



# RETAIL DIESEL FUEL OUTLOOK

## A Fundamental Petroleum Trends Weekly Report

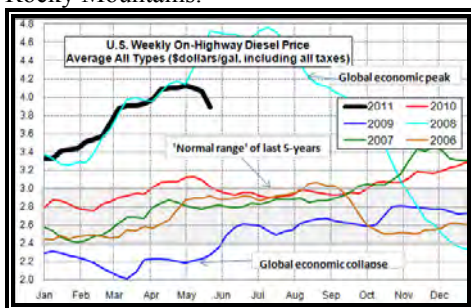
Lehi German Tel: 816.505.0980 [www.fundamentalpetroleumtrends.com](http://www.fundamentalpetroleumtrends.com) Tuesday, May 17, 2011

Region	Actual Price 1/			Forecast 2/	Change from week ago
	02May11	09May11	16May11	23May11	
U.S.	4.124	4.104	4.061	3.896	-0.165
East Coast	4.128	4.117	4.075	3.893	-0.182
New England	4.231	4.218	4.207	3.997	-0.210
Central Atlantic	4.269	4.248	4.210	4.011	-0.199
Lower Atlantic	4.059	4.052	4.005	3.846	-0.159
Midwest	4.086	4.066	4.015	3.889	-0.126
Gulf Coast	4.060	4.022	3.996	3.818	-0.178
Rocky Mountain	4.156	4.156	4.134	3.908	-0.226
West Coast	4.328	4.307	4.248	4.078	-0.170
California	4.465	4.459	4.371	4.176	-0.195

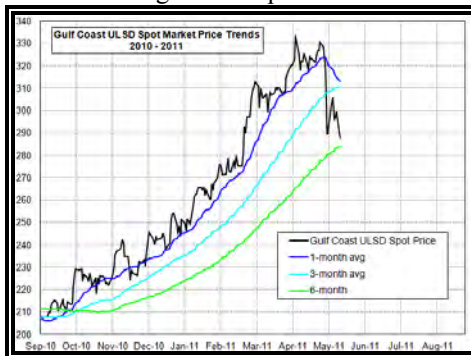
1/ Source: U.S. Energy Information Administration  
2/ Source: Fundamental Petroleum Trends Reports

**Diesel Fuel Price Trends** U.S. retail diesel prices decreased -4.3 cpg for the week ending 16May11 versus 09May11. The national average price ended the week \$0.66/gal below the high set in 2008 for this time of year, but +\$1/gallon above a year ago.

Prices decreased -8.8 cpg in California and -5.1 cpg in the Midwest last week. The smallest declines occurred in New England, -1.1 cpg and -2.2 cpg in the Rocky Mountains.



Gulf Coast spot distillate prices decreased -15 cpg for the week ending 16May11 versus 09May11. Gulf spot prices ended the week near the 6-month moving average, representing the sharpest decline from recent highs of the past 8-months.



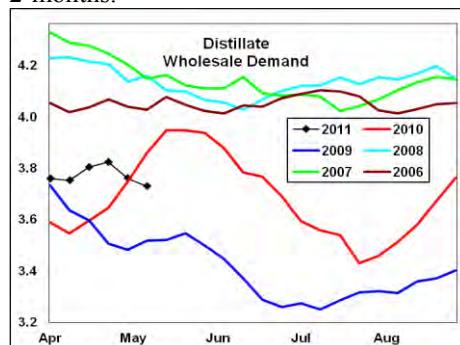
Gulf coast spot distillate prices have decreased -43 cpg in the past 2-wks. Concurrently, U.S. average retail prices have declined just -6.3 cpg in the same

period. Retail price changes lag the wholesale market and the industry exhibits 'stickiness' as individual retailers delay reducing prices until competitors pressure the market lower.

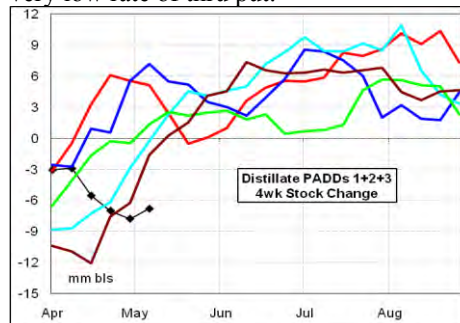
Expect leading competitors to begin making significant

downward price adjustments in local retail markets as their inventories turn over and the average cost of inventory declines in line with the wholesale spot markets.

**Supply - Demand Fundamental Trends** U.S. weekly distillate demand decreased -124,000 bpd last week, as wet weather delayed the peak in spring agriculture demand and exports slowed. Demand during the latest 4-wk period was +4.5% above a year ago, a lower year-on-year increase than was exhibited during the last 2-months.



U.S. refiners crude oil input was -600,000 bpd below the lowest level that occurred during the last 5-years for this period. That year was 2009, during the depths of the recession. Unplanned maintenance across several key markets account for this very low rate of thru put.



As a result of low crude oil runs, distillate production has been constrained, which

has led to a record stock draw of -6.8 million barrels during the last 4-wks in markets East of the Rockies. Stock levels have dropped to levels below each of the last 2-years.

The Corps of Engineers recently opened the Morganza floodway to limit the flood level of the Mississippi River in key population centers and petro chemical / refining centers near the mouth of the river. This has reduced the risk of catastrophic disruptions to the 2.4 million bpd of refining capacity and shutdown of major product pipelines serving the East Coast.

**Global Trends Driving Diesel Prices** The -43 cpg drop in Gulf spot diesel prices during the last 2-wks has been driven by several key factors:

1. A slowing of global economic growth as developing countries raise interest rates to control inflation,
2. A slower rebound in Japanese growth than expected since the earthquake.
3. A return of the earlier sovereign debt crisis in Europe
4. U.S. economic growth in the 1st quarter was slower than expected
5. An increase in margin requirements by commodity exchanges
6. A decline in the risk of catastrophic supply disruptions from the Mississippi river flood

While these factors led to the recent pull back in diesel spot market prices, world crude oil supplies remain tight with several countries output falling below earlier expectations. The risk of higher diesel prices remains in place, driven by tight crude oil supplies, political unrest across the Middle East and strong, though slightly lower, rates of growth in developing countries.

**Diesel Price Outlook** U.S. average retail prices are projected to decrease -16 cpg this week, in response to the sharp decline in wholesale prices the prior 2-wks. Given 'stickiness' at the retail level, the full decline may take longer than one week.

Expect prices to moderate further during the balance of the 2nd quarter on rising refinery output and weak demand.

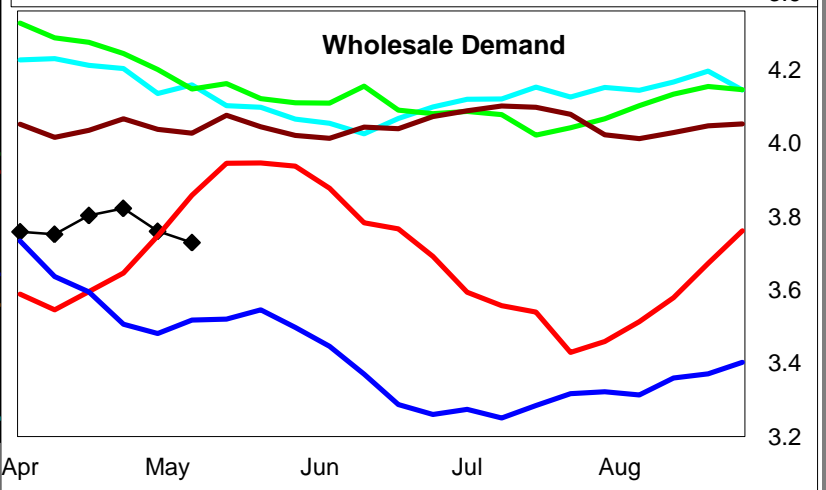
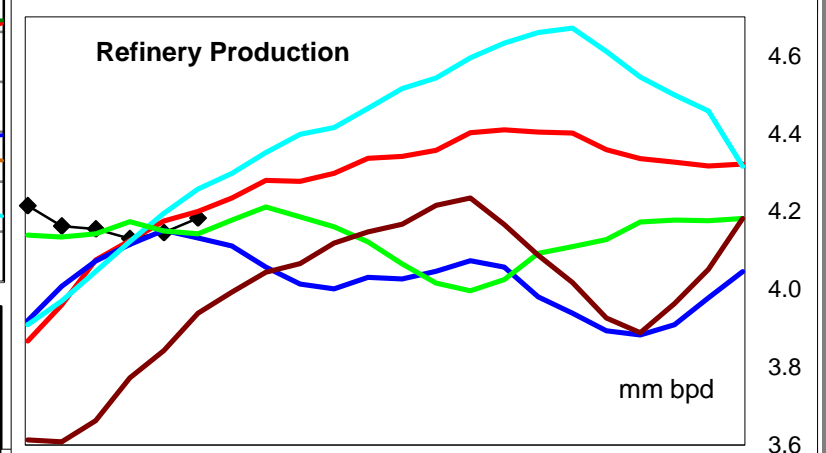
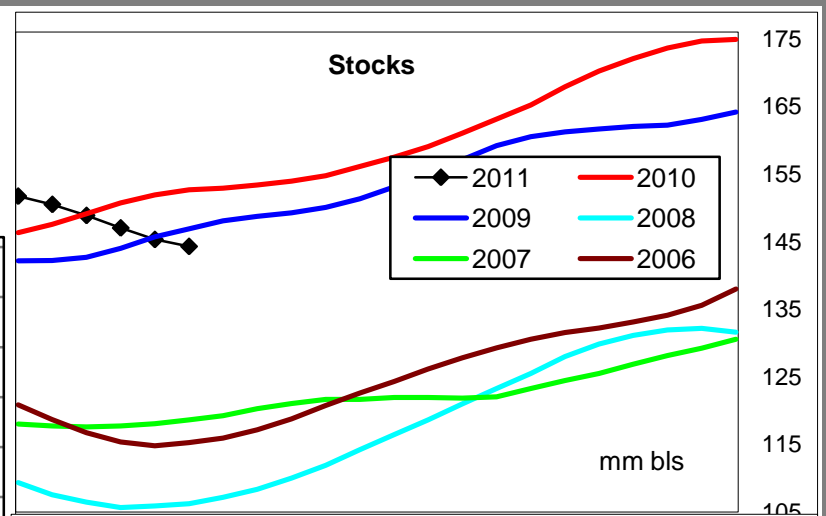
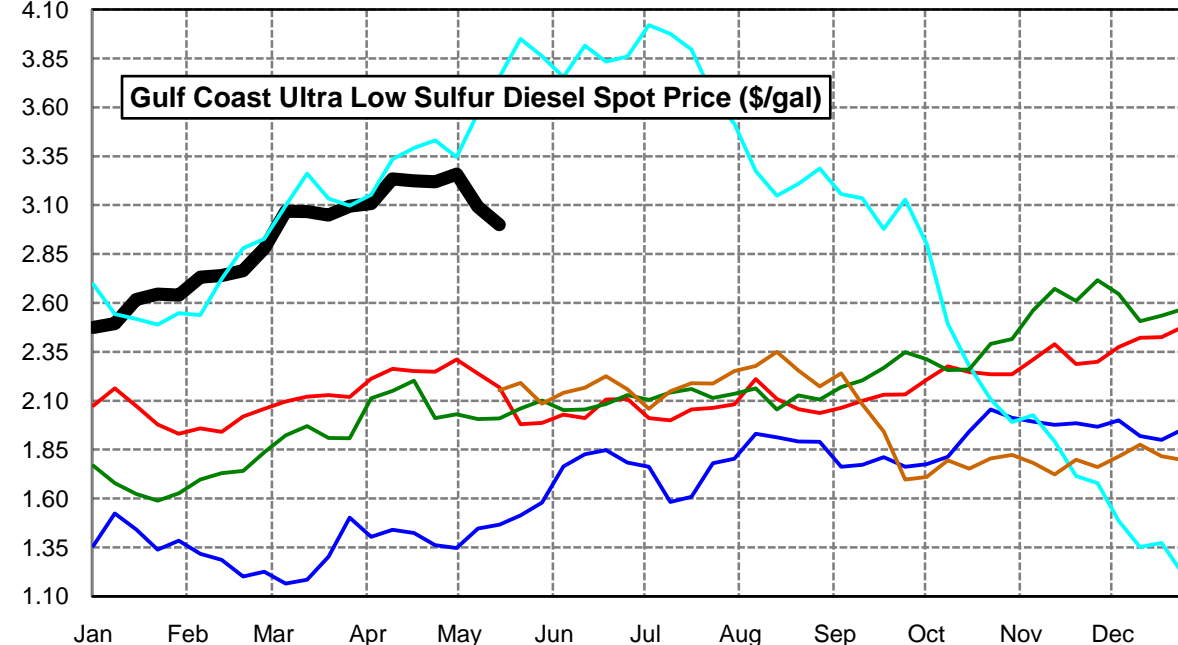
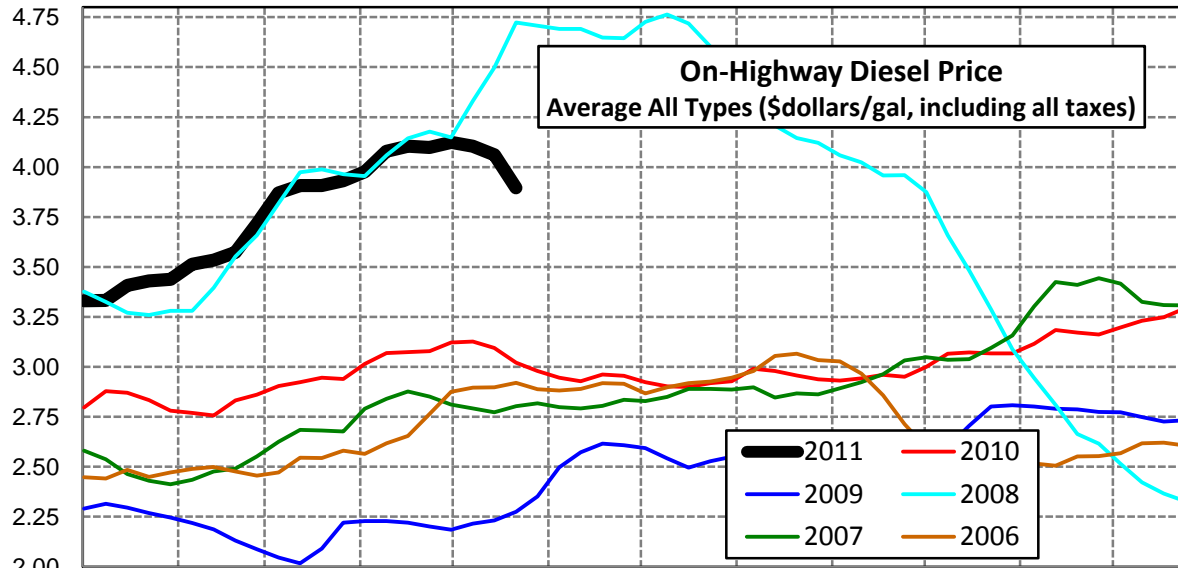
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Click [Blue Icon](#) on Map to view Regional Price & Fundamental Trends



