

Oil Market Review in Japan No. 40/2017

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Overview

The key WTI (West Texas Intermediate) crude oil futures contract on the NYMEX (New York Mercantile Exchange) in the January 11-17 week moved within a firmer range between \$63.73 per barrel and \$64.30/bbl.

On January 18, the February contract fell on profit taking selling following the previous week's upsurge but narrowed its loss as a weekly EIA (Energy Information Administration) report said that U.S. crude oil inventories posted a decline of 6.9 million barrels from a week earlier, far faster than a market-forecast drop of 3.5 million barrels, for the ninth straight week of fall, with crude oil inventories at the WTI delivery point of Cushing recording a decline of 4.2 million barrels, the largest fall since 2004. The key contract closed at \$63.95/bbl, down \$0.02/bbl from the previous day. On January 19, the February contract dropped further as a monthly IEA report forecast that U.S., Canadian and Brazilian oil production would increase in 2018 while crude oil inventories would fall on a coordinated production cut by OPEC and some non-OPEC oil producing countries. Concerns about oversupply resurfaced as the IEA report was combined with the previous day's EIA report, which said that U.S. oil production rose by 260,000 barrels per day from a week earlier to 9.75 million bpd. A Baker Hughes report that the number of operating U.S. oil-drilling rigs decreased by five from a week earlier to 747 had no major impact on the market. The key contract decreased by \$0.58/bbl to \$63.37/bbl.

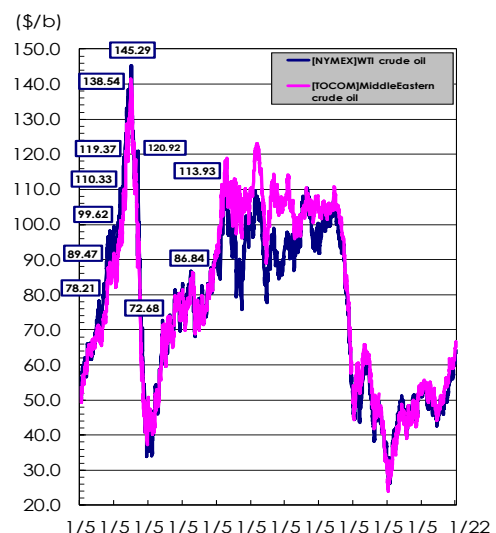
On January 22, the key contract rebounded for the first time in three trading days as reports on Libya's resumption of production at an oilfield were coupled with Saudi Arabian Energy Minister Khalid al-Falih's reported remark that OPEC and non-OPEC oil producing countries at their ministerial meeting on their coordinated production cut on January 21 agreed to continue cooperation in production even after the coordinated production cut expires at the end of this year. The February contract gained \$0.12/bbl to \$63.49/bbl. On January 23, the key contract rose further on expectations of oil demand growth as the IMF revised its global economic growth projection upward by 0.2 percentage points for this year. The March contract, which replaced the February contract as the key contract on the day, rose by \$0.90/bbl to \$64.47/bbl. On January 24, the March contract increased for the third straight day as the EIA reported that U.S. crude oil inventories decreased for the 10th consecutive week and as the dollar depreciated further. The key contract rose by \$1.14/bbl to \$65.61/bbl, closing above \$65/bbl for the first time in three years and one month since December 5, 2014.

The Asian benchmark crude oil of Dubai for February delivery on the Tokyo market moved in a firmer range between \$66.30/bbl and \$67.20/bbl in the January 11-17 week. It closed at \$66.60/bbl on January 18, at \$65.80/bbl on January 19, at \$66.00/bbl on January 22, at \$66.70/bbl on January 23 and at \$67.00/bbl on January 24. On the foreign exchange market in the January 11-17 week, the dollar moved within a weaker range between 110.36 and 111.47 yen. It changed hands at 111.33 yen in late trading on January 18, at 111.11 yen on January 19, at 110.75 yen on January 22, at 110.98 yen on January 23 and at 110.28 yen on January 24.

According to preliminary 10-day trade statistics released by the Ministry of Finance on January 24, the average crude oil import CIF price in the December 21-31 period stood at 45,137 yen/kl (kiloliter), up 1,063 yen/kl from the previous 10-day period. In dollars, the price was \$63.51/bbl, up \$1.00/bbl. The average exchange rate was 112.99 yen to the dollar. According to preliminary monthly trade statistics released by the ministry on the same day, the average crude oil import CIF price in December came to 44,162 yen/kl, up 2,994 yen/kl from the previous month. In dollars, the price was \$62.45/bbl, up \$4.80/bbl. The average exchange rate was 112.42 yen to the dollar.

