

The van der Valk Gas Price Advisory for August 28, 2009

Lull before the storm for gasoline prices

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Right now there is a tropical depression named Terry (after my hometown in Montana) but it is slowly becoming a storm and will then turn into a full fledged hurricane. Of course, I am referring to what is happening with gasoline pump prices.

The average price of gasoline over the last seven days has not changed precipitously but that is quickly changing on the oil market weather map. The AAA fuelgauge report shows the national average price of self-serve regular gas is \$2.613 per gallon on Friday, down just over a penny from a week ago. The national average price of diesel fuel is \$2.697 a gallon, up just over a penny.

For much of 2009, crude oil prices have gone steadily upward from the low 30's to the middle 70's. Meanwhile pump prices have increased nationwide from \$1.50 to \$2.60 per gallon. At 42 gallons to a barrel of crude each \$10 represents about 25 cents per gallon increase or decrease for gasoline. But the market has reacted to the current recession just the opposite of traditional supply and demand dynamics. Instead of gasoline prices staying steady, they went up while the US and Canadian economies were going through their doldrums.

About 50% of the trades on the Nymex and ICE exchanges represent entities who will not take the delivery of one wet barrel of crude oil or fuel when their contracts expire.

That is down from 55% at the same time last year before the crude oil price bubble burst. However, it is still higher than the 20% of traders holding paper barrels in 2000.

That year is significant because that is when the CFTC took volume requirement off traders dealing on international exchanges. Speculators did what speculators do best and figured out a way to game the system in order to make money.

The big boys are now investing huge amounts of money on the US dollar as a hedge against inflation as well as flow money into the commodities markets, which has served as the primary driver of oil prices.

Gasoline prices are highest in Hawaii, at \$3.297 a gallon, and cheapest in South Carolina, at \$2.38 a gallon. California meanwhile has remained stable during the week, averaging \$3.046 a gallon. The highest price for gasoline is San Francisco, where the average cost is \$3.133 a gallon. The cheapest market is Yuba City, with an average price of \$2.948 a gallon.

The Labor Day weekend is just a week away and the spot market prices for gasoline have already firmed up. That will translate into higher prices at the gas pump at least until the middle of September. By then the hurricane season for gasoline prices will come to an end when oil companies start switching to refining winter grade gasoline.

The supply of gasoline and diesel will increase by 10% and pump prices will ease back down to \$2 per gallon by Thanksgiving and crude oil to the 40's.