

THE VAN DER VALK GAS PRICE ADVISORY FOR 11-3-08

The Gas Guy advises the longer you wait, the less you'll pay!

With the \$80-\$85 per barrel decline in crude costs since mid-July, retail gasoline is finally getting pressured by miserable refining margins. Refiners are reluctant to sell their finished products for less than the price they pay for crude oil. Their crack spread, the term used in the industry for refining margins, is now inverse to the crude oil price by about 15 cents per gallon. The usual crack spread runs between \$10 -\$15 per barrel or an average of 30 cents per gallon. Crude oil prices would have to dip down to below \$40 to put refiners back on track. There are 42 gallons in a barrel of crude oil.

What we predicted last Thursday: Gas prices will be at 2.50 per gallon by November 7th and then head down to the magic \$2 per gallon price by Christmas.

What happened: Regular unleaded prices have dropped 50 cents per gallon since last week and the average price today is \$2.787 in Los Angeles and \$2.656 in San Diego per the gasbuddy.com website.

What we predict by Friday: The price slide will continue at the pump for the next three days, and then level off at \$2.50 per gallon.

The Air Transport Association has calculated that for each penny per gallon change in the price of fuel it equals \$187 million to the nation's passenger and cargo carriers.

The October price drop will save the airlines \$18.7 billion in jet fuel costs on an annualized basis. Good news for the beleaguered airline companies except Southwest Airlines, which took a big profit hit in their third quarter report due to a ½ billion dollar loss in hedging on crude oil.

You may have noted discrepancies in the reported average prices for gasoline in the media. The AAA gasoline prices are obtained from Oil Price Information Service, who in turn use captured data provided to them by credit card companies processing transactions at the pump. Most of those stations are branded major oil company stations, which account for the 2 to 3% merchant fee in the price of the product. For instance the BP/Arco stations are not included in their average price calculation.

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