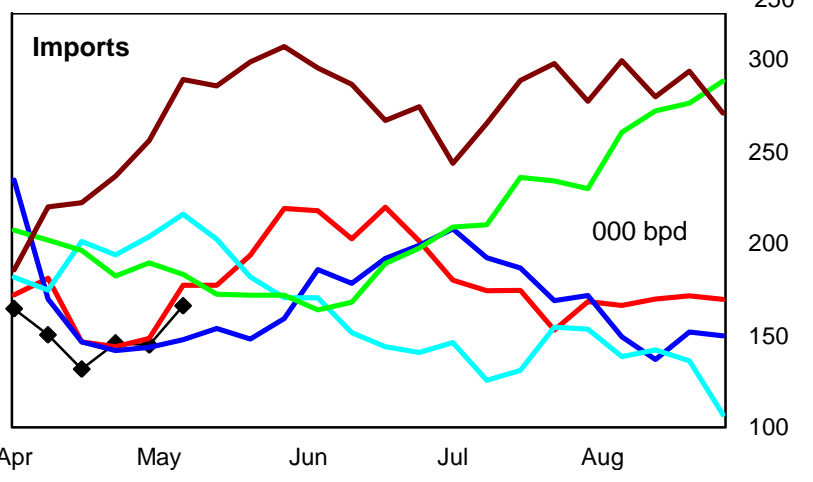
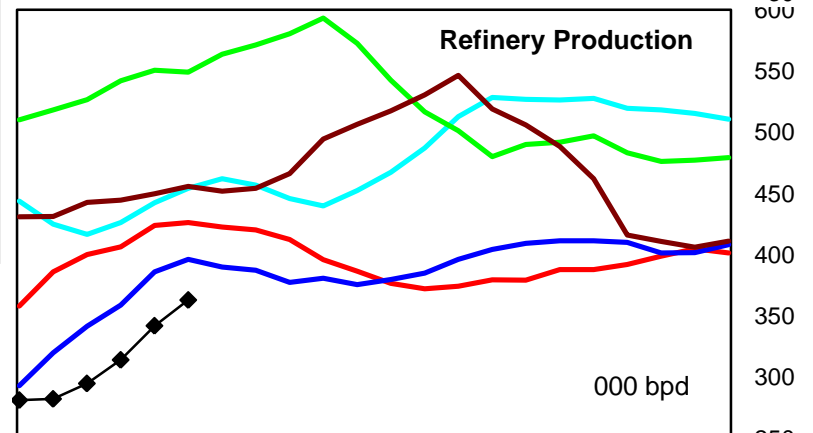
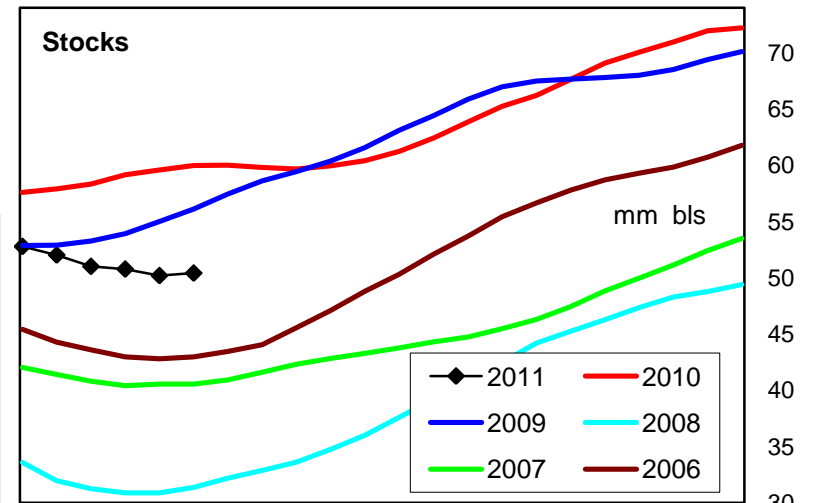
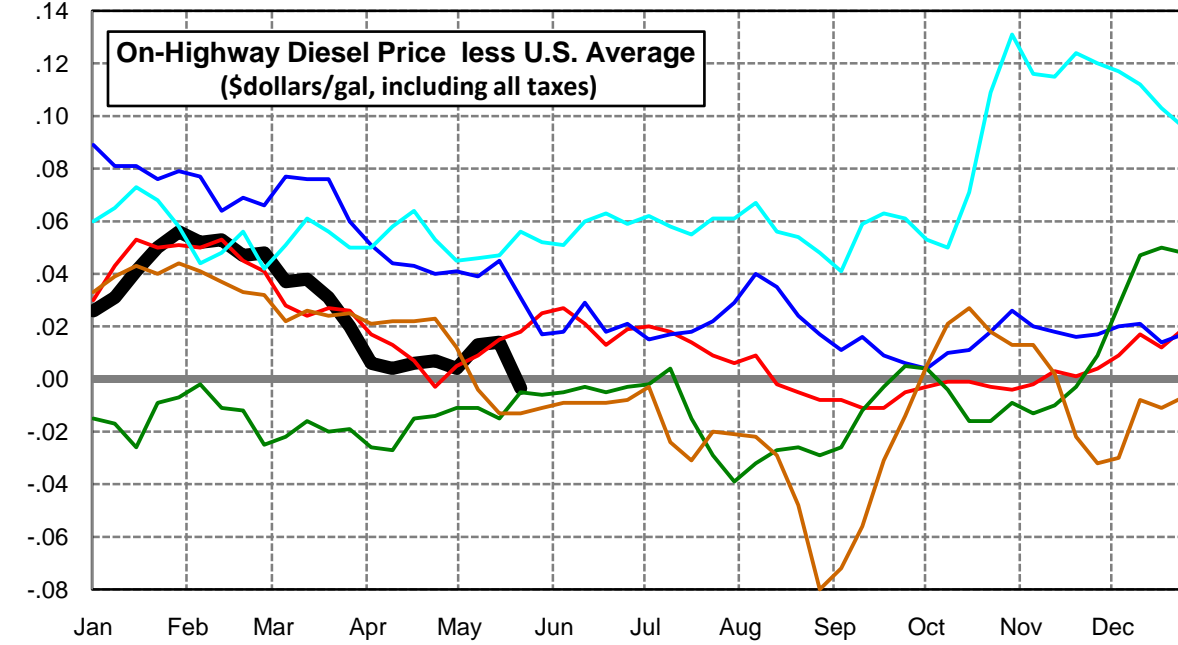
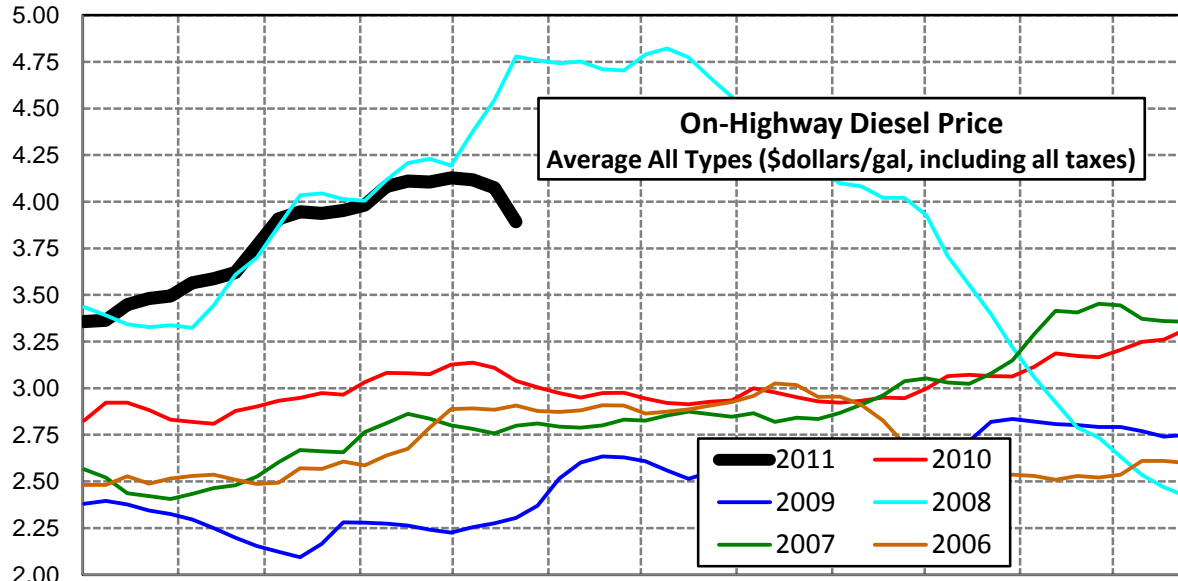
### U. S. Diesel Supply Fundamentals and On-Highway Price Trends

Weekly Retail On-Highway Diesel Prices					
Region	Actual Price week ending 1/			Forecast 2/	Change from week
	02May11	09May11	16May11	23May11	
<b>United States Avg</b>	\$4.124	\$4.104	\$4.061	<b>\$3.896</b>	-\$0.165
1/ Source: U.S. Energy Information Administration					
2/ Source: Fundamental Petroleum Trends Reports					



