

Oil Market Review in Japan No. 45/2017

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https://eneken.ieej.or.jp/en/weekly_oil/index.php

Overview

The key WTI (West Texas Intermediate) crude oil futures contract on the NYMEX (New York Mercantile Exchange) in the February 15-21 week moved within a narrow range between \$61.34 per barrel and \$61.90/bbl.

On February 22, the April contract rallied on robust U.S. oil demand as indicated by a crude oil inventory decline of 1.6 million barrels in a weekly EIA (Energy Information Administration) report against a market-forecast increase and by a fall of 2.7 million barrels in crude oil inventories at the WTI delivery point of Cushing. The EIA report came one day behind usual schedule due to a national holiday. The key contract gained \$1.09/bbl from the previous day to \$62.77/bbl. On February 23, the April contract rose further as market players felt a tightening supply-demand balance on *Saudi Arabian Energy Minister* Khalid al-Falih's remark indicating a continuous fall in crude oil inventories and on a reported shutdown of Libya's El Feel oilfield (with production capacity at about 70,000 barrels per day) amid strikes, in addition to factors seen on the previous day. A Baker Hughes report said that the number of operating U.S. oil-drilling rigs increased by one from a week earlier to 799. The key contract rose by \$0.78/bbl to \$63.55/bbl.

On February 26, selling outpaced buying in the morning as the dollar's appreciation made crude oil futures prices relatively higher. As *Saudi Arabian Energy Minister* al-Falih reportedly said Saudi oil production in January-March would slip far below a production quota, with exports falling to less than 7 million bpd, however, the key contract turned up and closed higher for the third straight trading day. The April contract gained \$0.36/bbl to \$63.91/bbl. On February 27, the key contract fell back for the first time in four trading days as concerns about oversupply resurged on a forecast U.S. crude oil inventory increase in imminent weekly U.S. government and private sector oil reports and on IEA (International Energy Agency) Executive Director Fatih Birol's remark that the United States would replace Russia as the world's largest oil producer within 2019. Also supporting selling were the dollar's appreciation making crude oil futures prices relatively higher and investors' risk-off attitude amid a stock market fall. The April contract fell by \$0.90/bbl to \$63.01/bbl. On February 28, the key contract dropped further as a weekly EIA report included a faster-than-forecast crude oil inventory increase and a gasoline inventory expansion against a market-forecast drop. The April contract fell by \$1.37/bbl to \$61.64/bbl.

The Asian benchmark crude oil of Dubai for March delivery on the Tokyo market moved in a range between \$61.40/bbl and \$62.20/bbl in the February 15-21 week. It closed at \$61.70/bbl on February 22, at \$63.10/bbl on February 23, at \$64.10/bbl on February 26, at \$64.20/bbl on February 27 and at \$63.10 on February 28.

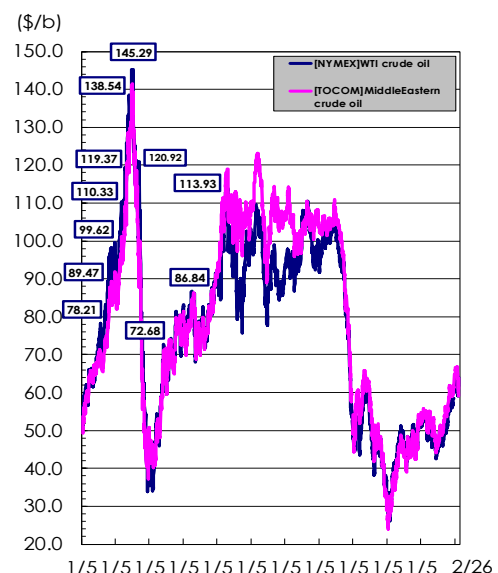
On the foreign exchange market in the February 15-21 week, the dollar moved within a range between 106.29 and 107.54 yen. It changed hands at 107.52 yen in late trading on February 22, at 107.01 yen on February 23, at 106.92 yen on February 26, at 106.86 yen on February 27 and at 107.37 yen on February 28.

