



Retail Prices		Change From Last	
	02/13/12	Week	Year
Gasoline	3.523	↑ 0.041	↑ 0.383
Diesel Fuel	3.943	↑ 0.087	↑ 0.409
Heating Oil	4.032	↑ 0.060	↑ 0.445

Gasoline and diesel retail prices up for a third straight week

The U.S. average retail price of regular gasoline increased just over 4 cents to \$3.52 per gallon. The average price is about \$0.38 per gallon higher than last year at this time. Prices were up across all regions except the Midwest. East Coast prices were about 6 cents higher at \$3.61. The national average diesel price increased almost 9 cents to \$3.94 per gallon. The diesel price is \$0.41 per gallon higher than last year at this time. The East Coast increased 8 cents to \$4.03 per gallon and moved above the \$4 mark for the first time since May 2011. The U.S. residential heating oil price increased by \$0.06 per gallon during the week ending February 13, 2012 to \$4.03 per gallon. This price is nearly \$0.45 per gallon higher than the same time last year.

Commodity Corner-

Brent crude futures didn't have too much trouble advancing above \$120 bbl on Thursday, April Brent contracts were last quoted at \$120.22 bbl, and that implied that U.S. refiners dependent on Brent-based crude might have to pay \$120-\$125 bbl for landed barrels. Prices are essentially as high as they have been since the loss of Libyan output last year. WTI is fetching a discount, although Thursday was not a day that saw a lot of movement in the Brent/WTI spread. March WTI settled at \$102.31 bbl, up 51cts bbl on a day that also saw widespread gains across most global equity markets. Crude prices are being supported by supply concerns as European buyers sought alternatives to sanctions-hit Iranian oil and the prospect of a revival in demand as Greece edged closer to a bailout deal.

Gasoline and the NYMEX heating oil contract continue to move higher with gasoline up .0404 cents per gallon and heating oil up .0181. Gasoline and diesel are at recorded highs for this time of year as both gasoline and diesel prices are following the Brent Crude contract higher.

The Energy Information Administration's one-week snapshot of petroleum supply and demand suggested a small demand bounce, but one that may prove to be fleeting. Meanwhile, refiners are running about 700,000 b/d more crude and feedstock than they ran last year, perhaps because exports to Central and South America remain brisk.

The weekly EIA statistical bulletin saw overall petroleum demand rise 1.037 million b/d from the previous week. Most of the bounce came via winter fuels. EIA data showed gasoline demand slowly moving up 128,000 b/d to 8.167 million b/d, but since this number contrasts with a multi-year low recorded by MasterCard, there are worries that next week's stats may show another 8 million b/d or lower figure. However, one week does not qualify as a demand trend change. Year-to-date gasoline demand is measured some 7% below 2011 levels by EIA, and consumption falls short of previous years for all other marquee products.

Regarding the gasoline and diesel export/import equation, This week represents the first set where EIA cycles in new export data, and the group estimates distillate exports at 1.124 million b/d, the highest number published in the post World War II era. When all exports are balanced against imports, the net export figure is now 1.205 million b/d. That number was exceeded in October 2011, but one has to go back multiple generations to find any similar stats.

To illustrate the growing export demand for US supplied refined products, U.S. refiners are processing about 14.9 million b/d of crude and feedstock, compared with 14.3 million b/d last year and 14.1 million b/d in February 2010.

Also released this week was the Ceridian-UCLA Pulse of Commerce (PCI). The PCI is a monthly report that measures economic activity based on real-time diesel consumption data for over-the-road trucking. It is thought to be an indicator of the current state of the economy and a possible predictor of future direction. The index tracks the volume and location of diesel fuel purchases.

Highlights of the report were- (PCI) dropped 1.7% in January from December, and compared to January 2011 the PCI is down 2.2%.

Ed Leamer, chief economist for the Ceridian-UCLA PCI, noted superficially it appears that for January, the PCI seems to be contrary to recent employment data. January saw an uptick in job creation and a decrease in initial jobless claims. Further, it seems that the PCI is "out of sync" with industrial production and real retail sales, which have been growing in a healthy manner.

But on a longer-term basis, the index is accurately reflecting economic activity. Leamer observes that the three-month moving PCI average peaked at 8% in July 2010 and has fallen steadily to 0% in January 2012. The weakness in the PCI is suggesting either further weakness in these indicators or a big gain in trucking in February, March and April," said Leamer.

What could be behind the weakness in the PCI and how does that square with other indicators showing growth? Ceridian-UCLA notes that the average number of diesel gallons per purchase has fallen to 80 gallons in the first month of the year. Even though trucks have capacity of up to 300 gallons, the thinking is that drivers are buying less fuel in order to save weight. That's because as gallon purchases have slipped, the number of transactions has not declined. There is another possible reason why the PCI could be falling in the face of strength in other indicators -- and that is that higher diesel prices have triggered a search by truckers and trucking firms to improve fuel efficiency in the hope to reduce costs.