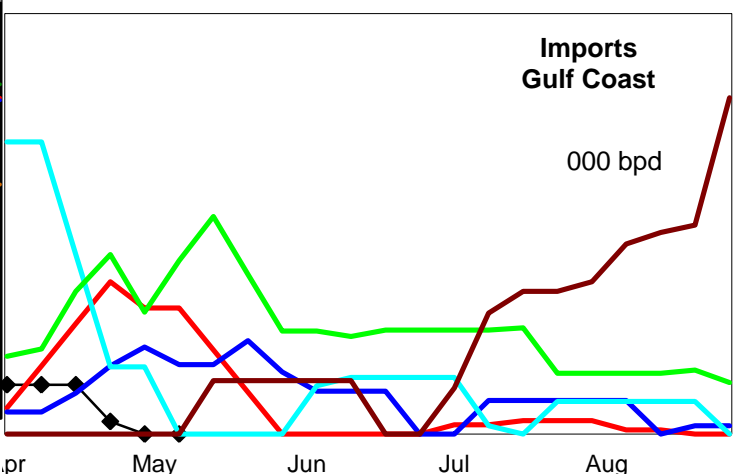
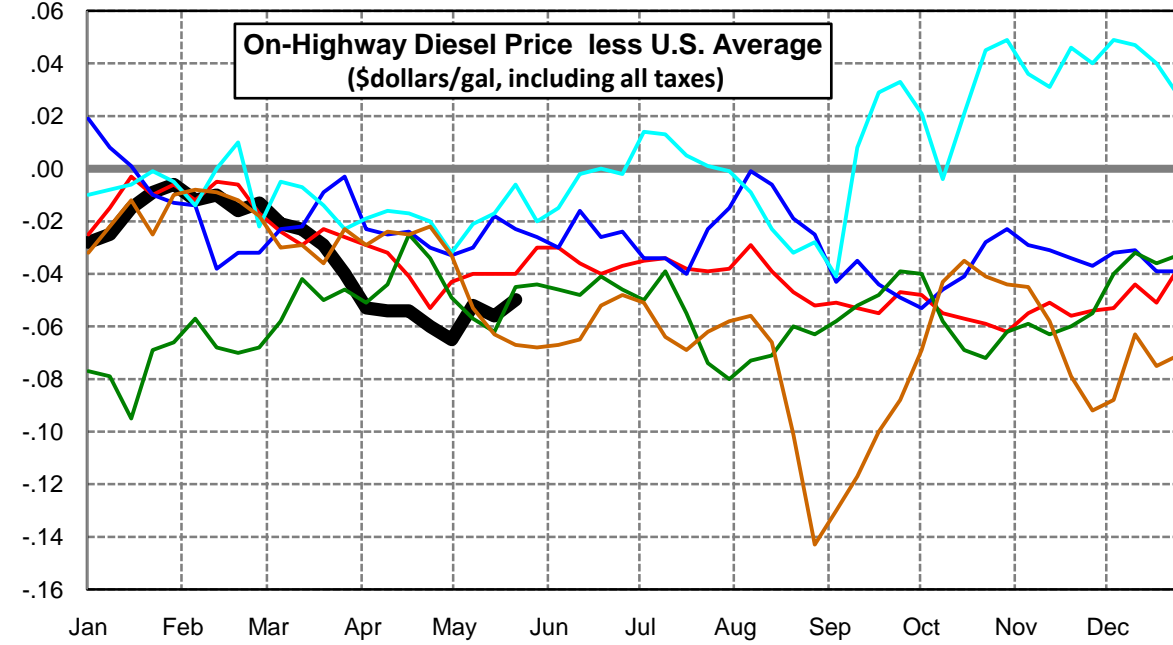
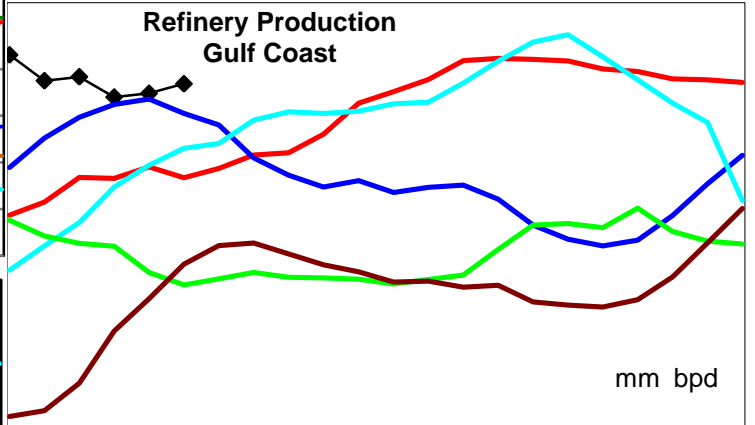
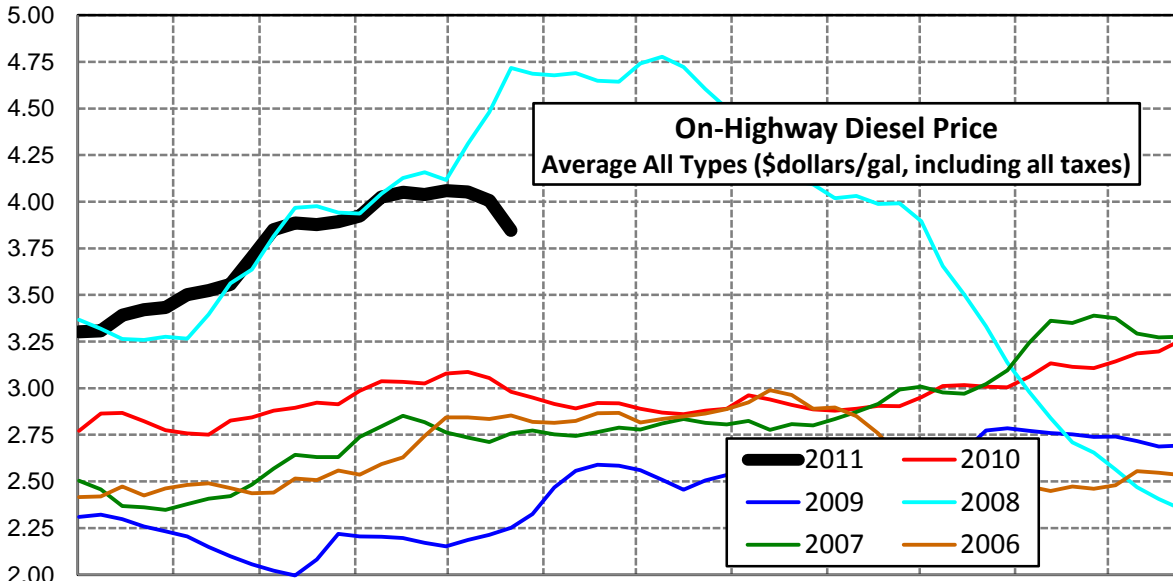
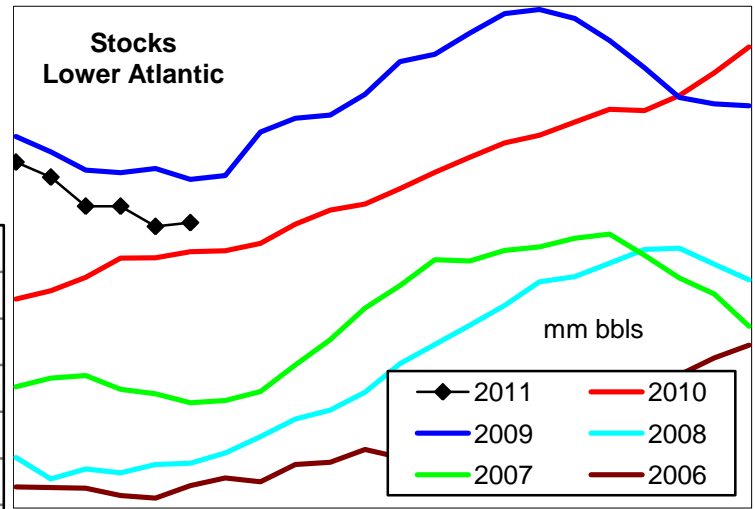
### East Coast Diesel Supply Fundamentals and On-Highway Price Trends

Weekly Retail On-Highway Diesel Prices					
Region	Actual Price week ending 1/			Forecast 2/	Change from week
	02May11	09May11	16May11	23May11	
<b>East Coast</b>	\$4.128	\$4.117	\$4.075	<b>\$3.893</b>	-\$0.182
1/ Source: U.S. Energy Information Administration					
2/ Source: Fundamental Petroleum Trends Reports					



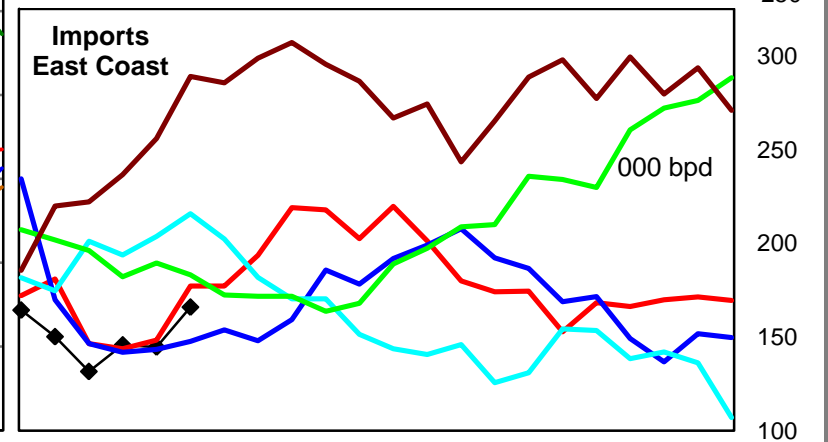
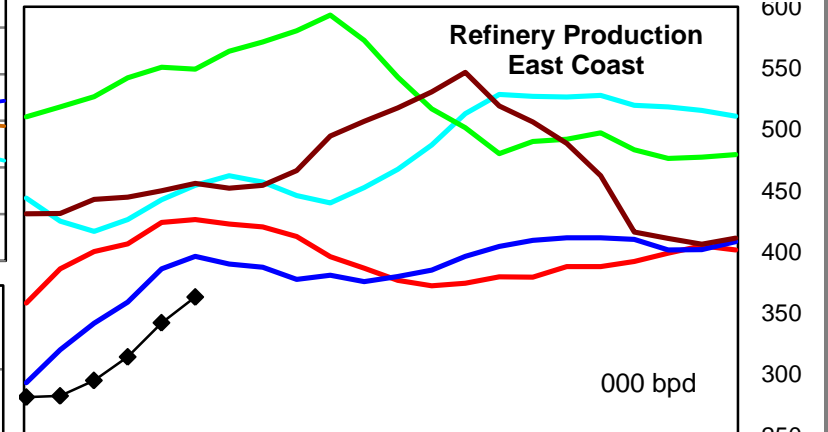
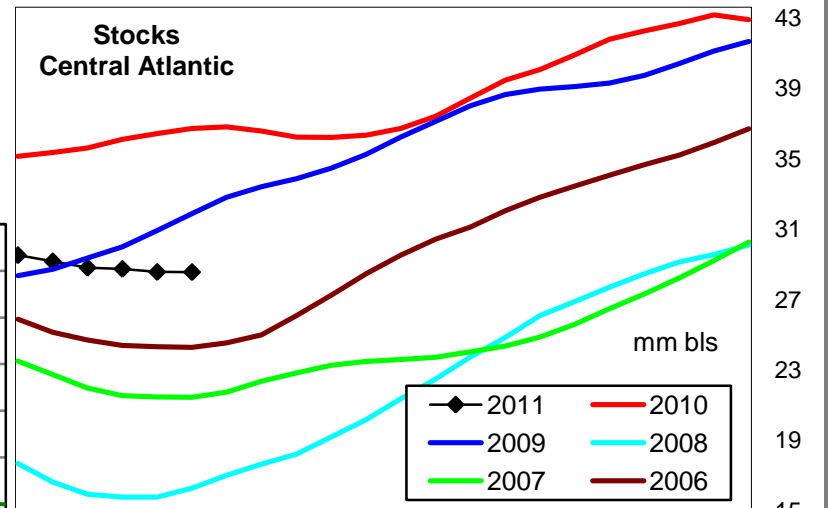
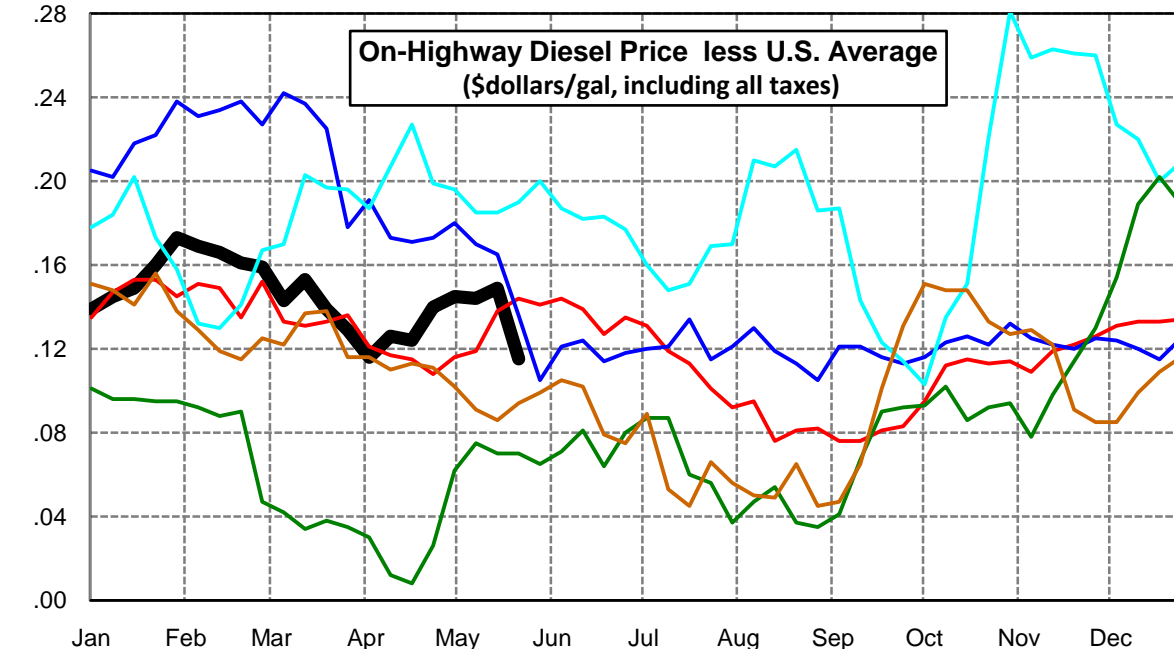
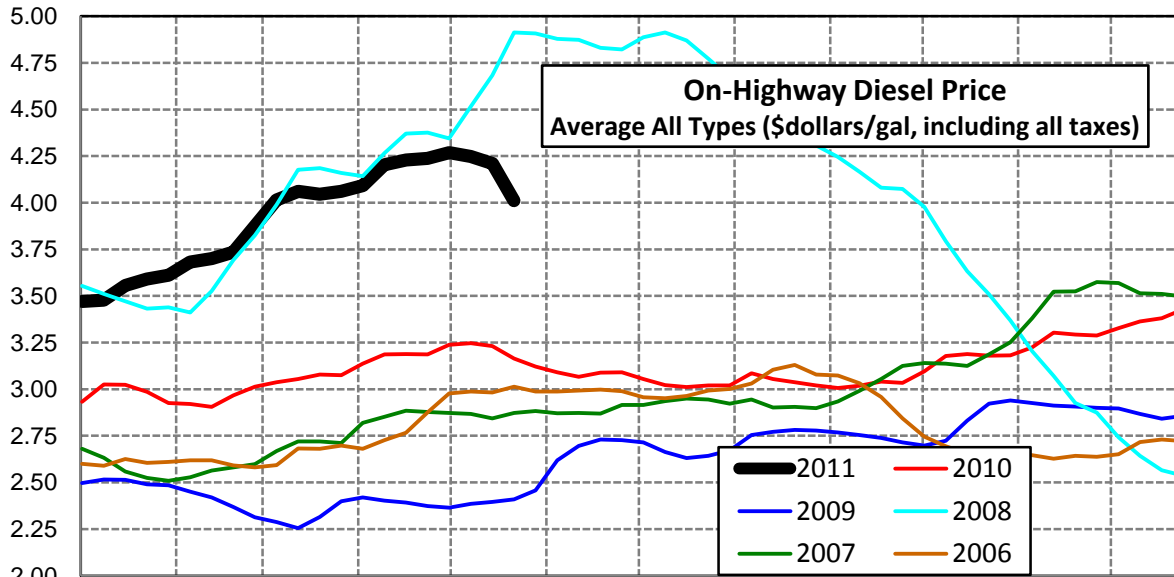
### Lower Atlantic Region Diesel Supply Fundamentals and On-Highway Price Trends