Wholesale prices that major Motouri (petroleum products wholesalers) applied to the fourth week of January were kept unchanged by all Motouri for all petroleum products. Crude oil acquisition cost fell slightly as the yen appreciated against the dollar, with crude oil prices leveling off. Japan's average retail price on January 22 rose by 1.4 yen/l from a week earlier for gasoline, by 1.4 yen/l for diesel oil and by 1.1 yen/l for kerosene (heating oil). The gasoline price increased for the fifth straight week. The diesel price rose for the 18th straight week. The kerosene price also increased for the 18th consecutive week on an 18-liter tank basis. While crude oil cost fell slightly in the third week of January, Motouri companies raised wholesale prices by 0.5 yen/l for gasoline and by 0.5-1.0 yen/l for diesel oil and kerosene.

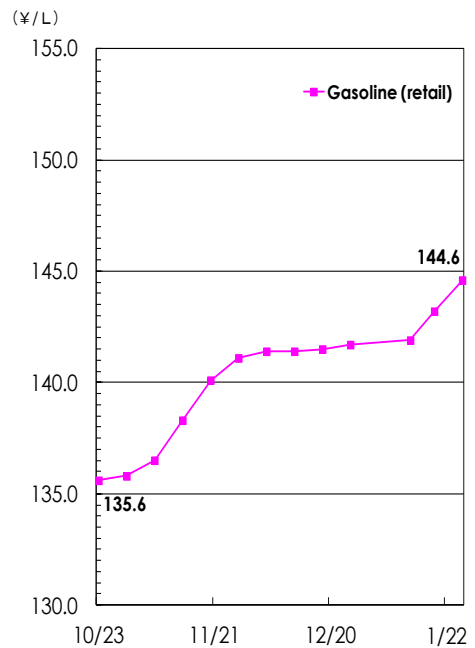
Crude oil			This week	From a week earlier	From a year earlier
Supply/Demand	Crude oil runs (1,000 kt)	1/14 ~ 1/20	3,688	▼ -139	▼ -
	Topper capacity utilization rate (%)	"	94.2	▼ -3.5	▲ -
	Crude oil inventories (1,000 kt)	1/20	13,028	▲ 543	▲ -
Prices	Middle Eastern crude oil (TOCOM) (\$/bbl)	1/22	65.61	▼ -0.85	▲ 12.0
	WTI crude oil (NYMEX) (\$/bbl)	1/22	63.49	▼ -0.24	▲ 10.7
	Crude oil import CIF price (\$/bbl)	Late Dec	63.51	▲ 1.00	▲ 16.75
	① Crude oil import CIF price (yen/kl)	"	45,137	▲ 1,063	▲ 11,892
	② Yen-dollar exchange rate (yen/dollar)	"	112.99	▼ -0.90	▲ 0.05
	TTS exchange rate (yen/dollar)	1/22	111.75	▲ 0.15	▲ 3.21



(Unit: 1,000 kl, yen/l)

Gasoline		This week	From a week earlier	From a year earlier	
Supply/ Demand	Production	1/14 ~ 1/20	959 ▼ -93	▼ -	
	Imports	"	n.a.	n.a.	
	Shipments	"	888 ▲ 73	▼ -	
	Exports	"	160 ▲ 101	▲ -	
	Inventories	1/20	1,729 ▼ -90	▼ -	
Prices	Gyoten (spot) [4-district average lorry rack price] (RIM)	1/16 ~ 1/22	62.5 ▲ 0.6	▲ 14.2	
	Futures [front-month contract/closing price]	(TOCOM/ Tokyo Bay)	1/16 ~ 1/22	60.6 ▲ 0.6	▲ 11.4
		(TOCOM/ Chubu)	1/22	62.0 ▲ 0.8	▲ 11.9
	Retail prices [weekly trend] (published by ANRE)	1/22	144.6 ▲ 1.4	▲ 13.5	

