

December 2017

MACROECONOMIC INDICATORS

- ISM Manufacturing ↑
- Fed Reserve Manufacturing Index ↑
- Rig Counts ↑

PETROLEUM DEMAND INDICATORS

- Total Deliveries ↑
- Gasoline ↑
- Distillates ↑
- Jet Fuel ↑

RETAIL PRICING INDICATORS

- Regular Gasoline ↑
- On-highway Diesel ↑

PETROLEUM DELIVERIES

With sustained strength in the U.S. and global economies, petroleum demand remained strong despite higher prices than last year. Resilient supply continued to outpace demand in November, yet inventories experienced a record November drawdown. With U.S. crude prices trading at a discount to international ones—and the Brent-WTI crude price differential above \$6.00 per barrel at the end of November—there was a greater pull for U.S. petroleum exports, which increased by 22.0 percent or about 1.2 million barrels per day compared with November 2016.

Solid oil demand growth continues. U.S. petroleum demand, as measured by total domestic petroleum deliveries, rose to 19.9 million barrels per day (MBD) in November, which was an increase of 0.1% m/m from October and 1.1% y/y versus November 2016. This was the strongest November monthly demand since 2007. Cumulatively through the first 11 months of the 2017, total domestic petroleum deliveries rose by 0.9% y/y, which exceeded demand growth in 2016 despite higher prices. Product highlights:

- Consumer gasoline demand, as measured by motor gasoline deliveries, rose by 0.6% y/y in November; this was the strongest November demand ever. Annual gasoline demand is on pace to exceed 9.3 MBD for 2017.
- Distillate deliveries were nearly 4.0 MBD in November, which was an increase of 2.8% m/m versus October and 0.8% y/y compared with November 2016. Year-to-date (YTD) through November, distillate deliveries rose by 1.3% y/y, compared with the same period in 2016 and are poised to reverse a 2016 decline.
- Residual fuel oil deliveries rose by 19.3% y/y in November to 364 thousand barrels per day (KBD). Cumulatively through the first 11 months of the year, residual fuel oil deliveries were up by 9.1% y/y.
- “Other oils” comprise liquid petrochemical feedstocks, naphtha, and gasoil, which together represent 23.2% of total petroleum deliveries. In November, other oils demand increased by 1.1% m/m from October and 0.2% y/y compared with November 2016.

Oil prices have risen. WTI crude prices averaged \$56.64/Bbl in November, which was an increase of 9.8% m/m from October and 24.0% y/y versus November 2016. Through the first 11 months of the year, WTI crude prices averaged \$50.25/Bbl, which was 18.7% y/y above the levels over the same period in 2016. The recent rise in prices reflects solid market fundamentals, including oil demand and economic growth. The discount for West Texas Intermediate (WTI) crude oil below Brent crude oil prices widened to more than \$6/Bbl in late November.

Solid economic growth supports market fundamentals. Oil demand goes hand-in-hand with economic growth, which has performed well. API estimates global GDP growth for 2017 at 2.9% y/y on a market exchange rate basis, which is on par with the average for the past 20 years. The Bureau of Economic Analysis (BEA) reports that U.S. economy gained momentum through the first three quarters of the year with consecutive quarterly growth rates of 1.2%, 3.1% and 3.3% at seasonally adjusted annualized rates. Leading indicators of economic growth continued to post gains.

PETROLEUM SUPPLY

Oil and natural gas liquids (NGL) supplies set records for November. Oil supply responds to many factors, including market conditions, prices, and expectations for the future. U.S. crude oil production remained strong in November and above 9.0 MBD for the 10th consecutive month. Domestic crude oil production rose by 9.0% y/y and achieved its highest November output in 47 years, since 1970, to average nearly 9.7 MBD. Compared with the prior month and year-to-date averages, U.S. crude oil production increased by 2.8% and 4.0%, respectively.

Natural gas liquids (NGL) production, a co-product of natural gas production, increased from the prior month and prior year. NGL production in November was up by 0.7% m/m from October and by 3.4% y/y from November 2016 to 3.7 MBD – the highest November volume and the fourth highest volume ever.

The recent rise in production follows with a lag between most drilling and production. According to data from Baker Hughes, Inc., drilling activity increased by 20.6% q/q in Q2 2017 and by another 5.6% q/q in Q3 2017 to reach the highest level since Q1 2015. The current weekly level is 931 rigs as of December 8, 2017. So far in Q4 2017, rigs have declined by 2.9% q/q compared with Q3 2017.

As refining ramps up, capacity utilization exceeds 92%. Refined product supply responds to price, inventory and demand expectations. In November, total refinery gross inputs rose by 4.8% m/m (3.3% y/y) to 17.1 MBD for the strongest November month on record.

- Gasoline production was a record 10.3 MBD in November, up 2.5% m/m from October and 3.3% y/y versus November 2016.
- Distillate fuel production of 5.3 MBD reflected increases of 6.9% m/m and 4.5% y/y in November and also was the second highest output for any month on record since 1945.

The refinery utilization rate in November was 92.1%, which was 4.3 percentage points higher than the prior month and 2.6 percentage points above that of November 2016.

High exports. Motor gasoline and distillate production exceeded domestic demand by 2.3 MBD in November, compared with 1.8 MBD in October. This excess supply, plus volumes from storage, contributed to a strong increase in exports. In November, the U.S. exported 6.6 MBD of crude oil and refined products, which was an increase of 22.0% y/y. U.S. crude and product exports have risen by 0.4 MBD since September 2017.

Steady imports. U.S. crude and refined product imports were 10.1 MBD in November, which was up 5.3% m/m from October but down by 1.5% y/y compared with November 2016. Total crude and product imports year-to-date through November are largely unchanged versus the same period in 2016.

Record November inventory drawdown. Bringing the supply/demand fundamentals into focus, November brought increases in supply that exceeded those of demand for crude oil and refined products. Exports accelerated, while imports changed relatively little. Consequently, there was a net draw on inventories. In November, total crude and refined product inventories declined by 3.1% m/m (11.9% y/y) to end at 1.2 billion barrels, which was the lowest level since March 2015. Notably, the 3.1% m/m decline (equivalent to 38 million barrels) was the largest November drawdown on record since 1956.

Included within this total are crude oil stocks that fell by 0.9% m/m (7.9% y/y) to end at 451.8 million barrels. Stocks of major products all decreased from last year's levels. Gasoline stocks were down 5.0% y/y, but up by 5.3% from month-ago levels to end in November at 222.2 million barrels. Distillate fuel stocks were down by 19.0% y/y, but up by 1.4% m/m, to end in November at 130.6 million barrels. Jet fuel stocks were down 6.4% y/y but up by 2.2% m/m.

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