Weekly Retail On-Highway Diesel Prices					
Region	Actual Price week ending 1/			Forecast 2/	Change from week
	02May11	09May11	16May11	23May11	
<b>Lower Atlantic</b>	\$4.059	\$4.052	\$4.005	<b>\$3.846</b>	-\$0.159
1/ Source: U.S. Energy Information Administration					
2/ Source: Fundamental Petroleum Trends Reports					



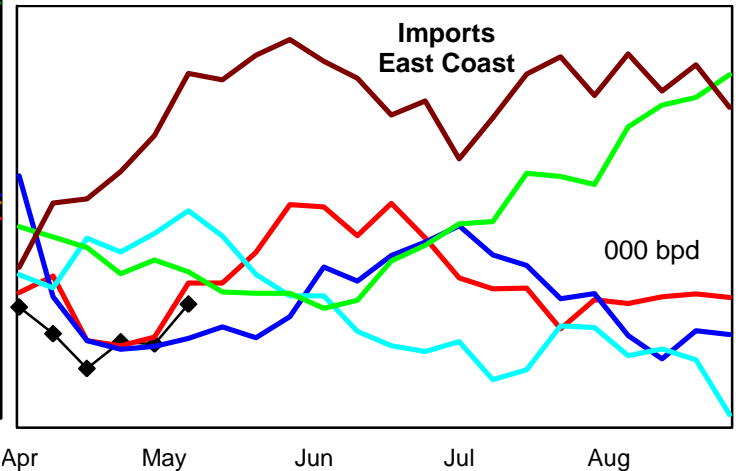
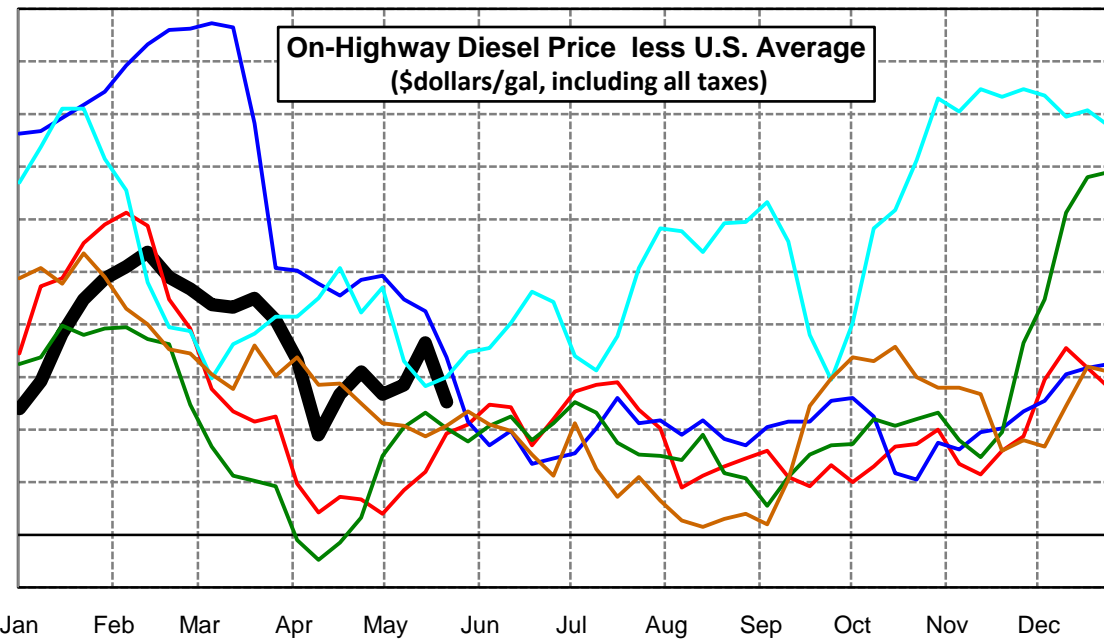
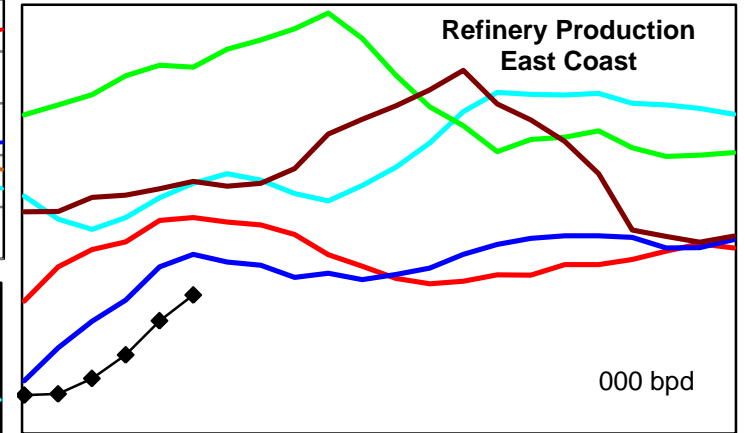
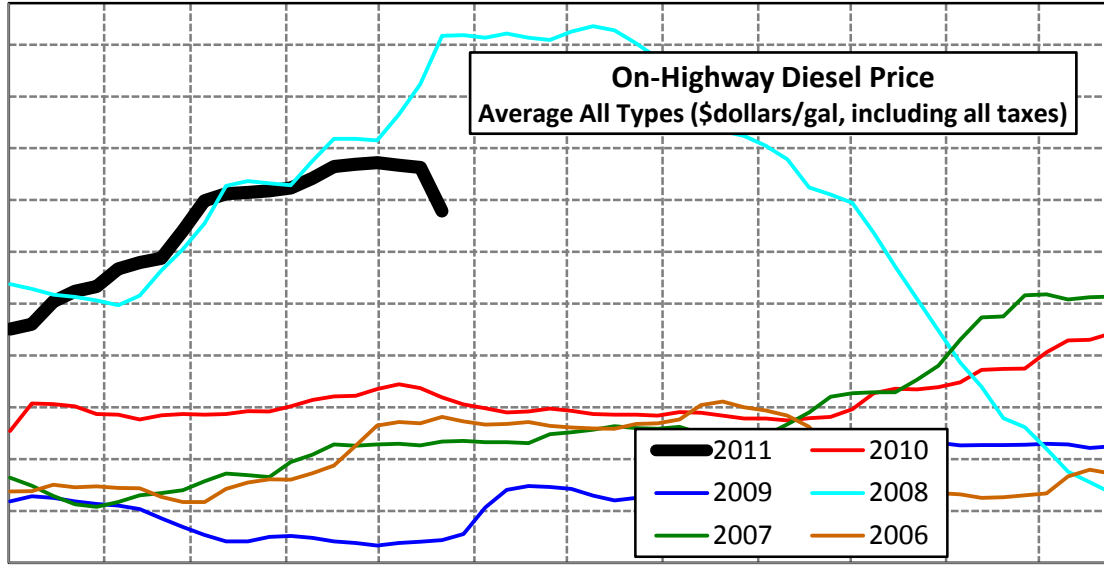
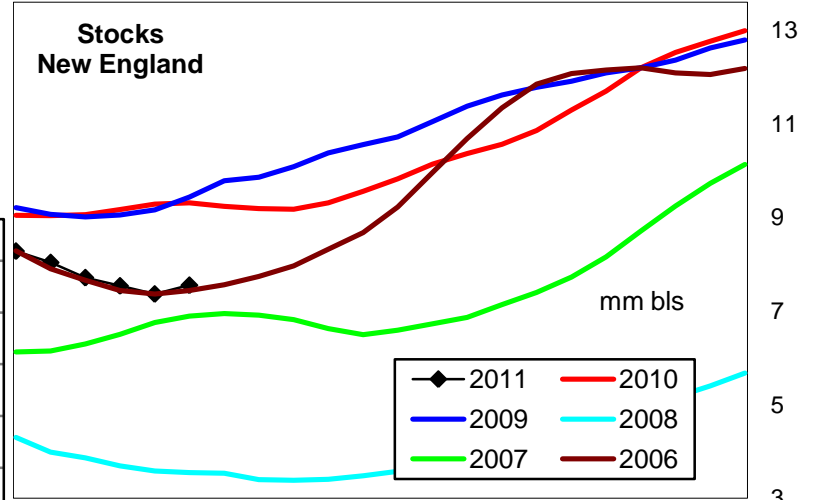
### Central Atlantic Region Diesel Supply Fundamentals and On-Highway Price Trends

Weekly Retail On-Highway Diesel Prices					
Region	Actual Price week ending 1/			Forecast 2/	Change from week
	02May11	09May11	16May11	23May11	
<b>Central Atlantic</b>	\$4.269	\$4.248	\$4.210	<b>\$4.011</b>	-\$0.199
1/ Source: U.S. Energy Information Administration					
2/ Source: Fundamental Petroleum Trends Reports					