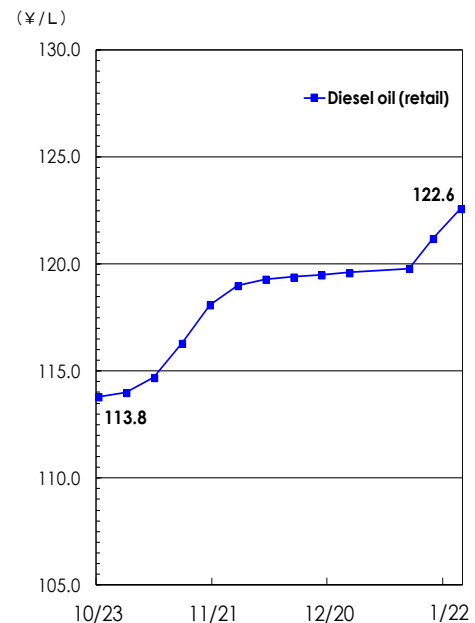
*Gyoten and futures prices are before tax



(Unit: 1,000 kl, yen/l)

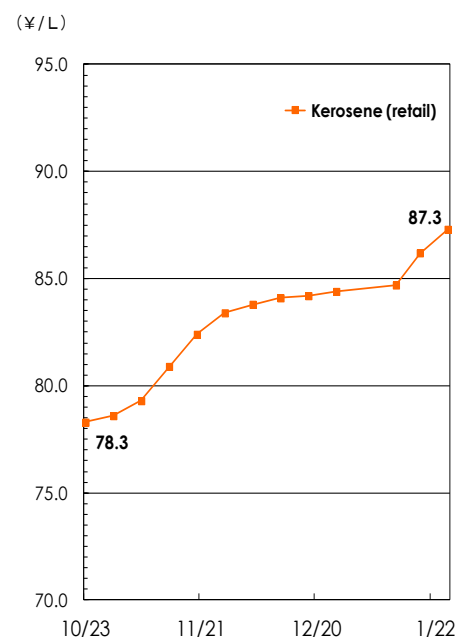
Diesel oil		This week	From a week earlier	From a year earlier	
Supply/ Demand	Production	1/14 ~ 1/20	846 ▲ 36	▲ -	
	Imports	"	n.a.	n.a.	
	Shipments	"	645 ▲ 86	▼ -	
	Exports	"	294 ▲ 100	▼ -	
	Inventories	1/20	1,650 ▼ -93	▼ -	
Prices	Gyoten (spot) [4-district average lorry rack price] (RIM)	1/16 ~ 1/22	62.4 ▲ 0.8	▲ 12.6	
	Futures [front-month contract/closing price]	(TOCOM/ Tokyo Bay)	1/16 ~ 1/22	60.0 ➡ 0.0	▲ 14.0
		(TOCOM/ Chubu)	1/22	-	-
	Retail prices [weekly trend] (published by ANRE)	1/22	122.6 ▲ 1.4	▲ 12.1	

*Gyoten and futures prices are before tax



(Unit: 1,000 kl, yen/l)

Kerosene		This week	From a week earlier	From a year earlier	
Supply/ Demand	Production	1/14 ~ 1/20	459 ▼ -29	▼ -	
	Imports	"	n.a.	n.a.	
	Shipments	"	570 ▲ 46	▼ -	
	Exports	"	0 ▼ -49	▼ -	
	Inventories	1/20	1,898 ▼ -111	▼ -	
Prices	Gyoten (spot) [4-district average lorry rack price] (RIM)	1/16 ~ 1/22	64.8 ▲ 0.9	▲ 11.7	
	Futures [front-month contract/closing price]	(TOCOM/ Tokyo Bay)	1/16 ~ 1/22	64.4 ▲ 0.9	▲ 13.4
		(TOCOM/ Chubu)	1/22	66.5 ▲ 1.7	▲ 17.0
	Retail prices [weekly trend] (published by ANRE)	1/22	87.3 ▲ 1.1	▲ 9.2	



Relevant Information

1 Overseas crude oil prices

On January 24, the most frequently traded WTI crude oil futures contract on the NYMEX rose for the third straight day and closed above \$65/bbl for the first time in three years and one month since December 5, 2014, as the EIA reported that U.S. crude oil inventories declined for the 10th straight week, with the dollar depreciating on U.S. Treasury Secretary Steven T. Mnuchin's remark welcoming the dollar's fall during his participation in the World Economic Forum in Davos. Also supporting crude oil futures prices was Saudi Arabian Energy Minister al-Falih's remark at the forum that he was not concerned about U.S. oil production expansion because of production cuts in Venezuela and Mexico. The March contract finished at \$65.61/bbl, up \$1.14/bbl. The April contract rose by \$1.05/bbl to \$65.36/bbl.