Topic of the Week: Crude Oil and Refined Products Supply Logistics Makeover

Recent shifts in U.S. oil supply and demand patterns are testing the limits of the Nation's oil storage and transportation network. Upstream, a revolution in tight oil¹ production, fostered by hydraulic fracturing and horizontal drilling techniques, has raised logistical challenges commensurate with the new sources of oil supply it has unlocked. Downstream, shifts in demand patterns and refining economics are opening a new chapter in supply logistics. Refinery closures in the Delaware Valley and the Caribbean mean that East Coast markets -- no longer as large as they once were, but still the Nation's largest - may become more reliant on product supply brought in from longer distances. On both counts, changing needs would significantly alter the web of pipelines, storage tanks and terminal facilities on which the oil industry and the Nation depend to link supply centers and end-users. But the overhaul of the midstream segment of the oil industry goes beyond expanding the infrastructure. The very nature of midstream services, their function in the Nation's supply dynamics, is being redefined.

As far as logistical assets are concerned, the mismatch between distribution needs and current infrastructure is becoming hard to miss. On the upstream front, the crude oil production boom in the Bakken calls for improved market access to that new source of supply. Depressed prices for new crude grades reflect infrastructure constraints. Inventory builds have caused stranded Bakken crude to trade at a sagging discount to benchmark West Texas Intermediate (WTI). Growth in Canadian production is also causing both heavy, sour West Canadian Select and light, sweet Canadian Syncrude to trade at deep discounts to WTI. Meanwhile, WTI's own discount to coastal and imported crude oil is again widening after announced delays in the Seaway pipeline reversal.

Downstream, East Coast and Caribbean refinery closures, if made permanent, would also require a midstream response. On paper, refining capacity in the more competitive Gulf Coast and Midwest hubs appears more than adequate to make up for lost East Coast refining capacity. But the Colonial pipeline, which connects Gulf Coast refineries to the Central Atlantic, is already running near capacity levels, so bringing incremental Gulf Coast product volumes to East Coast markets could be a challenge. And while refineries in Ohio and elsewhere in the Midwest could theoretically substitute for those in the Philadelphia area in supplying western Pennsylvania and upstate New York, here too lack of pipeline capacity is a problem. So is the limited ability of Delaware Valley terminals to receive more product imports in the short term, and the lack of connectivity between those terminals and product pipelines running west from Philadelphia.

Midstream companies are already seizing some of the opportunities provided by both the surge in crude production in the mid-continent and refinery closures on the East Coast. Longer supply lines to East Coast markets will not only require upgraded transportation logistics, but also raise demand for storage, as higher inventory levels will be needed to manage seasonal demand peaks and disruption risks. Storage operators have announced several plans to significantly expand East Coast and Caribbean tank farms. Shrinking refining capacity there seems to go hand in hand with rising terminal capacity, not least because some of the idled refineries are being converted to storage. In the Bakken, crude oil aggregators, transportation providers, and marketers are in high demand. Despite steep capital costs and often cumbersome permitting processes, they are responding with a flurry of infrastructure projects to resolve the bottlenecks.

Unlike the shrinking East Coast refining industry, midstream services are undergoing a growth spurt, fuelled by both organic expansion and acquisitions. Logistics companies are snapping up discarded refining assets. Plains All American Pipeline, L.P. last year bought the Yorktown, VA refinery, now a 6.6 million-barrel crude, product, and LPG terminal. HOVENSA said it would convert its St. Croix, USVI refinery into an oil storage terminal. Much of Sunoco's East Coast logistical assets were handed over to Sunoco Logistics, making the sale of the refineries with which they had once been associated all the more problematic.

