

THE VAN DER VALK GAS PRICE ADVISORY 2-6-09

The WTI crude oil price is trading below the \$40 a barrel mark after the unemployment rate rose to the highest rate since 1992 at 7.6%. But not even bad unemployment numbers and the stalled stimulus package have been able to keep gasoline prices from heading back up all across the country.

Demand concerns for the moment is the key for oil trading front month WTI traded to a low of \$39.31 a barrel and is not far off of that level last trading at \$39.70 a barrel down \$1.46 per gallon. On the West Coast product prices have moved down in sympathy with both gasoline and diesel down 3 - 4 cents per gallon this morning.

Meanwhile back at the ranch in the AAA fuel gauge report shows that price of gasoline is going up almost overnight. Why that is happening has motorists fondly remembering the gold old days from yesteryear (or was it just last month?) when gas prices were around \$1.50. There was even talk then that we might be heading back down to a buck a gallon. Most of the country will be heading up to \$2 per gallon within the next week. The West Coast has been over the \$2 for the last two weeks.

We now know that even with crude oil prices down our gas prices just seem to be going up, up, up almost overnight. The usual pundits and analysts are scratching collective their heads and have been trying to come up with various reasons as to what is happening.

The answer is simply that the petroleum market has finally gotten tired of losing money on refining fuel. With refineries either cutting back production, or in at least one case shutting down, the supply has come down to the lower demand level.

On top of that the West Coast refineries are now switching over from producing winter to making summer grade gasoline. That by itself is a planned event but the market loses 10% of its supply almost overnight because of the mandated lower Reid Vapor Pressure pressure. The rest of the country's refineries will be doing the same thing in about a month.

So if you have been waiting for gas prices to drop back down you now know how the Phoenix Cardinals felt after losing Sunday's Super Bowl game. Or as the line from the movie *The Fly* goes: "Be afraid, be very afraid! You're afraid to be destroyed and recreated, aren't you?"