According to the EIA, the average U.S. retail price of gasoline as of January 22 rose by 1.0 cent per gallon from a week earlier to \$2.567/gal (75.7 yen/l). The average diesel oil price decreased by 0.3 cents/gal to \$3.025/gal (89.2 yen/l). The gasoline price rose for the fifth straight week, while the diesel price dropped for the first time in five weeks.

2 Petroleum products supply and demand in Japan (1) Shipments

According to a weekly report by the PAJ (Petroleum Association of Japan), inactive topper capacity in the January 14-20 week stood at 49,000 bpd, up 49,000 from the previous week (total capacity stood at 3,519,000 bpd). Crude oil throughput in the week decreased by 139,000 kl from the previous week to 3,688,000 kl. From a year earlier, it decreased by 220,000 kl. The topper capacity utilization rate stood at 94.2%, down 3.5 points from the previous week and up 1.5 points from a year earlier.

Output decreased from the previous week for gasoline, jet fuel and kerosene while increasing for other petroleum products. Output was down 8.8% for gasoline, down 7.9% for jet fuel, down 5.8% for kerosene, up 4.4% for diesel oil, up 17.9% for Fuel Oil A and up 12.7% for Fuel Oil C. Fuel Oil C imports in the week totaled 133,000 kl, up 76,000 kl from the previous week. Diesel oil exports aggregated 294,000 kl, up 100,000 kl.

Shipments (excluding imports) in the week increased from the previous week for all petroleum products. From a year earlier, shipments increased for jet fuel and Fuel Oil C and decreased for others. Gasoline shipments increased by 8.9% from the previous week to 888,000 kl. They increased week on week for the first time in four weeks and decreased year on year for the second straight week, remaining below 1 million kl for three weeks on end. Shipments totaled 172,000 kl for jet fuel (up 180.2% from the previous week), 570,000 kl for kerosene (up 8.8%), 645,000 kl for diesel oil (up 15.3%), 315,000 kl for Fuel

Oil A (up 9.2%) and 290,000 kl for Fuel Oil C (up 33.8%).

(Unit: 1,000 kl)

	This week (1/14 ~ 1/20)	Previous week (1/7 ~ 1/13)	From a week earlier
Gasoline	888	815	▲ 73 (9%)
Jet fuel	172	61	▲ 111 (182%)
Kerosene (heating Oil)	570	524	▲ 46 (9%)
Diesel oil	645	559	▲ 86 (15%)
Fuel oil A	315	288	▲ 27 (9%)
Fuel Oil C	290	217	▲ 73 (34%)
Total	2,880	2,464	▲ 416 (17%)

This week's shipments = (Previous weekend inventories + This week's production + This week's imports) - (This week's exports + This weekend inventories)

2 Petroleum products supply and demand in Japan (2) Inventories

Inventories as of January 20 increased from a week earlier only for Fuel Oil C and decreased for other petroleum products. From a year earlier, inventories increased only for Fuel Oil C and decreased for others.

Gasoline inventories totaled 1,729,000 kl, down 90,000 kl from a week earlier and down 103,000 kl from a year earlier.

Kerosene inventories totaled 1,898,000 kl, down 111,000 kl from a week earlier and down 106,000 kl from a year earlier.

Diesel oil inventories totaled 1,650,000 kl, down 93,000 kl from a week earlier and down 61,000 kl from a year earlier.

Fuel Oil A inventories totaled 712,000 kl, down 1,000 kl from a week earlier and down 57,000 kl from a year earlier.

Fuel Oil C inventories totaled 2,040,000 kl, up 43,000 kl from a week earlier and up 42,000 kl from a year earlier.

(Unit: 1,000 kl)

	This week (1/20)	Previous week (1/13)	From a week earlier
Gasoline	1,729	1,819	▼ -90 (-5%)
Jet fuel	839	971	▼ -132 (-14%)
Kerosene (heating Oil)	1,898	2,009	▼ -111 (-6%)
Diesel oil	1,650	1,743	▼ -93 (-5%)
Fuel oil A	712	713	▼ -1 (-0%)
Fuel Oil C	2,040	1,997	▲ 43 (2%)
Total	8,868	9,252	▼ -384 (-4.2%)

3 Petroleum products wholesale prices in Japan (1) Wholesale price revision trend

In the January 16-22 week, crude oil cost apparently decreased slightly as the yen appreciated against the dollar, with crude oil prices levelling off.