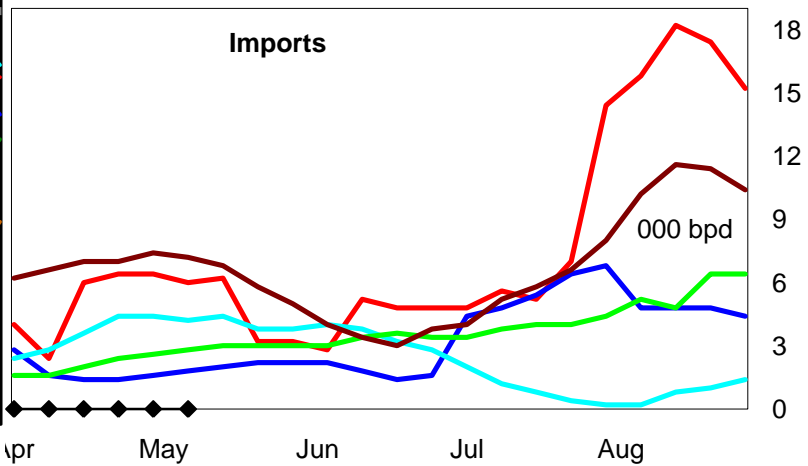
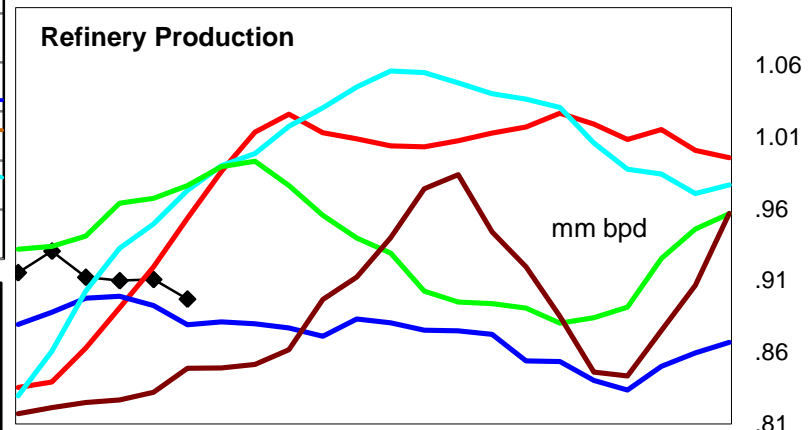
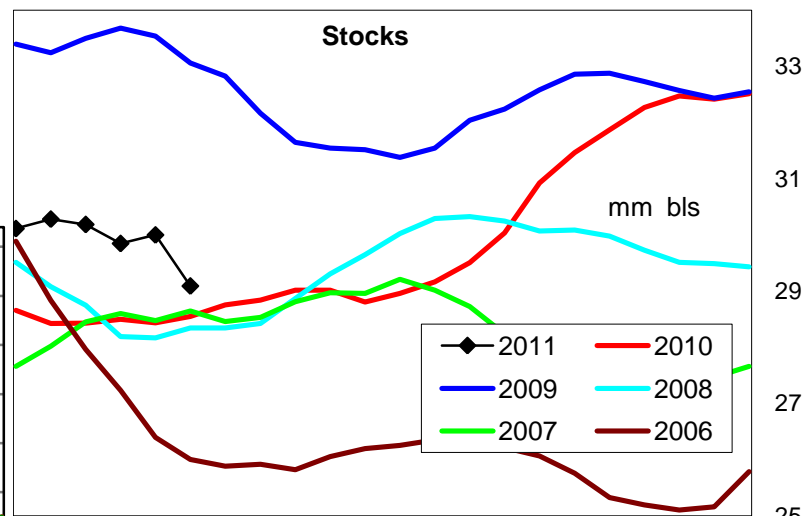
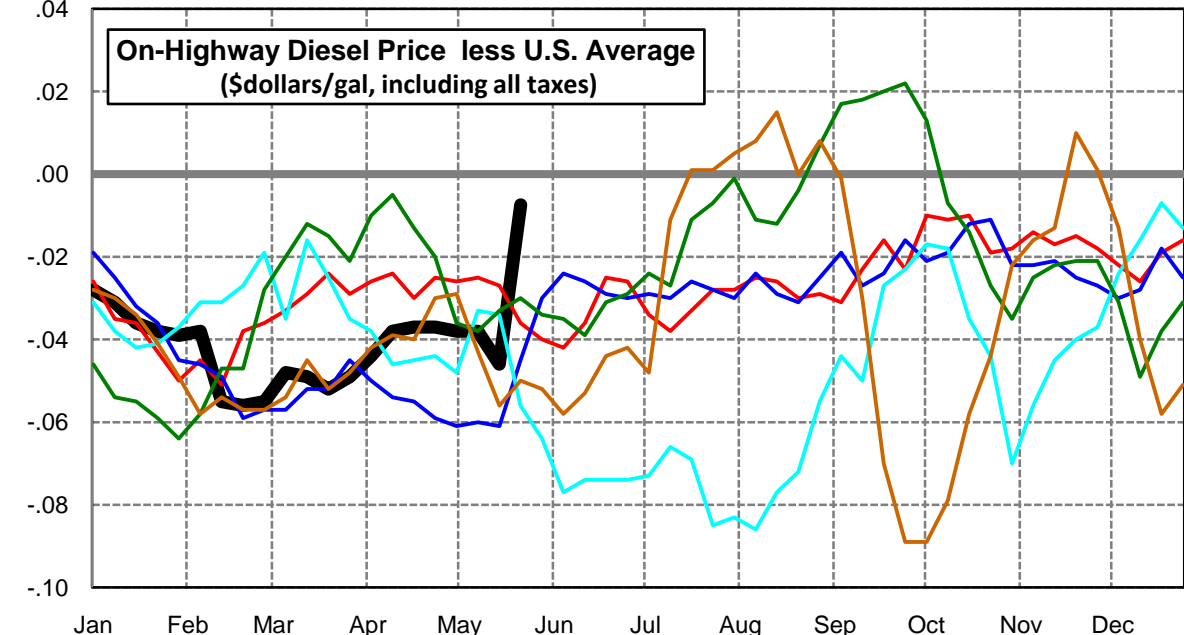
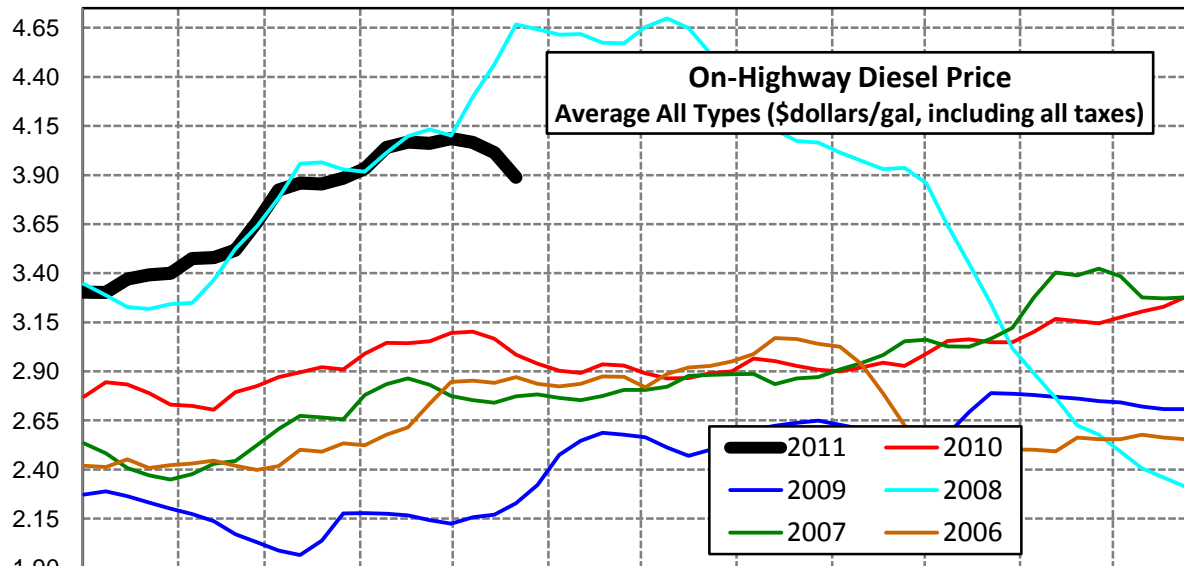
### New England Region Diesel Supply Fundamentals and On-Highway Price Trends

Weekly Retail On-Highway Diesel Prices					
Region	Actual Price week ending 1/			Forecast 2/	Change from week
	02May11	09May11	16May11	23May11	
<b>New England</b>	\$4.231	\$4.218	\$4.207	<b>\$3.997</b>	-\$0.210
1/ Source: U.S. Energy Information Administration					
2/ Source: Fundamental Petroleum Trends Reports					



