



Peak Oil Notes

A Mid-week Update on Peak Oil

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Prices and consumption

Oil prices continue to fall this week on worries that high prices, sagging economies, and cuts in Asian price subsidies will reduce demand and a statement by Chairman Bernanke that the Fed will focus on inflation and defending the dollar.

Once again the US oil stocks report contained a major surprise as US crude inventories fell by another 4.8 million barrels in contrast to market expectations that they would increase by anywhere from 0.4 to 2.7 million barrels. While crude imports increased by 800,000 b/d last week over the week before, it was not enough to make up for the 1.8 percent jump in refinery utilization. With the rising price of retail gasoline, now at a nationwide average of \$3.99, refining margins increased by 46 percent during May.

Since the beginning of the year, however, US crude imports are down by 3.1 percent and for the last four weeks down by 7.9 percent over last year. Some believe US importers are waiting for prices to drop before increasing imports again, while others fear that troubles in Mexico, Venezuela and Nigeria are making it difficult to find sufficient crude to meet US import needs of over 10 million barrels a day.

After the stocks report, prices continued to fall as attention focused on gasoline inventories which grew by 2.9 million barrels and distillates by 2.3 million. Gasoline imports were 0.3 million b/d higher last week and production increased by 0.2 million b/d for a net gain of 3.5 million barrels of supply over the previous week.

While all agree that a combination of high prices and reduced economic activity are cutting the demand for petroleum products in the US, the size of the reduction is not clear. While the wire services continue to feature statements by MasterCard that US gasoline use fell 4.7 percent last week, the EIA says that total petroleum product consumption in the US for the last four weeks is only down by 1.1 percent. The EIA also reports that gasoline consumption is only down by 1.4 percent during the last month and that distillates and jet fuel consumption is actually up by 1.6 percent and 0.3 percent respectively. While these discrepancies ultimately will be reconciled, there is a possibility that \$4 gasoline is not causing as much of a reduction in consumption as the press is reporting.

Subsidies

After many days of debate, India raised prices on gasoline, diesel and kerosene by about 10 percent yesterday. New Delhi joins Indonesia, Malaysia, Taiwan, Thailand and Sri Lanka in raising prices as they could no longer afford the subsidies. China continues to hold the line on retail prices by cutting exports, reducing import duties and simply swallowing the cost. The nearly simultaneous price increases by countries with a total population of 1.5 billion is likely to have an effect on demand and may lead to political unrest.