Onshore cargo spot prices between January 16 and 22 moved in a narrow range of 116-117 yen/l for gasoline and rose slightly in a 62-63 yen/l range for diesel oil and in a 64-65 yen/l range for kerosene.

Offshore barge spot prices in the week rose in a 118-120 yen/l range for gasoline, leveled off in a 63-64 yen/l range for diesel oil and increased slightly in a 66-68 yen/l range for kerosene.

The key futures price in the week rose slightly in a 114-115 yen/l range for gasoline, levelled off in a 60-61 yen/l range for diesel oil and soared in a 63-66 yen/l range for kerosene.

All Motouri companies left their wholesale prices unchanged for gasoline, diesel oil and kerosene.

3 Petroleum products wholesale prices in Japan (2) Spot (Gyoten) and futures price trend

Spot petroleum product prices, other than diesel oil futures prices, increased.

The latest onshore cargo spot price (the average onshore rack price for four districts -- Chiba, Kawasaki, Chukyo and Hanshin -- for the January 16-22 week) that influences Motouri's wholesale prices applied to the fourth week of January (January 25-31) rose by 0.6 yen/l from the previous week for gasoline, by 0.9 yen for kerosene and by 0.8 yen/l for diesel oil. The average offshore barge spot price in Tokyo Bay increased by 1.7 yen/l for gasoline, by 1.7 yen/l for kerosene and by 0.2 yen/l for diesel oil. The key futures price rose by 0.6 yen/l for gasoline and by 0.9 yen/l for kerosene and leveled off for diesel oil. Crude oil cost decreased slightly as the yen appreciated, with crude oil prices levelling off.

For the fourth week of January, all Motouri companies left their wholesale prices unchanged for gasoline, diesel oil and kerosene. Motouri based wholesale price revisions on crude oil and petroleum products market prices and each other's prices from 2010 and have adopted an approach giving greater priority to crude oil acquisition cost since June 2014.

(RIM) [4-district average lorry rack price]		(Unit: yen/l)		
		This week (1/16 ~ 1/22)	Previous week (1/9 ~ 1/15)	From a week earlier
Spot Prices	Regular	62.5	61.9	▲ 0.6
	Kerosene	64.8	63.9	▲ 0.9
	Diesel oil	62.4	61.6	▲ 0.8

(TOCOM) [Front-month contract/closing price]		(Unit: yen/l)		
[Average]		This week (1/16 ~ 1/22)	Previous week (1/9 ~ 1/15)	From a week earlier
Futures Price	Regular	60.6	60.0	▲ 0.6
	Kerosene	64.4	63.5	▲ 0.9
	Diesel oil	60.0	60.0	➡ 0.0

Above prices are before tax.

Reference (January 16 - January 22 actual data)

		(Unit: yen/l)		
Products	Spot	Futures	Average	
Gasoline	▲ 0.6	▲ 0.6	▲ 0.6	
Kerosene	▲ 0.9	▲ 0.9	▲ 0.9	
Diesel oil	▲ 0.8	➡ 0.0	▲ 0.4	
Fuel Oil A	▲ 1.1			

(Source) Spot: RIM 4-district average lorry rack price (Chiba, Kawasaki, Chukyo, Hanshin)
Futures: TOCOM average offshore barge spot price for Keihin District

4 Retail prices of petroleum products in Japan

The average retail service station price as of January 22 rose by 1.4 yen/l from a week earlier to 144.6 yen/l for gasoline, by 1.4 yen/l to 122.6 yen/l for diesel oil and by 1.1 yen/l to 87.3 yen/l for kerosene. The gasoline price increased for the fifth straight week. The diesel price increased for the 18th straight week. The kerosene price also rose for the 18th consecutive week on an 18-liter tank basis. Gasoline prices increased in 44 of Japan's 47 prefectures and remained unchanged in the remaining three. The lowest gasoline price among the prefectures was 140.0 yen/l in Saitama Prefecture (up 1.9 yen/l). The second lowest was 140.4 yen/l in Chiba (up 0.8 yen/l). The highest price was 152.0 yen/l in Okinawa (up 0.7 yen/l). Posting the largest price hike of 3.7 yen/l was Okayama (142.5 yen/l).