### Midwest Diesel Supply Fundamentals and On-Highway Price Trends

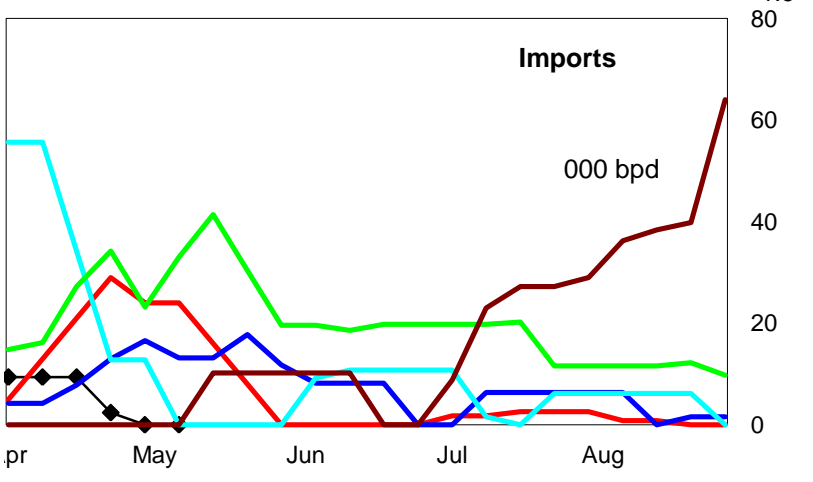
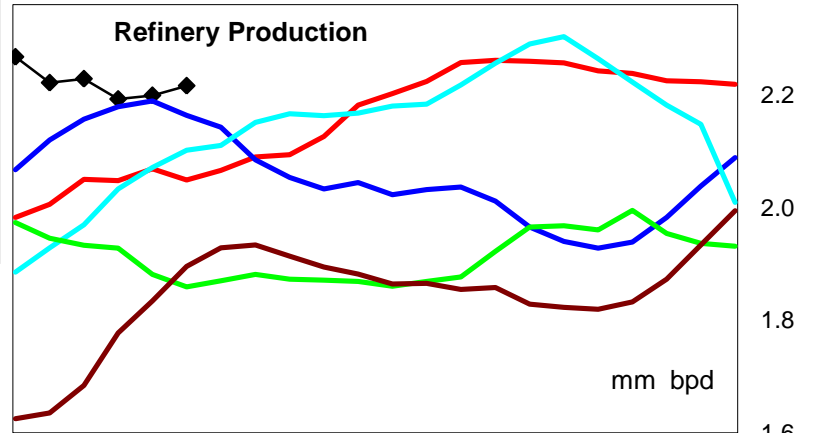
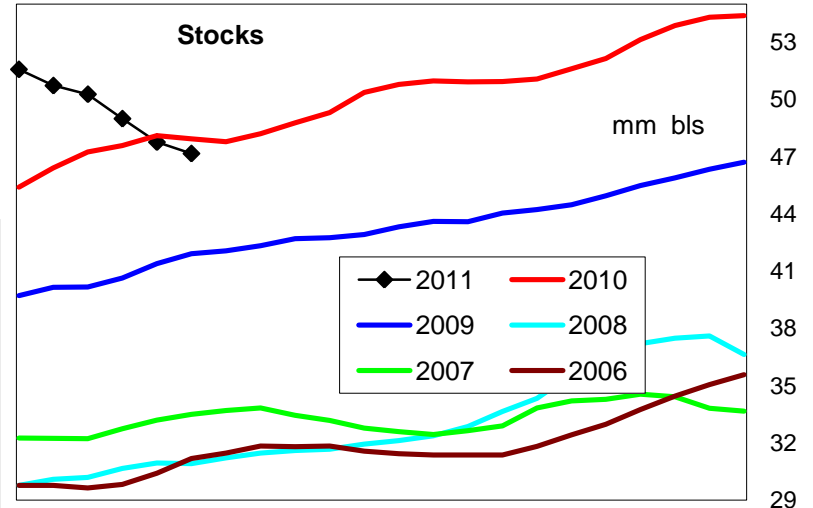
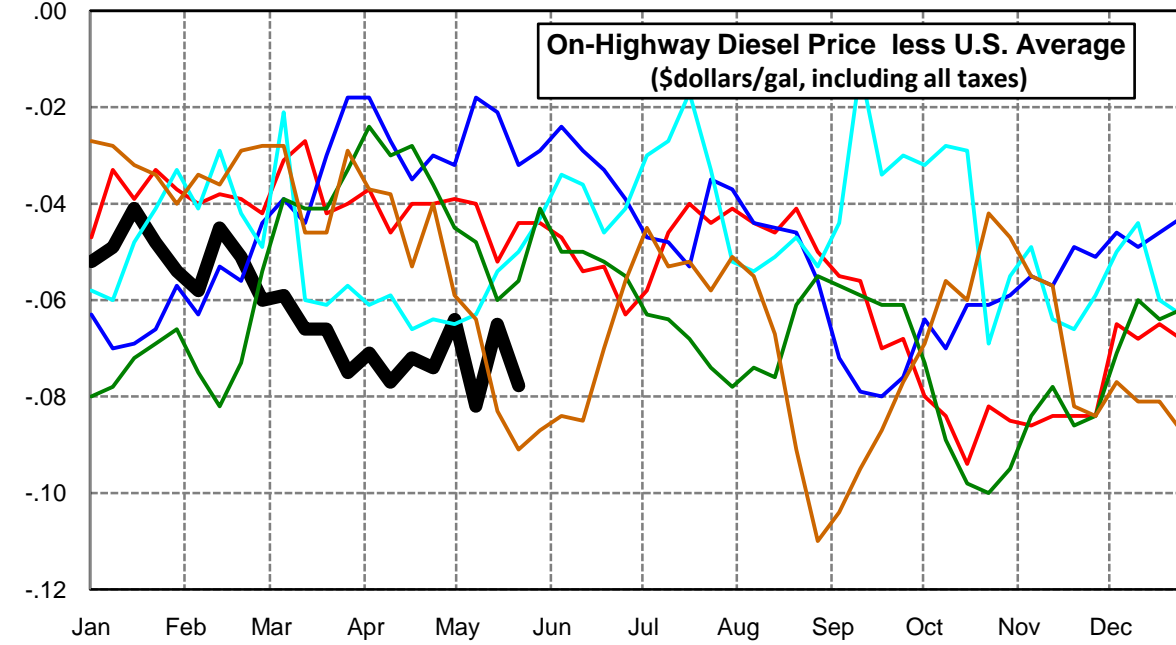
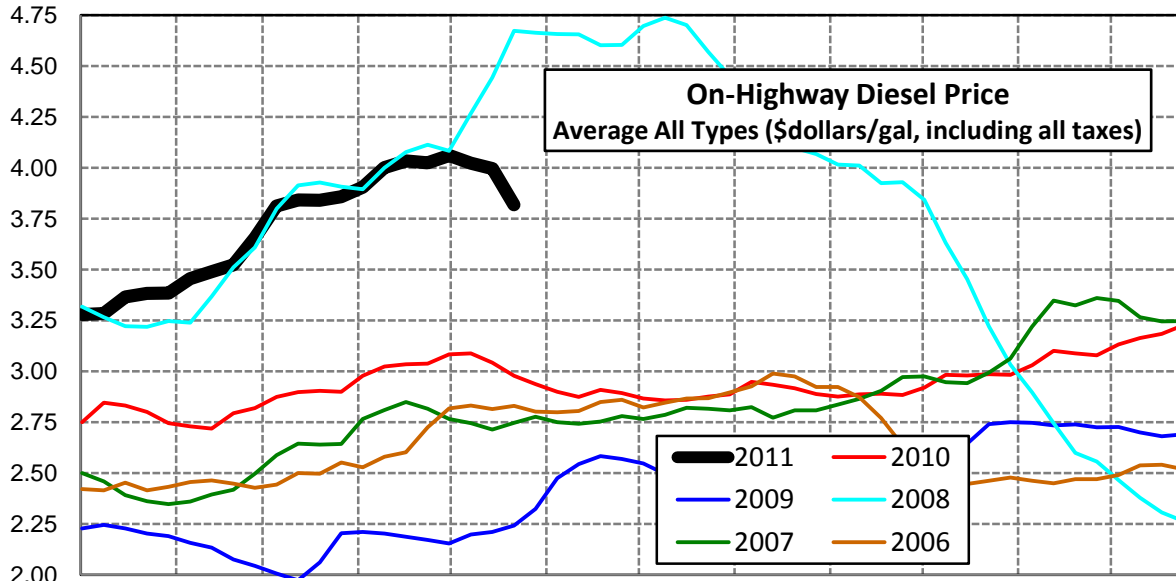
Weekly Retail On-Highway Diesel Prices					
Region	Actual Price week ending 1/			Forecast 2/	Change from week
	02May11	09May11	16May11	23May11	
<b>Midwest</b>	\$4.086	\$4.066	\$4.015	<b>\$3.889</b>	-\$0.126
1/ Source: U.S. Energy Information Administration					
2/ Source: Fundamental Petroleum Trends Reports					





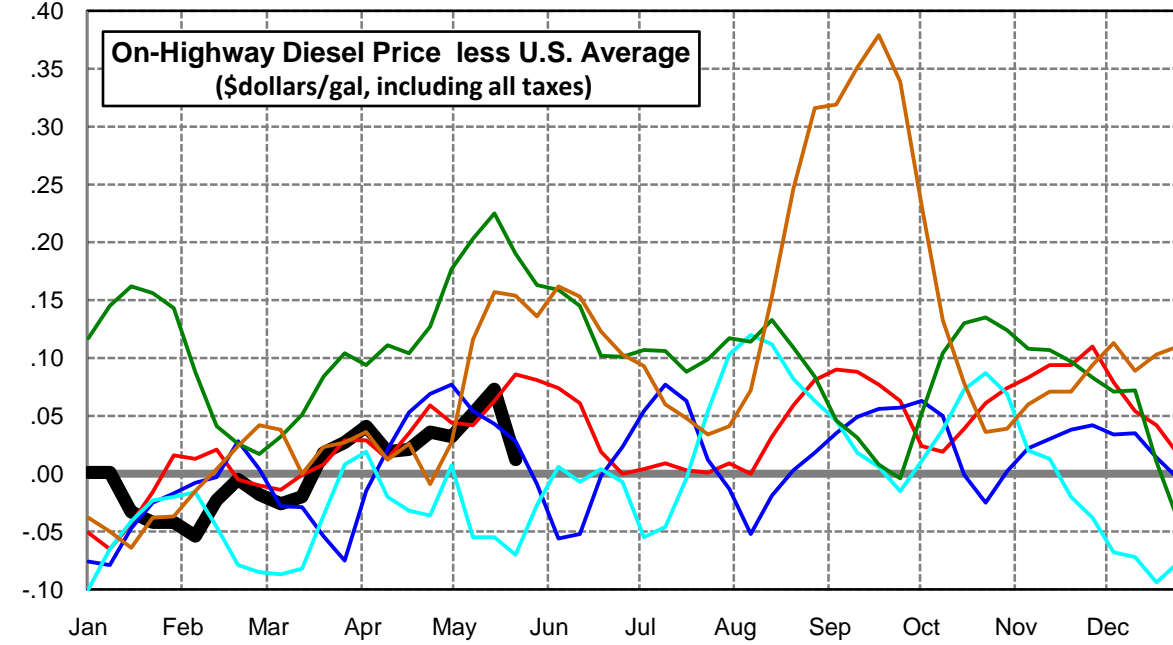
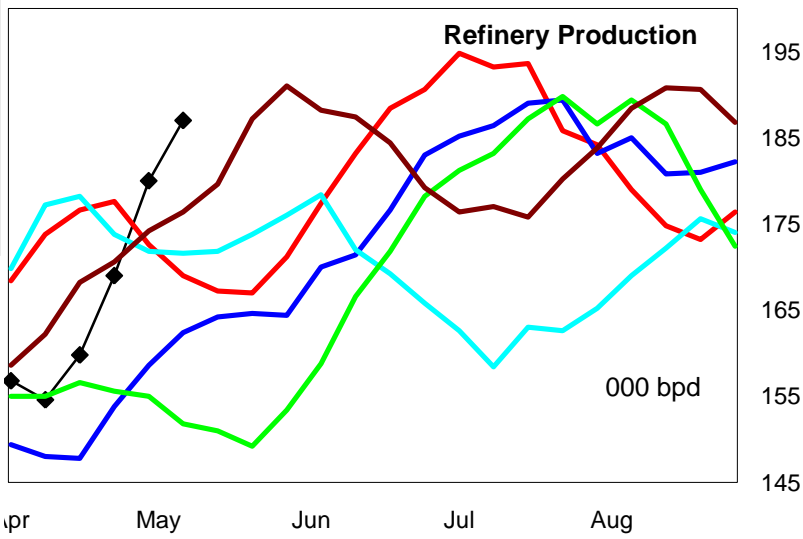
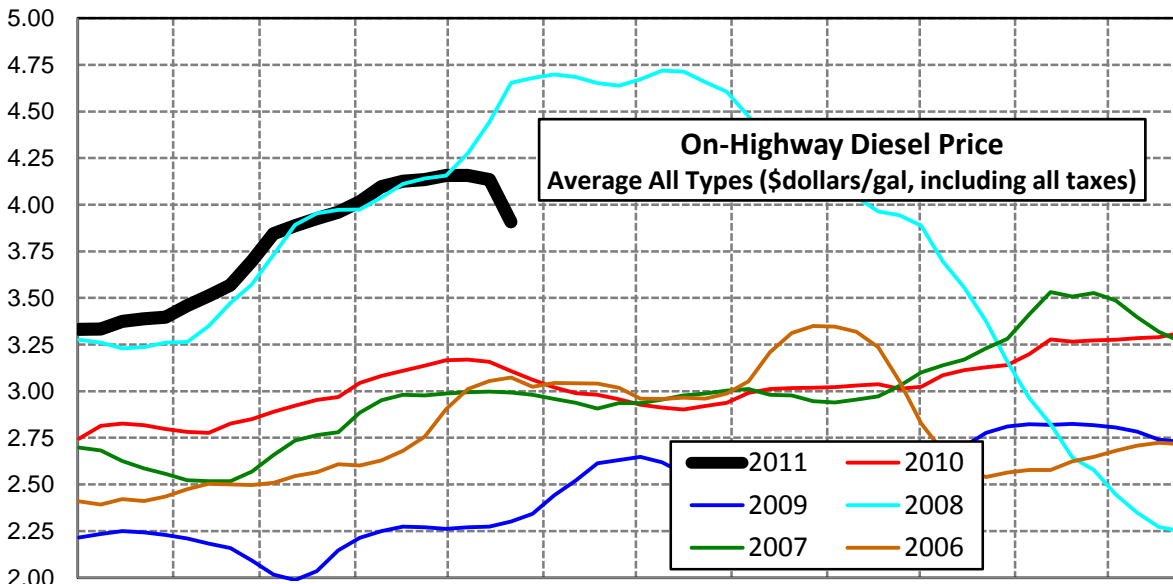
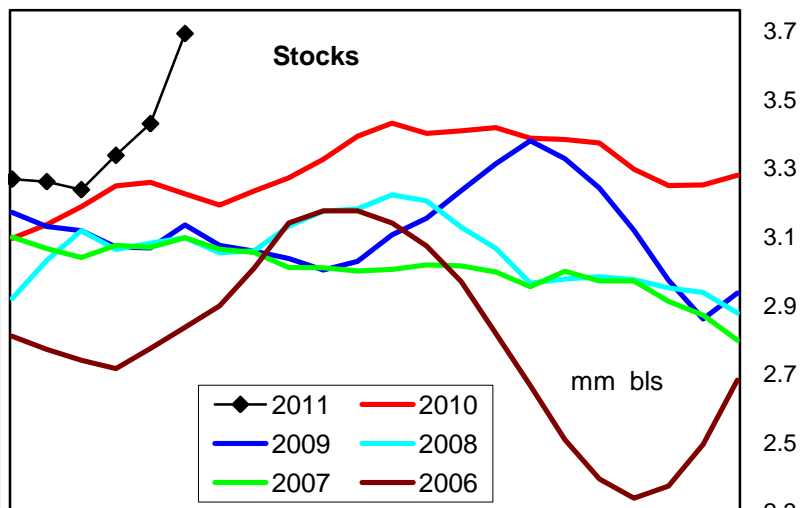
### Gulf Coast Diesel Supply Fundamentals and On-Highway Price Trends