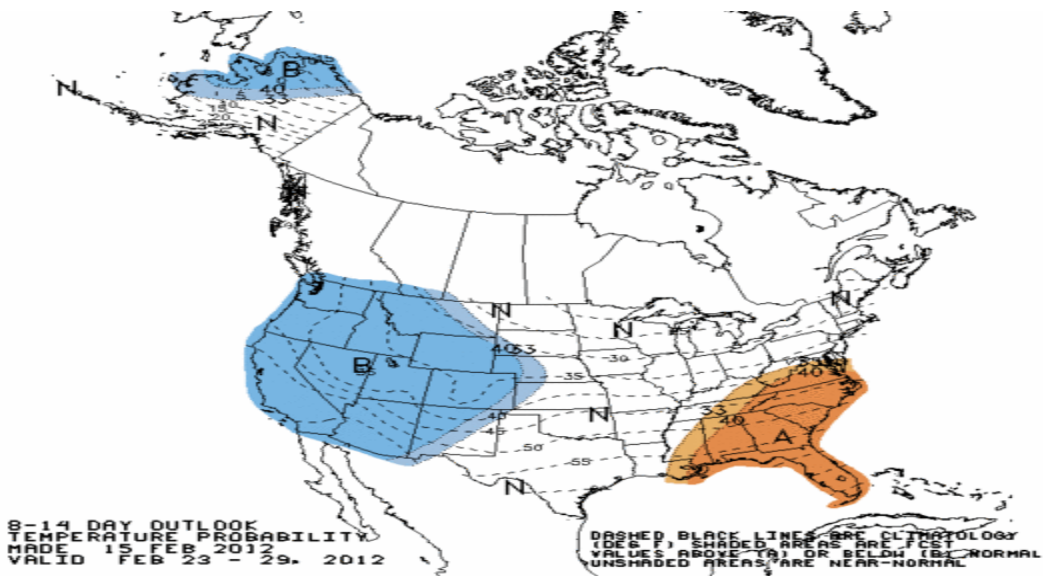
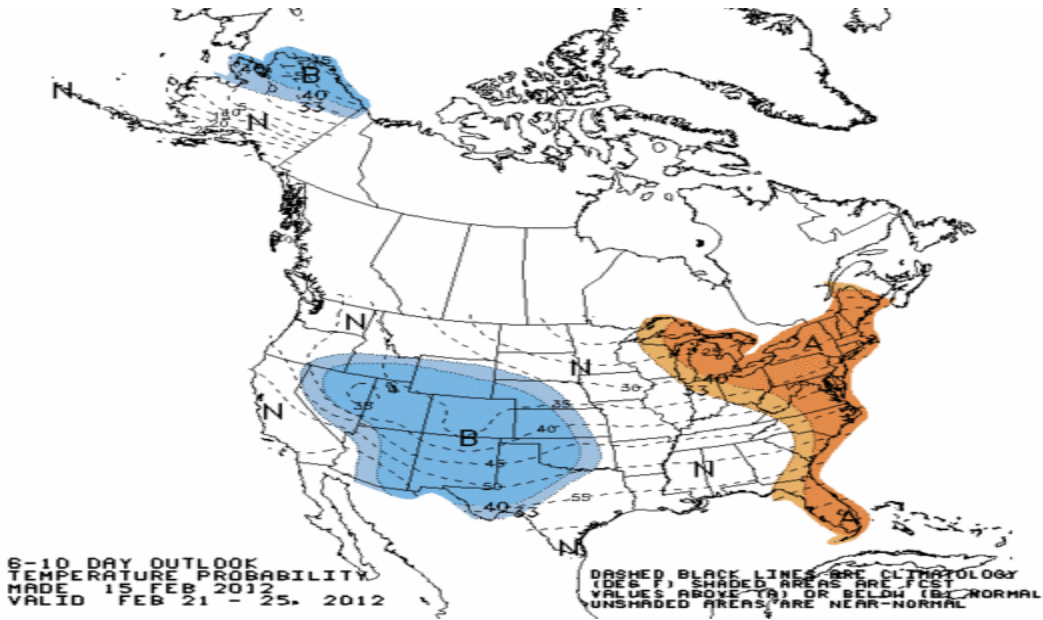
Even as they are breaking loose from once vertically integrated oil companies, midstream companies are consolidating horizontally, expanding their geographic reach and enhancing their assets' internal "connectivity." Both NuStar and Buckeye have acquired major Caribbean tank farms. The latter bought Bahamas Oil Refining Company International (BORCO), an over 21 million-barrel crude, fuel oil, and light product terminal in 2011. Buckeye plans to boost BORCO's capacity by about a third, with room for further capacity expansion if needed. The former bought a 13 million barrel terminal in St. Eustatius, Netherlands (in the former Netherlands Antilles), in 2005, which it plans to expand by almost 12 million barrels. NuStar's other international assets include tank farms in Canada, Mexico, the United Kingdom and Turkey.

Buckeye last week said it would also buy a four million-barrel marine terminal from Chevron at Perth Amboy, NJ in the New York Harbor area, which would effectively let it connect its nearby Linden, NJ, tank farm with BORCO and, after completion of a new pipeline link between Perth Amboy and Linden, move waterborne light products, such as gasoline or diesel, onto its existing pipeline network running from Linden to Pennsylvania and upstate New York, which it also plans to expand.

This mix of market changes and corporate restructuring is redefining the role of midstream services in the global supply architecture. Each midstream MLP's strategy is different, but many seem to follow a multi-pronged business model. This business model comprises a throughput-based transportation segment (the collection of pipeline fees based on transported volumes), a capacity-based storage or "facility" segment (where customers pay for storage capacity whether or not they fully utilize it), and sometimes a third business line, which is somewhat akin to arbitrage and used to hedge business risks. The contribution to earnings from this third business line varies substantially by company and reporting period.

Whereas midstream companies had often been limited to a supporting role in the oil industry, large emerging midstream independents with a global footprint could increasingly pursue strategies of their own and may become more active, direct participants in the physical and paper markets. It is too early to say how the restructuring of the logistics segment of the oil industry from integrated cost centers to independent profit centers will affect product markets. But it is probably safe to expect significant changes in supply dynamics and even, potentially, product pricing from the fast growth of this newly independent sector.

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



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