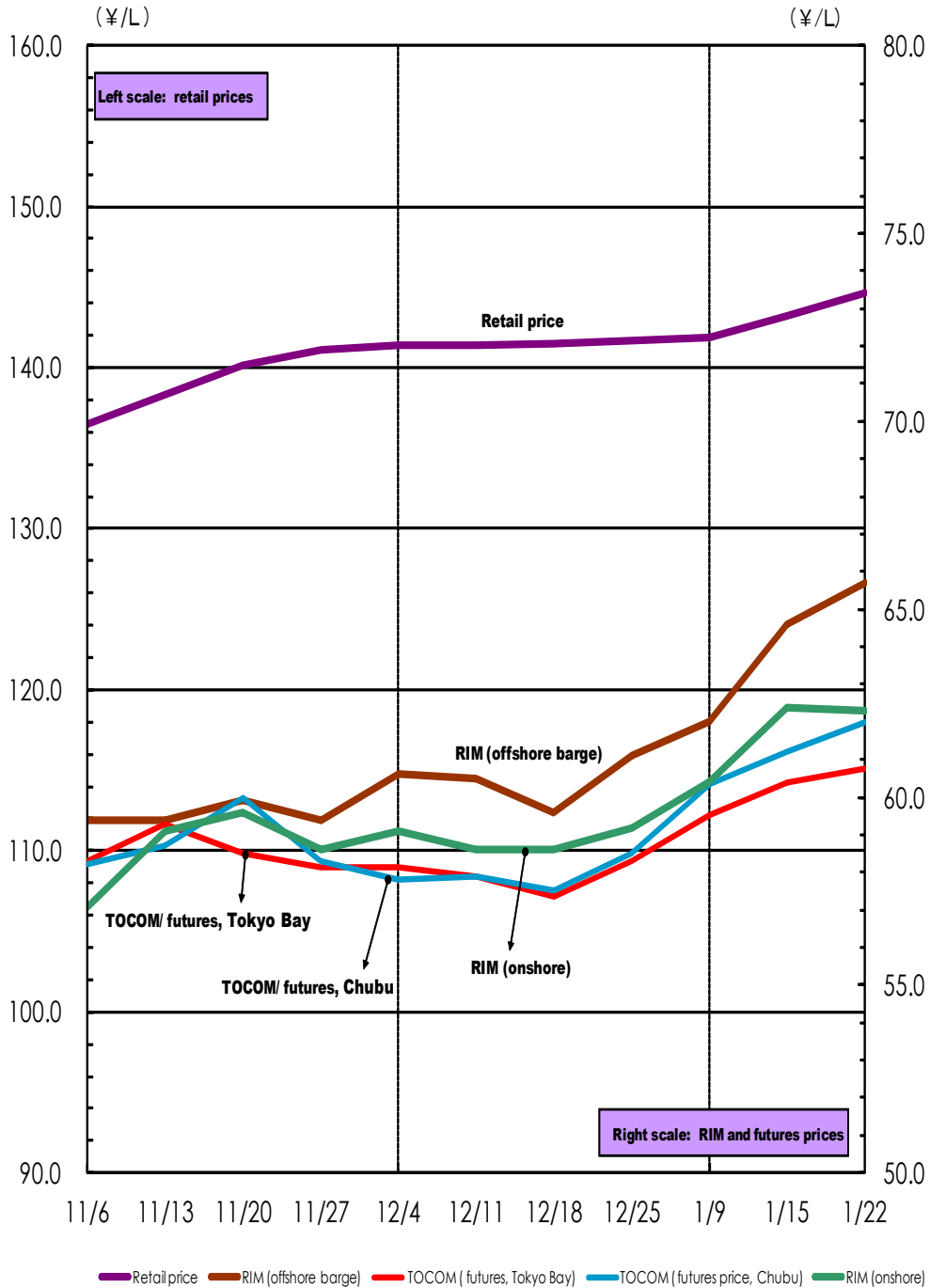
While crude oil cost increased in the previous week, Motouri companies raised their wholesale prices by 0.5 yen/l from a week earlier for gasoline and by 0.5-1.0 yen/l for diesel oil and kerosene. The average retail gasoline price rose for the fifth straight week. This week, crude oil cost decreased slightly as the yen appreciated against the dollar, with crude oil prices levelling off. Retail gasoline prices are expected to level off next week (as of January 29). Kerosene prices are likely to rise slightly as retailers have yet to pass earlier wholesale price hikes on to retail prices.