Weekly Retail On-Highway Diesel Prices					
Region	Actual Price week ending 1/			Forecast 2/	Change from week
	02May11	09May11	16May11	23May11	
<b>Gulf Coast</b>	\$4.060	\$4.022	\$3.996	<b>\$3.818</b>	-\$0.178
1/ Source: U.S. Energy Information Administration					
2/ Source: Fundamental Petroleum Trends Reports					



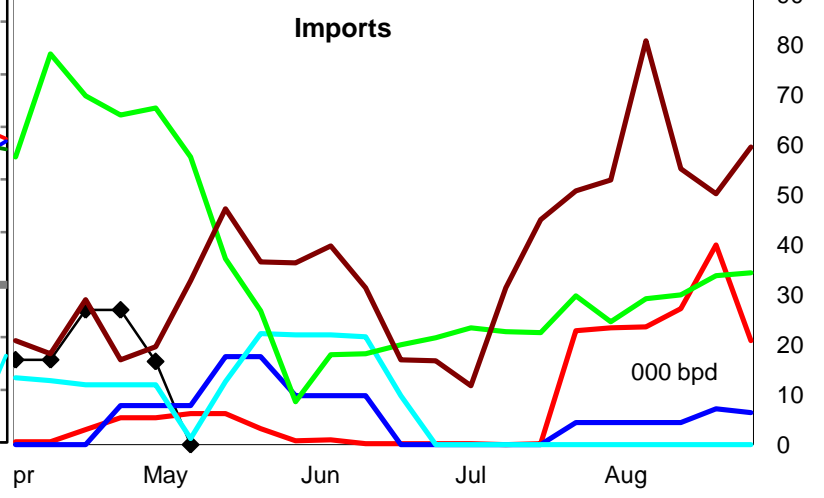
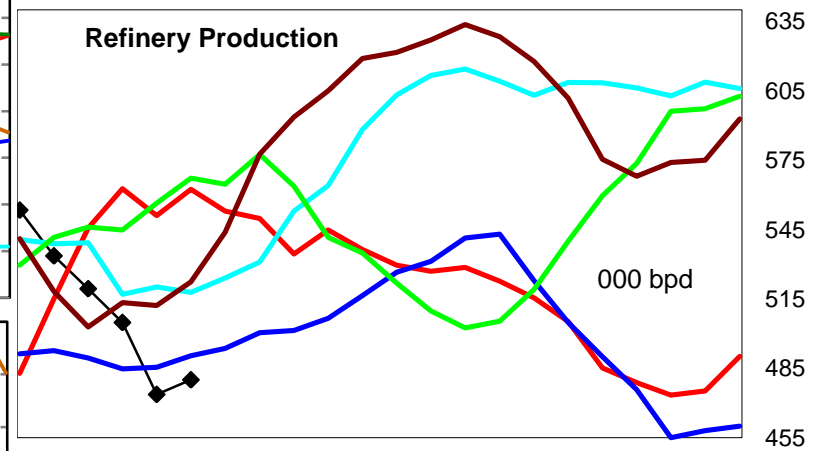
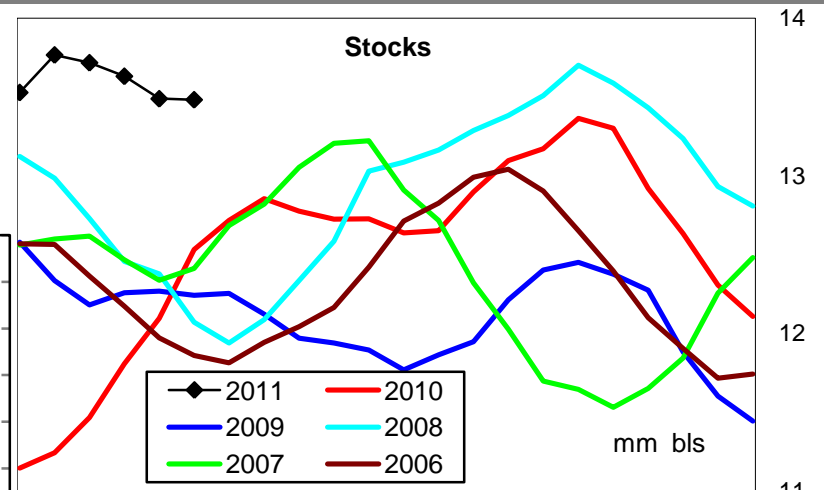
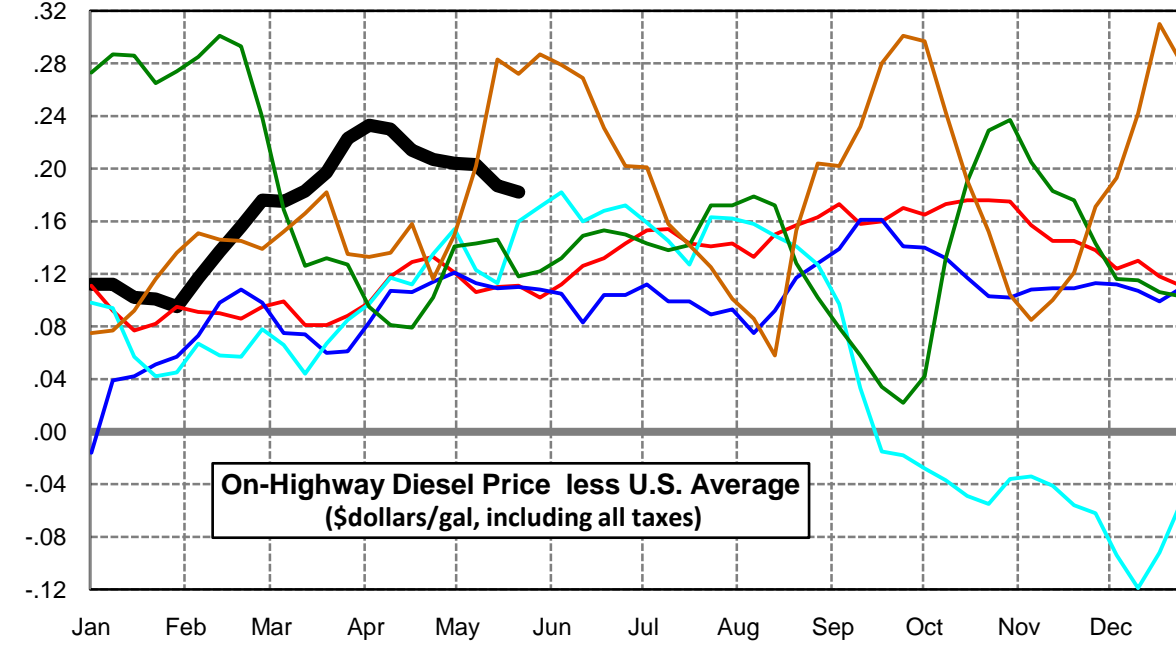
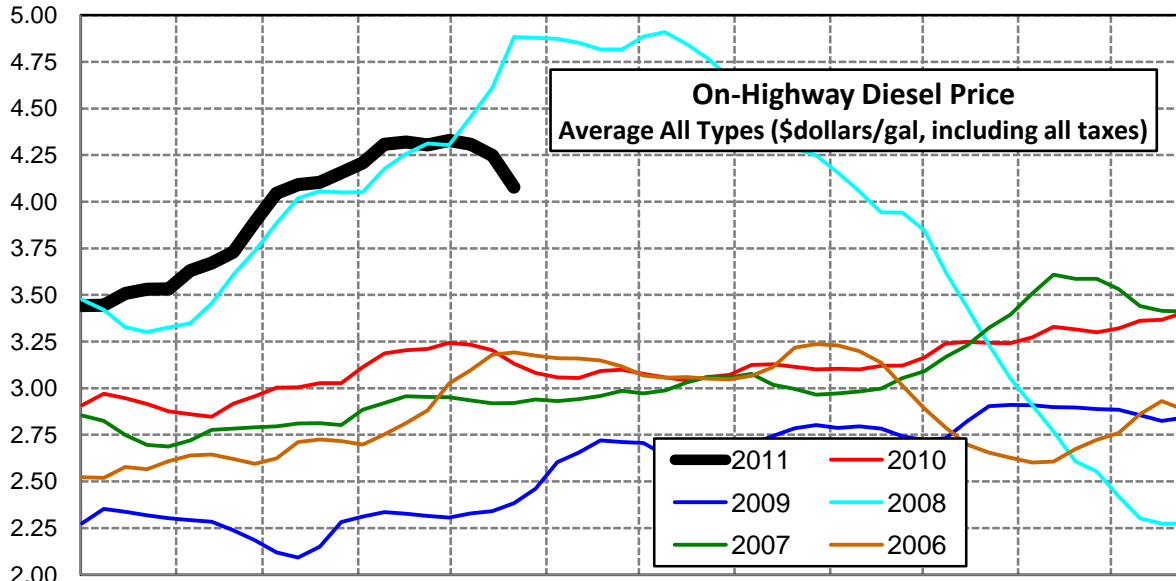
### Rocky Mountain Diesel Supply Fundamentals and On-Highway Price Trends

Weekly Retail On-Highway Diesel Prices					
Region	Actual Price week ending 1/			Forecast 2/	Change from week
	02May11	09May11	16May11	23May11	
<b>Rocky Mountain</b>	\$4.156	\$4.156	\$4.134	<b>\$3.908</b>	-\$0.226
1/ Source: U.S. Energy Information Administration					
2/ Source: Fundamental Petroleum Trends Reports					