According to preliminary 10-day trade statistics released by the Ministry of Finance on February 27, the average crude oil import CIF price in the February 1-10 period stood at 46,412 yen/kl (kiloliter), up 560 yen/kl from the previous 10-day period. In dollars, the price was \$66.87/bbl, up \$1.54/bbl. The average exchange rate was 110.33 yen to the dollar.

Wholesale prices that major Motouri (petroleum products wholesalers) applied to the first week of March were raised by 1.0 yen/l for gasoline, by 0.5-1.0 yen/l for diesel oil and by 1.0 yen/l for kerosene (heating oil). Crude oil acquisition cost rose as crude oil prices increased, with the yen leveling off against the dollar.

Japan's average retail price on February 26 fell by 0.3 yen/l from a week earlier for gasoline, by 0.2 yen/l for diesel oil and by 0.1 yen/l for kerosene. The gasoline price fell for the second straight week, while the diesel price fell for the first time in two weeks. The kerosene price decreased for the first time in 27 weeks on an 18-liter tank basis. While crude oil cost declined in the fourth week of February, Motouri companies lowered their wholesale prices by 1.0-1.5 yen/l for gasoline and diesel oil and by 0.0-1.0 yen for kerosene.

Crude oil			This week	From a week earlier	From a year earlier
Supply/Demand	Crude oil runs (1,000 kl)	2/18 ~ 2/24	3,643	▼ -36	▼ -
	Topper capacity utilization rate (%)	"	93.0	▼ -0.9	▲ -
	Crude oil inventories (1,000 kl)	2/24	11,733	▼ -662	▼ -
Prices	Middle Eastern crude oil (TOCOM) (\$/bbl)	2/26	63.65	▲ 1.44	▲ 8.6
	WTI crude oil (NYMEX) (\$/bbl)	2/26	63.91	▲ 2.01	▲ 9.9
	Crude oil import CIF price (\$/bbl)	Early Feb	66.87	▲ 1.54	▲ 11.57
	① Crude oil import CIF price (yen/kl)	"	46,412	▲ 560	▲ 6,957
	② Yen-dollar exchange rate (yen/dollar)	"	110.33	▲ 1.24	▲ 3.09
	TTS exchange rate (yen/dollar)	2/26	107.92	▼ -0.62	▲ 5.26

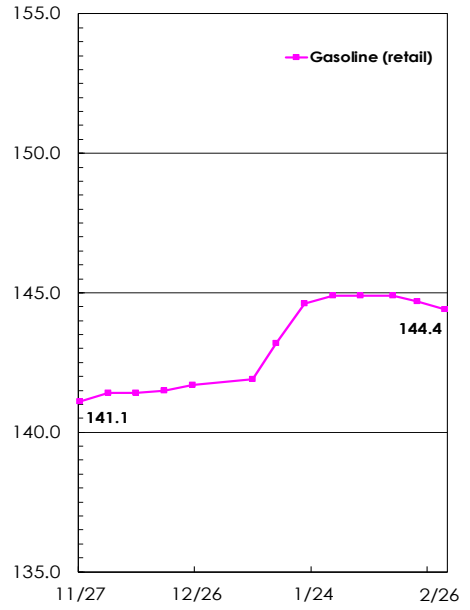


(Unit: 1,000 kl, yen/l)

Gasoline		This week	From a week earlier	From a year earlier	
Supply/ Demand	Production	2/18 ~ 2/24	1,067 ▲ 139	▲ —	
	Imports	"	n.d.	n.d.	
	Shipments	"	909 ▼ -20	▼ —	
	Exports	"	146 ▲ 62	▼ —	
	Inventories	2/24	1,647 ▲ 11	▼ —	
Prices	Gyoten (spot) [4-district average lorry rack price] (RIM)	2/20 ~ 2/26	58.1 ▼ -1.2	▲ 7.2	
	Futures [front-month contract/closing price]	(TOCOM/ Tokyo Bay)	2/20 ~ 2/26	55.8 ▲ 0.5	▲ 2.7
		(TOCOM/ Chubu)	2/26	56.5 ➡ 0.0	▲ 3.0
	Retail prices [weekly trend] (published by ANRE)	2/26	144.4 ▼ -0.3	▲ 13.6	

