per day (bbl/d) from the previous year, as high retail gasoline prices that persisted through October 2008 and the recession reduced highway travel. Consumption flattened in 2009 and 2010, but then dropped by 240 thousand bbl/d in 2011 as high gasoline prices contributed to the dampening of travel for most of the year. The latest STEO projects that gasoline consumption will fall by 20 thousand bbl/d (0.2 percent) annually in 2012 and 2013 (Figure 1), as modest growth in highway travel is more than offset by continuing improvements in the average vehicle fleet fuel economy.

Figure 1. U.S. Gasoline Consumption change from prior year



Source: U.S. Energy Information Administration, *Short-Term Energy Outlook*, January 2012

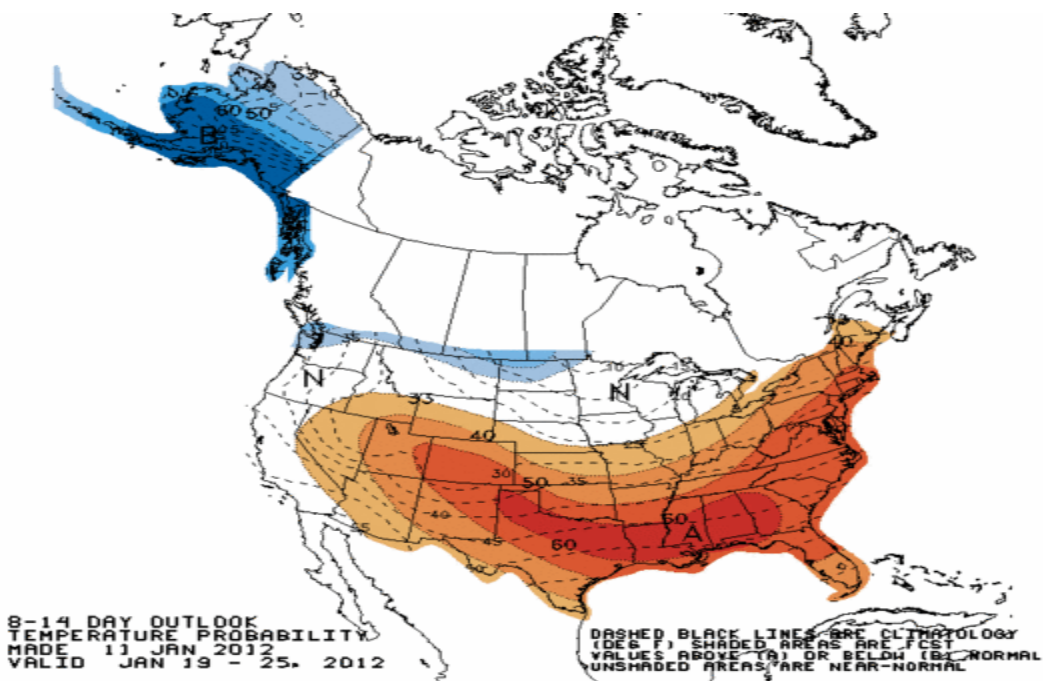
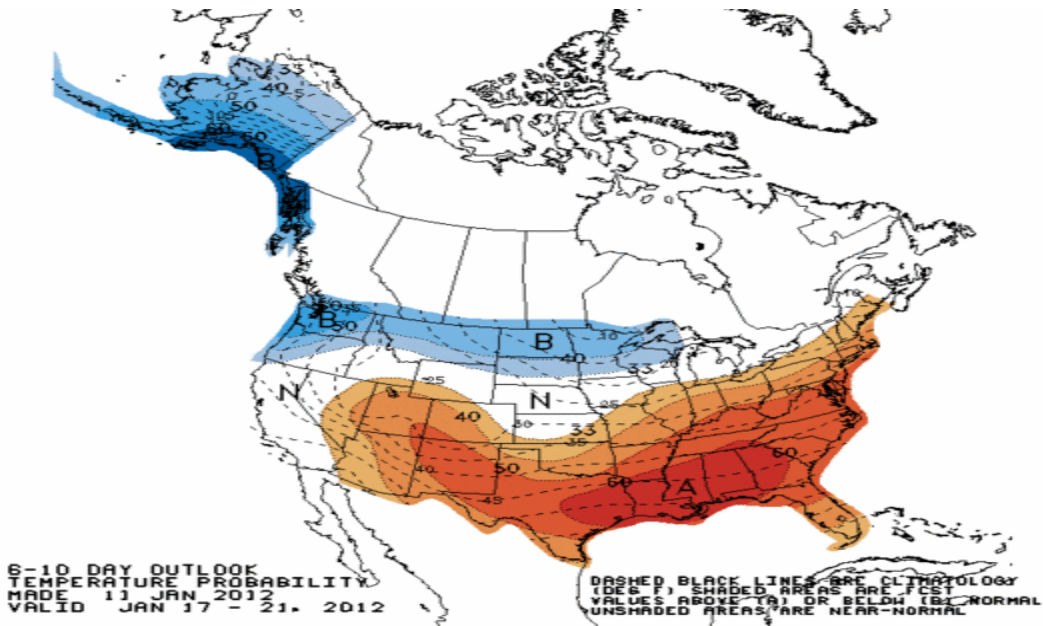
Population and economic growth, the rate of unemployment, and fuel prices influence vehicle miles traveled. Fleet efficiency, which changes slowly based on the efficiency of new vehicles relative to that of the existing fleet and the rate of fleet turnover, links miles traveled to fuel use. Forecasts through 2013 project highway travel will grow at an annual average rate of 0.6 percent, and vehicle fuel economy to continue to increase at a 0.9-percent rate over the next two years. It should be noted that the 27% increase in gasoline costs in 2011 was a major factor in reduced consumption.

The driving-age population is experiencing a major shift. The total population between the ages of 15 and 64 is projected to grow at an average rate of only 0.7 percent over the next two years, compared with an average 1.3-percent annual growth rate during the period of 1991-2000. In contrast, the total population of drivers 65 years old and over, who drive substantially less than those between 15 and 64 years of age, is projected to increase at an average rate of 3.5 percent, up significantly from the annual average growth rate of 1.2 percent during the period of 1991-2000.

As Corporate Average Fuel Economy Standards increase, motor gasoline-related vehicle fuel economy is expected to continue to improve. The U.S. Department of Transportation's Summary of Fuel Economy Performance reports estimated increases in the average vehicle fuel economy of cars and light trucks in use at 0.5 percent per year and 0.6 percent per year, respectively, between 1999 and 2009. Advances in vehicle fuel economy have been especially pronounced in the last few years. Between 2000 and 2005, new car and light truck average fuel economy increased by 6.3 percent and 3.8 percent, respectively. Between 2005 and 2010, average new car fuel economy improved by 11.9 percent while that for light trucks increased by 14.0 percent. EIA expects average fleet fuel economy of vehicles in use to improve by an average of 0.9 percent annually in 2012 and 2013.

Higher-than-projected economic growth would likely raise highway travel and, consequently, motor gasoline consumption. However, an accelerated economic recovery may also boost new vehicle sales, accelerating the replacement of older, less fuel-efficient vehicles and improving the aggregate fuel efficiency. The accelerated replacement of cars at least 10 years old (model year 2002 or older), with an estimated average fuel economy of about 29.0 miles per gallon or less, with new cars with an estimated average fuel economy of about 34 miles per gallon, would at least partially offset the positive effects of increased highway travel on motor gasoline consumption.

NOAA's 6-10 and 8-14 day forecast maps seen below.



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