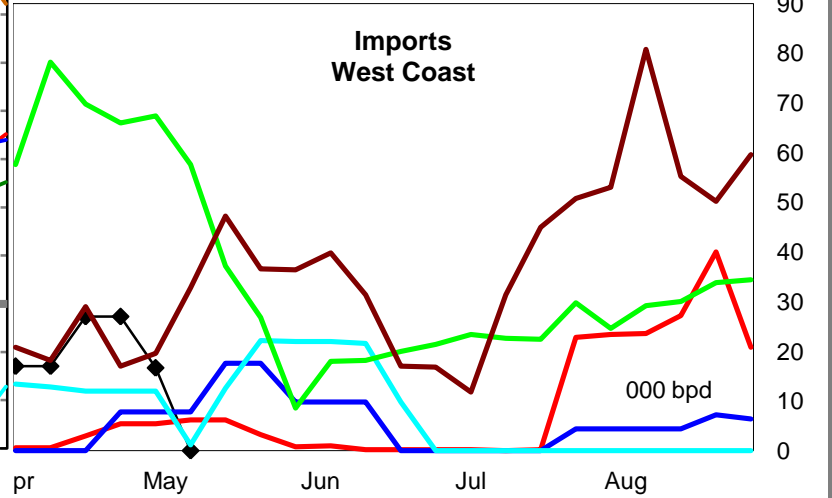
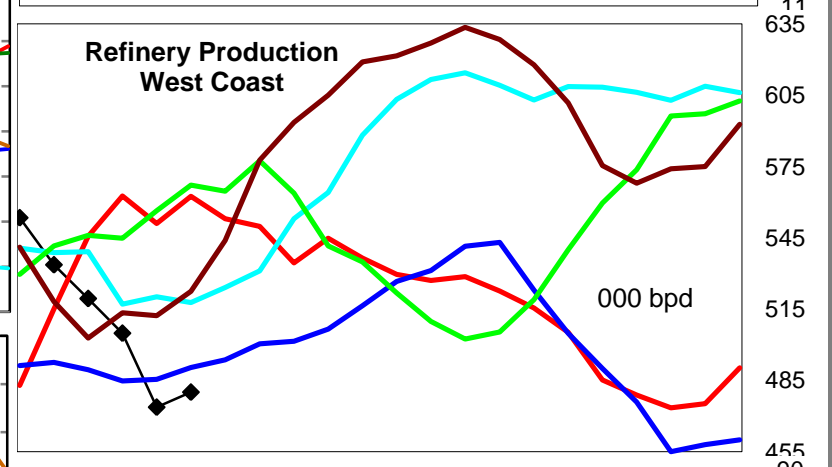
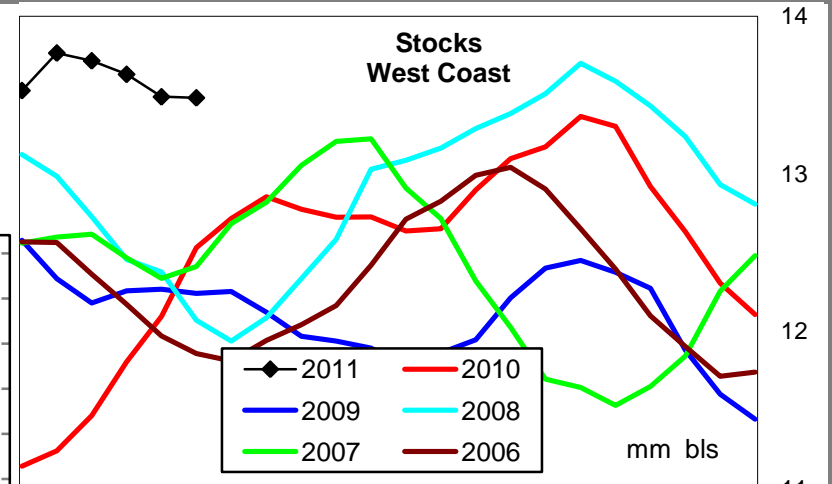
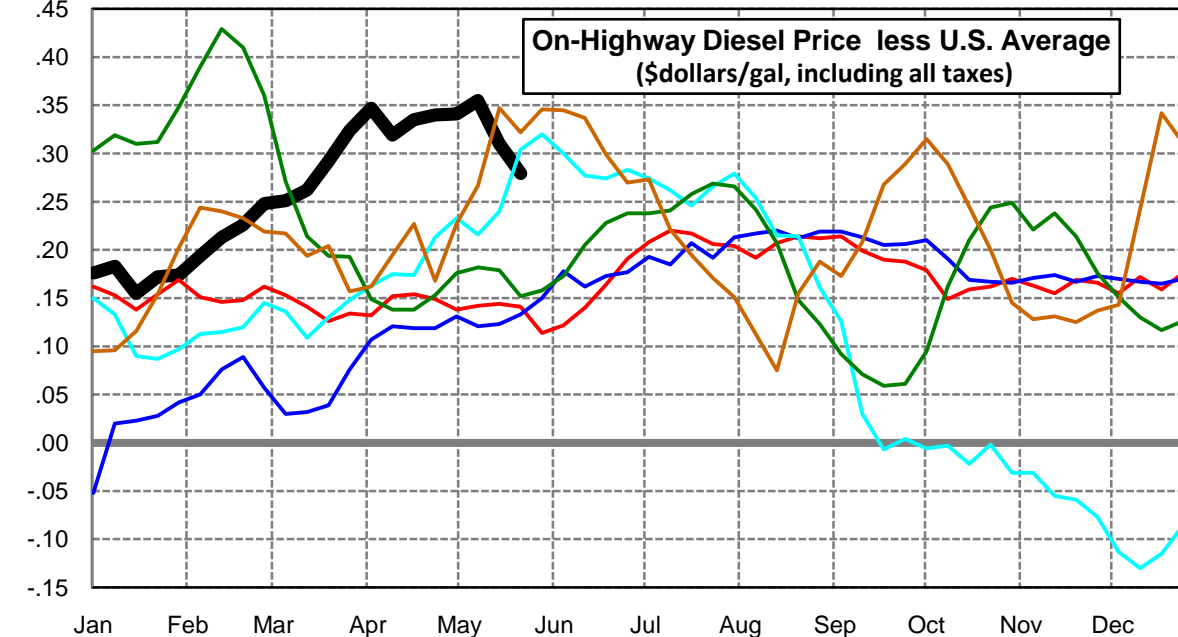
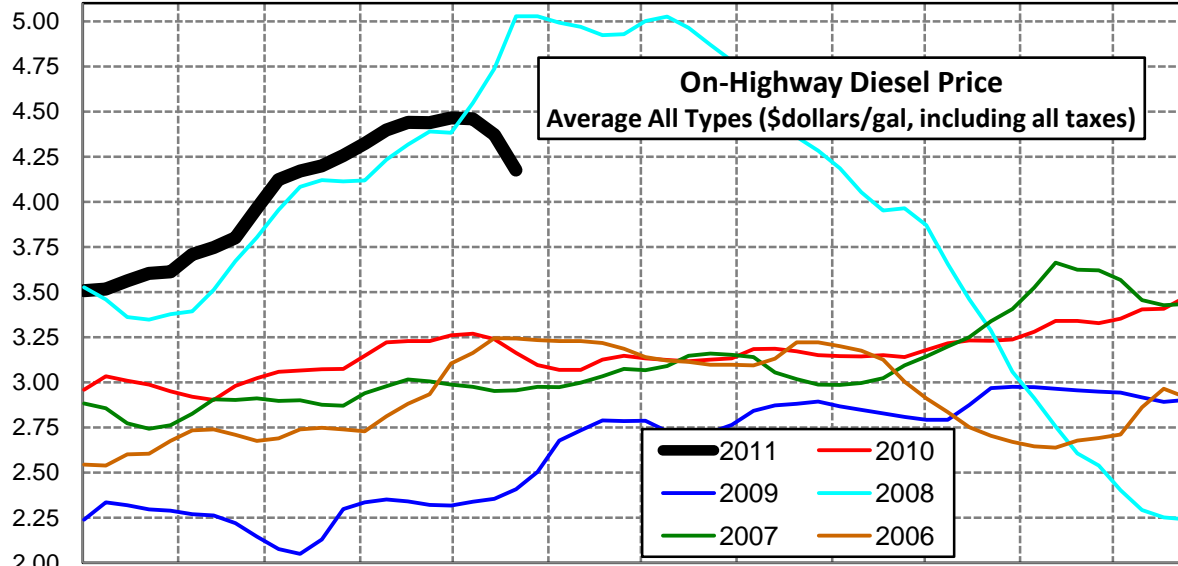
### West Coast Diesel Supply Fundamentals and On-Highway Price Trends

Weekly Retail On-Highway Diesel Prices					
Region	Actual Price week ending 1/			Forecast 2/	Change from week
	02May11	09May11	16May11	23May11	
<b>West Coast</b>	\$4.328	\$4.307	\$4.248	<b>\$4.078</b>	-\$0.170
1/ Source: U.S. Energy Information Administration					
2/ Source: Fundamental Petroleum Trends Reports					



### California Diesel Supply Fundamentals and On-Highway Price Trends

Weekly Retail On-Highway Diesel Prices					
Region	Actual Price week ending 1/			Forecast 2/	Change from week
	02May11	09May11	16May11	23May11	
<b>California</b>	\$4.465	\$4.459	\$4.371	<b>\$4.176</b>	-\$0.195
1/ Source: U.S. Energy Information Administration					
2/ Source: Fundamental Petroleum Trends Reports					



Week ending	Weekly On-Highway Diesel Prices									
	Average All Types (\$dollars/gal, including all taxes)									
	United States	East Coast	New England	Central Atlantic	Lower Atlantic	Mid West	Gulf Coast	Rocky Mtn	West Coast	California
Mon-04-Oct-10	3.000	2.997	3.040	3.095	2.952	2.990	2.920	3.024	3.165	3.179
Mon-11-Oct-10	3.066	3.065	3.118	3.178	3.011	3.055	2.982	3.085	3.239	3.215
Mon-18-Oct-10	3.073	3.072	3.140	3.188	3.016	3.063	2.979	3.112	3.249	3.232
Mon-25-Oct-10	3.067	3.064	3.136	3.180	3.008	3.048	2.985	3.128	3.243	3.229
Mon-01-Nov-10	3.067	3.063	3.147	3.181	3.005	3.049	2.982	3.141	3.242	3.237
Mon-08-Nov-10	3.116	3.114	3.170	3.225	3.061	3.102	3.030	3.199	3.273	3.279
Mon-15-Nov-10	3.184	3.187	3.230	3.303	3.133	3.167	3.100	3.278	3.329	3.339
Mon-22-Nov-10	3.171	3.172	3.235	3.293	3.115	3.156	3.087	3.265	3.316	3.340
Mon-29-Nov-10	3.162	3.166	3.237	3.288	3.108	3.144	3.078	3.272	3.300	3.328
Mon-06-Dec-10	3.197	3.206	3.315	3.328	3.144	3.175	3.132	3.276	3.321	3.352
Mon-13-Dec-10	3.231	3.248	3.373	3.364	3.187	3.205	3.163	3.285	3.361	3.403
Mon-20-Dec-10	3.248	3.260	3.375	3.381	3.197	3.229	3.183	3.290	3.366	3.407
Mon-27-Dec-10	3.294	3.313	3.406	3.428	3.256	3.278	3.226	3.311	3.405	3.470
Mon-03-Jan-11	3.331	3.357	3.427	3.470	3.303	3.303	3.279	3.332	3.443	3.507
Mon-10-Jan-11	3.333	3.364	3.450	3.478	3.308	3.302	3.284	3.334	3.445	3.516
Mon-17-Jan-11	3.407	3.448	3.560	3.556	3.392	3.371	3.366	3.374	3.509	3.562
Mon-24-Jan-11	3.430	3.480	3.609	3.590	3.421	3.392	3.382	3.388	3.531	3.602
Mon-31-Jan-11	3.438	3.494	3.633	3.611	3.432	3.399	3.384	3.396	3.533	3.612
Mon-07-Feb-11	3.513	3.565	3.717	3.682	3.501	3.475	3.455	3.459	3.630	3.707
Mon-14-Feb-11	3.534	3.587	3.749	3.700	3.524	3.479	3.489	3.511	3.671	3.747
Mon-21-Feb-11	3.573	3.620	3.769	3.734	3.557	3.517	3.522	3.568	3.729	3.799
Mon-28-Feb-11	3.716	3.764	3.903	3.875	3.703	3.661	3.656	3.698	3.892	3.964
Mon-07-Mar-11	3.871	3.908	4.046	4.014	3.850	3.823	3.812	3.845	4.046	4.122
Mon-14-Mar-11	3.908	3.946	4.081	4.061	3.885	3.859	3.842	3.888	4.091	4.170
Mon-21-Mar-11	3.907	3.938	4.087	4.046	3.878	3.855	3.841	3.925	4.104	4.199
Mon-28-Mar-11	3.932	3.952	4.095	4.061	3.892	3.883	3.857	3.959	4.155	4.256
Mon-04-Apr-11	3.976	3.982	4.109	4.092	3.923	3.932	3.905	4.017	4.209	4.323
Mon-11-Apr-11	4.078	4.082	4.154	4.204	4.024	4.040	4.001	4.097	4.308	4.397
Mon-18-Apr-11	4.105	4.111	4.212	4.229	4.051	4.068	4.033	4.126	4.319	4.440
Mon-25-Apr-11	4.098	4.105	4.222	4.238	4.038	4.061	4.024	4.134	4.305	4.438
Mon-02-May-11	4.124	4.128	4.231	4.269	4.059	4.086	4.060	4.156	4.328	4.465
Mon-09-May-11	4.104	4.117	4.218	4.248	4.052	4.066	4.022	4.156	4.307	4.459
Mon-16-May-11	4.061	4.075	4.207	4.210	4.005	4.015	3.996	4.134	4.248	4.371
Mon-23-May-11	3.896	3.893	3.997	4.011	3.846	3.889	3.818	3.908	4.078	4.176
Mon-30-May-11										

## Glossary and Definitions - Weekly Diesel Price - Fundamental Trends Report

**U.S. Energy Information Administration:** Source of weekly supply - demand diesel (distillate) fundamental data gathered through weekly survey of refiners, blenders, marketers, distributors.

**Weekly Retail On-Highway Diesel Prices:** Prepared by the EIA through a weekly survey of retail diesel marketers conducted each Monday. Many transportation firms use this data source to set fuel surcharge rates.

**Gulf Coast ULSD (ultra low sulfur distillate) Spot Market Prices:** Daily price data provided to the EIA by Thomson Reuters. Weekly data is an un weighted average of the daily prices.

**Regional Markets:** The EIA has defined five regions called PADD's for Petroleum Administration for Defense Districts which are used to aggregate weekly supply - demand fundamental statistics as well as retail On-Highway diesel prices. Those regions are illustrated on the U.S. Map, Page 2 of this report. In addition the EIA provides prices for the state of California, and three sub regions of PADD 1; New England, Central Atlantic and Lower Atlantic.

**On-Highway Diesel Price less U.S. Average:** This is the difference between the specific regional market and the U.S. Average price. The variance reflects differences in refining cost, wholesale distribution cost, product grade specifications, taxes, and market power by marketers to set prices.

Temporary variations also reflect the relative supply - demand balance; for example during periods that Eastern Canadian refiners are down for maintenance diesel supplies in the New England Region may become very tight, thus driving up the premium that New England prices have over the U.S. average price.

This difference also reflects the '**basis risk**' which a transport firm operating in a specific region experiences if using the U.S. Average price to hedge fuel cost or set fuel surcharge rates.

**Week ahead On-Highway Retail Diesel Price Forecast:** Prepared by Fundamental Petroleum Trends Reports using spot and futures market prices as reported by the EIA, and seasonal indices in proprietary statistical models.