*Gyoten and futures prices are before tax

(¥/L)

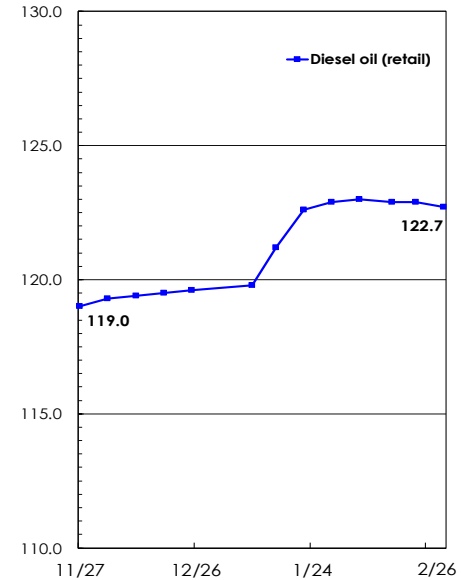


(Unit: 1,000 kl, yen/l)

Diesel oil		This week	From a week earlier	From a year earlier	
Supply/ Demand	Production	2/18 ~ 2/24	807 ▲ 21	▼ —	
	Imports	"	n.d.	n.d.	
	Shipments	"	720 ▲ 60	▲ —	
	Exports	"	136 ▼ -66	▼ —	
	Inventories	2/24	1,192 ▼ -49	▼ —	
Prices	Gyoten (spot) [4-district average lorry rack price] (RIM)	2/20 ~ 2/26	59.4 ▼ -1.3	▲ 9.8	
	Futures [front-month contract/closing price]	(TOCOM/ Tokyo Bay)	2/20 ~ 2/26	60.8 ▲ 0.8	▲ 14.8
		(TOCOM/ Chubu)	2/26	—	—
	Retail prices [weekly trend] (published by ANRE)	2/26	122.7 ▼ -0.2	▲ 12.5	

*Gyoten and futures prices are before tax

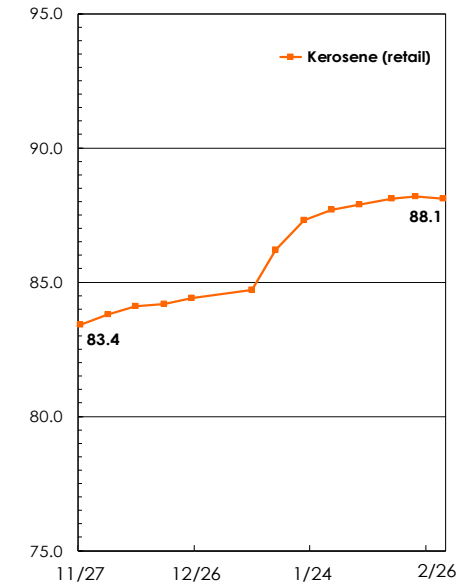
(¥/L)



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

Kerosene		This week	From a week earlier	From a year earlier	
Supply/ Demand	Production	2/18 ~ 2/24	454 ▼ -84	▼ —	
	Imports	"	n.d.	n.d.	
	Shipments	"	509 ▼ -26	▼ —	
	Exports	"	0 ▼ -25	▼ —	
	Inventories	2/24	1,199 ▼ -55	▼ —	
Prices	Gyoten (spot) [4-district average lorry rack price] (RIM)	2/20 ~ 2/26	64.5 ▲ 0.2	▲ 13.4	
	Futures [front-month contract/closing price]	(TOCOM/ Tokyo Bay)	2/20 ~ 2/26	61.7 ▼ -0.7	▲ 12.5
		(TOCOM/ Chubu)	2/26	60.0 ▼ -4.0	▲ 11.0
	Retail prices [weekly trend] (published by ANRE)	2/26	88.1 ▼ -0.1	▲ 10.1	