(Published by ANRE)[Weekly trend]		(Unit: yen/l)			
		This week (1/22)	Previous week (1/15)	From a week earlier	Latest high
Retail Price	Regular	144.6	143.2	▲ 1.4	08/8/4 185.1
	Kerosene	87.3	86.2	▲ 1.1	08/8/11 132.1
	Diesel oil	122.6	121.2	▲ 1.4	08/8/4 167.4

Nationwide average cash retail price (including consumption tax)
Since April 2007, 2,000 service stations have been covered.
Latest highs are highest levels since October 2003.

Gasoline price trend

(2017/11/6 ~ 2018/1/22)



(Note) ① Retail price includes consumption Tax, RIM, TOCOM prices are before tax.
 ② RIM (onshore) is the average of four district .

Announcement

This report is available at the center's website (<http://eneken.ieej.or.jp/en/>).
The next issue (No. 41 for 2017) will be announced at 14:00 on February 9.

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Weekly Oil Market Review

In an interim report compiled in May 2004 by a petroleum products market trend study panel sponsored by the Petroleum Distribution and Retail Division of the Natural Resources and Fuel Department at the Agency for Natural Resources and Energy, the panel stated, "We hope that the Japanese oil industry will solidify its market and price-finding functions and that the oil industry as a mainstay industry in Japan will further enhance its rationality and vitality over a medium term as industry people deepen their understanding of the need for rational price recognition based on market and price-finding functions to be established in the oil industry and for business decisions based on recognition under the principle of self-responsibility."

In response to the report, this Center has published the Weekly Oil Market Review as a tool for oil-related people, business administrators (particularly service station managers) and ordinary consumers to accurately understand crude oil and petroleum products supply and demand and price trends, in cooperation with relevant organizations such as the Petroleum Association of Japan and the Zensekiren (Japan's Dealers Association) since May 2005.

Sources of data provided in this report

① [Crude oil and petroleum products supply and demand] (weekly PAJ report)

Data in weekly statistics on crude oil and petroleum product supply by the Petroleum Association of Japan are calculated in terms of 1,000 kiloliters. Shipments are estimated by this Center.

② [Crude oil and futures prices] (WTI crude and Middle Eastern crude)

For the WTI crude, the front-month WTI crude futures contract's daily closing price on the New York Mercantile Exchange (NYMEX) is adopted.

For the Middle Eastern crude, the front-month Middle Eastern crude futures contract's closing price on the Tokyo Commodity Exchange (TOCOM) is adopted. * "Second-month (next-month) contract"

Underlying the Middle Eastern crude price is the average price for the Dubai and Oman crude oil. The telegraphic transfer middle rate (TTM) released by the Bank of Tokyo-Mitsubishi UFJ is adopted as the foreign exchange rate.

The crude oil import CIF price is a dollar-denominated reference price estimated by the PAJ based on the average crude oil price (on a 10-day basis) in the Ministry of Finance trade statistics.

③ [Motouri wholesale prices of petroleum products in Japan]

Motouri wholesale prices are prices for transactions between Motouri petroleum products wholesalers (primary wholesalers) and their affiliates (secondary wholesalers).

Motouri companies modified their new pricing system in April 2010 to decide specific policies in comprehensive consideration of crude oil and petroleum products market prices, each other's prices and other data. In June 2014, they modified the system further to give greater priority to crude oil cost.

④ [Gyoten spot prices of petroleum products in Japan] (RIM gyoten)

Onshore cargo spot prices are the average onshore lorry rack prices for the four districts of Tokyo, Kawasaki, Chukyo and Hanshin in the Lorry Rack Report of RIM Intelligence Co.

⑤ [Futures prices of petroleum products in Japan] (TOCOM)

Front-month petroleum products futures contracts' daily closing prices for TOCOM Tokyo Bay and Chubu are adopted.

TOCOM Tokyo Bay prices are the average offshore barge prices for the Keihin district. TOCOM Chubu prices are the average lorry rack prices in the Chubu district.

⑥ [Retail prices of petroleum products in Japan] (Weekly trend survey)

Average cash retail prices at some 2,000 service stations subject to a weekly nationwide survey are adopted (as released by the Agency for Natural Resources and Energy). The survey covers prices on Monday and is released at 14:00 on Wednesday (available on the website of the Agency for Natural Resources and Energy).