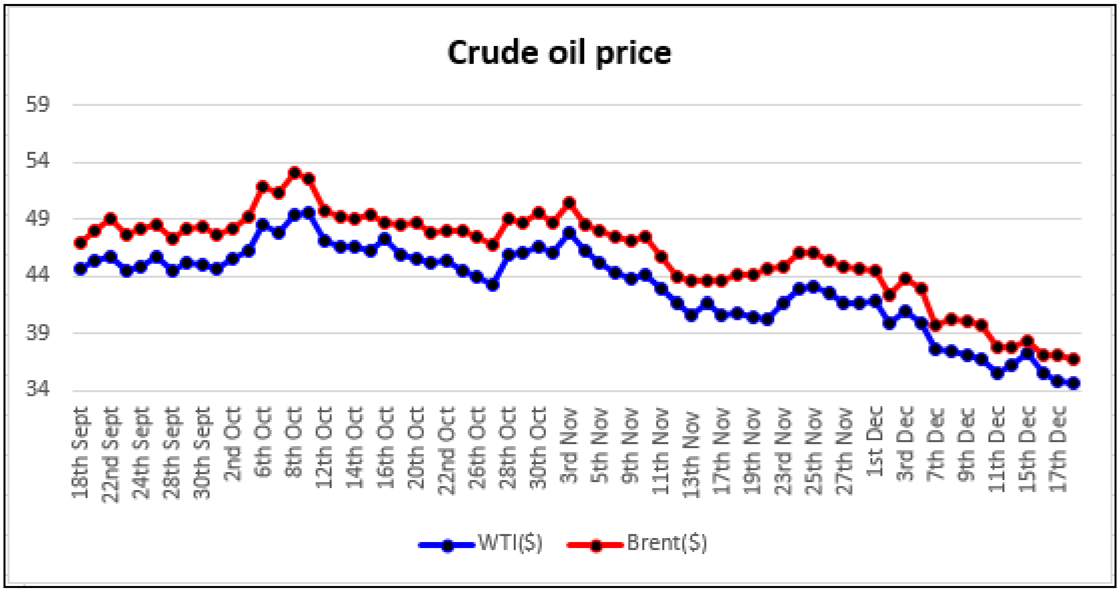
Post 19th December, 2015

Some of the news items for this week are as follows:



1. The oil prices fell under $35 this week, the lowest in years, as the US commercial crude and refined products inventories rose, and concerns that the global surplus of crude is set to continue through 2016 and beyond.
2. You notice on the graphics above that the WTI crude price is less that the Brent price of crude. This has been for quite some time. There are a couple of reasons for this. First, the shale oil production in the US has increased in the last 5 years, and second this oil cannot be exported due to the export ban. The shale oil producers have been selling this oil at discounted prices to encourage refineries to buy domestic oil and import less. Keep in mind, many refineries in the US are designed to process the heavier grades of imported oil, rather than the lighter grades of oil produced from shales. I had written about this in one of my earlier posts. You can check my earlier posts archived under http://www.chopraseismic.com/facebook-post-archive/
3. Shell announced earlier this week that it expects 2800 job cuts after its merger with BG goes through early 2016. Over 7000 jobs have been cut by the energy giant in 2015.
4. EnCana has cut its 2016 capital expenditure by more than a quarter to $1.5 to $1.7b. The company is focused on investing in the Permian Basin and about half of its capital budget would be directed there.
5. Similarly, EOG Resources will reduce its capital expenditure by 42%. Newfield Exploration also plans to reduce its capex to $1.5b.

The current dismal state of the oil and gas industry suggests that some possible indications for 2016 could include some large mergers and acquisitions, some more bankruptcies, and a decline in the US oil production, in addition to the lowering price of oil.

For the lighter side this week:

How is the price of a barrel of crude oil related to the price of gas or petrol that you pay at the pump?

Very often we see the price of the gas or petrol that we pay at the pump to be higher, even though the trading price of the crude that day has fallen. We wonder why the price at the pump is not reflecting the lower price of crude. To understand this one needs to figure out the downstream cycle including the process of refining and distribution.

The price you pay at the pump is made up of the price of crude, the cost of refining, some taxes levied by the government, and the cost of marketing and distribution. In some countries the price of gas/petrol is subsidized, which is an additional factor that needs to be considered. Also, the supply and demand needs to be considered which can also influence the price you pay at the pump.

There is usually a time delay of over 8 to 12 weeks for the crude oil to make its way to the refinery and then become available at the pump.

If there are some unexpected glitches at the refinery, again you may end up paying more at the pump.

Similarly, if the levied taxes are varied, the price at the pump will change.

The price also depends on the proximity of the pump location to the refinery as far off locations would entail more transportation cost.

The price of crude can also change with the fluctuations in the price of the US dollar as all international trading in done in that currency.

Finally, the crude oil is traded in advance and if the price fixed on the contract is higher, the price you pay at the pump will be higher, even though the price of the crude oil that day may be lower.

So, as you would appreciate, it is not a simple translation of crude oil price into the price paid at the pump.

Did you know what is the coldest temperature measured on Earth and where?
It is -73^{o}C and measured at Vostok Station, Antarctica.

So much for this week!

Till the next post, stay safe and happy!