(¥/L)



Relevant Information

1 Overseas crude oil prices

On February 28, the most frequently traded WTI crude futures contract on NYMEX dropped further on a faster-than-forecast increase in U.S. crude oil inventories in the weekly EIA report, the dollar's appreciation, month-end profit taking selling and weaker Chinese, Indian and Japanese economic indicators. The EIA report said crude oil inventories posted an increase of 3 million barrels from a week earlier, faster than a market-forecast increase of 2.1 million barrels. Gasoline inventories indicated a rise of 2.5 million barrels against a market-forecast decrease of 200,000 barrels. A monthly EIA report, released on the day, revised November U.S. crude oil production upward to 10.06 million bpd and December production downward to 9.95 million bpd. The April contract fell by \$1.37/bbl to \$61.64/bbl. The May contract dropped by \$1.43/bbl to \$61.47/bbl.

According to the EIA, the average U.S. retail price of gasoline as of February 26 dropped by 0.9 cents per gallon from a week earlier to \$2.548/gal (72.6 yen/l). The average diesel oil price decreased by 2.0 cents/gal to \$3.007/gal (85.6 yen/l). The gasoline and diesel prices fell for the third straight week.

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 February 18-24 week stood at 120,000 bpd, unchanged from the previous week (total capacity stood at 3,519,000 bpd). Crude oil throughput in the week decreased by 36,000 kl from the previous week to 3,643,000 kl. From a year earlier, it fell by 272,000 kl. The topper capacity utilization rate stood at 93.0%, down 0.9 points from the previous week and up 0.2 points from a year earlier.

Output decreased from the previous week only for kerosene and increased for other petroleum products. Output was up 15.0% for gasoline, up 28.0% for jet fuel, down 15.6% for kerosene, up 2.7% for diesel oil, up 4.6% for Fuel Oil A and up 12.4% for Fuel Oil C. Fuel Oil C imports in the week totaled 62,000 kl, up 38,000 kl from the previous week. Diesel oil exports aggregated 136,000 kl, down 66,000 kl.

Shipments (excluding imports) in the week decreased from the previous week for gasoline, kerosene and Fuel Oil C and increased for other petroleum products. From a year earlier, shipments decreased for gasoline, jet fuel and Fuel Oil C while increasing for others. Gasoline shipments decreased by 2.1% from the previous week to 909,000 kl. They decreased week on week for the second straight week and year on year for the first time in two weeks, remaining below 1 million kl for eight weeks on end. Shipments totaled 23,000 kl for jet fuel (up 5.6% from the previous week), 509,000 kl for kerosene (down 4.9%), 720,000 kl

for diesel oil (up 9.1%), 307,000 kl for Fuel Oil A (up 7.0%) and 304,000 kl for Fuel Oil C (down 12.0%).

(Unit: 1,000 kl)

	This week (2/18 ~ 2/24)	Previous week (2/11 ~ 2/17)	From a week earlier
Gasoline	909	929	▼ -20 (-2%)
Jet fuel	23	22	▲ 1 (5%)
Kerosene (heating Oil)	509	535	▼ -26 (-5%)
Diesel oil	720	660	▲ 60 (9%)
Fuel oil A	307	287	▲ 20 (7%)
Fuel Oil C	304	345	▼ -41 (-12%)
Total	2,772	2,778	▼ -6 (-0%)

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 February 24 increased from a week earlier for gasoline, jet fuel and Fuel Oil C and decreased for other petroleum products. From a year earlier, inventories declined for all.

Gasoline inventories totaled 1,647,000 kl, up 11,000 kl from a week earlier and down 64,000 kl from a year earlier.

Kerosene inventories totaled 1,199,000 kl, down 55,000 kl from a week earlier and down 219,000 kl from a year earlier.

Diesel oil inventories totaled 1,192,000 kl, down 49,000 kl from a week earlier and down 417,000 kl from a year earlier.

Fuel Oil A inventories totaled 678,000 kl, down 4,000 kl from a week earlier and down 61,000 kl from a year earlier.

