

Volatile Gas Market Points to Higher Prices

Prices at the pump are giving consumers sticker shock in the best way possible, but this “Christmas in July” may be short lived, according to AAA. This year, the highest national average gas price was the \$2.42 recorded in March and the low was the \$2.23 witnessed in June, a time when consumers typically see gas prices soaring.

“While current gas prices are cheaper than at the beginning of the year, recent increases in the price of oil and gasoline futures point to higher prices to come,” said Gene LaDoucer, North Dakota spokesman for AAA-The Auto Club Group. “If demand stays on pace, North Dakota motorists will likely see the statewide average gas prices move north of \$2.32 through the end of the summer before dipping again after Labor Day.” While pump prices could increase 10 to 15 cents in the coming days, there is a strong chance motorists will find gasoline for less than current averages at some point in the second half of 2017, said LaDoucer.

Today’s Price

Today’s national average gas price is \$2.28, which is one cent less than one month and nine cents more than one year ago. Consumers can find gas for \$2.25 or less at 57 percent of gas stations across the country. More so, 40 percent or more of gas stations in nine states are selling a gallon of unleaded gasoline for \$2.00 or less: South Carolina, Tennessee, Arkansas, Louisiana, Mississippi, Alabama, Oklahoma, Texas and Virginia. Only two percent of all gas stations in the country are selling gas for \$3.00 or more.

In North Dakota today’s average is \$2.23, four cents less than one month ago and a penny less than one year ago. Several stations in the Fargo area have a posted price under \$2, though the metro-wide average is \$2.02. This year’s highest daily average in North Dakota is \$2.36, a level hit in both April and June.

Trends and Analysis

Crude oil prices, rig count and growth in production are three major factors that have driven gasoline prices in 2017. Top trends and analysis include:

- **Surprises in the wholesale market** - Looking back at the first six months of the year, wholesale oil prices have not performed to forecasted levels. West Texas Intermediate (WTI) was predicted to sell between the \$55-60 bbl, but the first half of the year saw the benchmark grade average just \$49.98 bbl. There were periods in March, April and May that yielded crude prices on either side of \$50 bbl, but June saw a recalibration with WTI flirting with \$42 bbl. For the immediate future, WTI is likely to remain below \$50 bbl – giving drivers more savings at the pump.
- **2017 Rings in Record Oil Rig Counts** - The swaying price of crude did not deter the U.S. from increasing production for most of the first half of the year. January through June saw record growth in the number of oil rigs in the U.S. Currently at its high point, there are 765 active rigs, according to Baker Hughes, Inc. That eye-popping number is 408 more rigs than last year’s count at this time. With each additional rig, the U.S. gains further domestic capacity and export prowess. This trend speaks to the growing U.S. influence in global crude markets, with light tight oil from shale a clear game-changer.
- **Record growth in production** - Increases in gasoline production rates from refineries highlight a continuing trend since the summer of 2015. During the first part of Q2, gross inputs

to U.S. petroleum refineries, also referred to as refinery runs, fluctuated between a record high of 17.7 million b/d and 17.5 million b/d. According to the Energy Information Administration (EIA), weekly refinery runs have exceeded 17 million b/d only 24 times – all within the past two years since the publication of such data was initiated in 1998. For 2017, these record run rates led to refinery products, such as gasoline, to be stored, supplied domestically, and exported at levels that were above five-year averages for each of those categories. With growing production, consumers will likely continue to benefit at the pump – assuming crude prices remain low. On the flip-side, increased prices of crude oil could lead refineries to produce less gasoline in the face of low or moderate demand.

The Outliers

Two events could cause prices to shoot up fast and furiously in late summer: hurricanes and exports.

- Exports:** U.S. crude and gasoline exports are expected to be higher than in previous years. With Petroleos de Venezuela – a traditional key supplier for the entire western hemisphere – operating at record lows, many countries supplied by the firm are likely to turn to U.S. refiners for product. In the last month, the U.S. has already stepped up imports to Mexico following Tropical Storm Calvin. In June of this year, EIA reported that U.S. exports of total motor gasoline have more than doubled since 2010, growing from 335,000 b/d in 2010 to 761,000 b/d in 2016. Unless there are dramatic shocks to the U.S. supply chain for gasoline, this trend will continue growing through the end of 2017.
- Hurricane season:** Hurricane season began on June 1 and ends on November 30. According to the National Oceanic and Atmospheric Administration, there is a 45% chance of an “above-normal season.” Taking into consideration that the 2016 season was the most active since 2012, with 15 named storms, including seven hurricanes and four major hurricanes, there is a strong likelihood that hurricane activity will influence gasoline prices this fall. Hurricanes have the potential to destroy demand, but they typically have a limited impact on supply. It may seem counterintuitive, but this observation takes into account that the mere threat of a hurricane typically tightens gasoline supply and can cause precautionary refinery shutdowns, which ultimately halt supply production for a short time period. However, post-hurricane, refineries return to full operation status as quickly as possible and imports are an option to return supply to pre-hurricane levels. That is not to say hurricanes do not have the potential to destroy supply. Major hurricanes, like Hurricane Katrina, are outliers.

Fall Forecast

Brisk summer driving season demand should give way to consumption that may be flat or fall short of autumn and winter 2016 levels. Consumers can expect the average prices for gasoline the second half of the year (July – December) to be under \$2.25 gallon, less than the average from first half of the year (\$2.32 gallon). In North Dakota the average for the first half of the year the year was \$2.30. This year’s highest daily average in North Dakota is \$2.36, a level hit in both April and June.

Motorists can find current gas prices along their route with the free AAA Mobile app for iPhone, iPad, and Android. The app can also be used to map a route, find discounts, book a hotel, and access AAA roadside assistance. Learn more at AAA.com/mobile.

	Today	Last Month	Last Year	Avg: Jan 1 to Jun 30, 2017
Bismarck Metro	\$2.25	\$2.30	\$2.33	\$2.35
North Dakota	\$2.23	\$2.27	\$2.24	\$2.30

Grand Forks Metro	\$2.19	\$2.22	\$2.11	\$2.28
Fargo Metro	\$2.02	\$2.05	\$2.04	\$2.15