Fuel Oil C inventories totaled 1,884,000 kl, up 9,000 kl from a week earlier and down 103,000 kl from a year earlier.

(Unit: 1,000 kl)

	This week (2/24)	Previous week (2/17)	From a week earlier
Gasoline	1,647	1,636	▲ 11 (1%)
Jet fuel	785	724	▲ 61 (8%)
Kerosene (heating Oil)	1,199	1,254	▼ -55 (-4%)
Diesel oil	1,192	1,241	▼ -49 (-4%)
Fuel oil A	678	682	▼ -4 (-1%)
Fuel Oil C	1,884	1,875	▲ 9 (0%)
Total	7,385	7,412	▼ -27 (-0.4%)

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

In the February 20-26 week, crude oil cost apparently increased as crude oil prices increased, with the yen leveling off against the dollar.

Onshore cargo spot prices between February 20 and 26 fell in a 111-113 yen/l range for gasoline and in a 59-61 yen/l range for diesel oil and leveled off in a 64-65 yen/l range for kerosene.

Offshore barge spot prices in the week fell sharply in a 116-121 yen/l range for gasoline, leveled off in a 63-64 yen/l range for diesel oil and decreased after increasing in a 72-74 yen/l range for kerosene.

The key futures price in the week rose in a 109-111 yen/l range for gasoline and in a 60-63 yen/l range for diesel oil and increased after falling sharply in a 60-66 yen/l range for kerosene.

Motouri companies raised their wholesale prices by 1.0 yen/l for gasoline, by 0.5-1.0 yen/l for diesel oil and by 1.0 yen/l for kerosene.

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

Among spot petroleum product prices, offshore barge and futures prices for gasoline, onshore cargo and offshore barge prices for kerosene and futures prices for diesel oil increased while onshore cargo prices for gasoline, futures price for kerosene, and onshore cargo and offshore barge prices for diesel oil declined.

The latest onshore cargo spot price (the average onshore rack price for four districts -- Chiba, Kawasaki, Chukyo and Hanshin -- for the February 20-26 week) that influences Motouri's wholesale prices applied to the first week of March (March 1-7) fell by 1.2 yen/l from the previous week for gasoline, rose by 0.2 yen for kerosene and declined by 1.3 yen/l for diesel oil. The average offshore barge spot price in Tokyo Bay rose by 0.1 yen/l for gasoline and by 1.2 yen/l for kerosene and fell by 0.2 yen/l for diesel oil. The key futures price rose by 0.5 yen/l for gasoline, fell by 0.7 yen/l for kerosene and increased by 0.8 yen/l for diesel oil. Crude oil cost increased as crude oil prices rose, with the yen leveling off against the dollar.

For the first week of March, Motouri companies raised their wholesale prices by 1.0 yen/l for gasoline, by 0.5-1.0 yen/l for diesel oil and by 1.0 yen/l for 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 (2/20 ~ 2/26)	Previous week (2/13 ~ 2/19)	From a week earlier
Spot Prices	Regular	58.1	59.3	▼ -1.2
	Kerosene	64.5	64.3	▲ 0.2
	Diesel oil	59.4	60.7	▼ -1.3

(TOCOM) [Front-month contract/closing price] [Average]		(Unit: yen/l)		
		This week (2/20 ~ 2/26)	Previous week (2/13 ~ 2/19)	From a week earlier
Futures Price	Regular	55.8	55.3	▲ 0.5
	Kerosene	61.7	62.4	▼ -0.7
	Diesel oil	60.8	60.0	▲ 0.8

Above prices are before tax.

Reference (February 20 - February 26 actual data)				(Unit: yen/l)	
Products	Spot	Futures	Average		
Gasoline	▼ -1.2	▲ 0.5	▼ -0.3		
Kerosene	▲ 0.2	▼ -0.7	▼ -0.3		
Diesel oil	▼ -1.3	▲ 0.8	▼ -0.3		
Fuel Oil A	▼ -1.2				

(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 February 26 decreased by 0.3 yen/l from a week earlier to 144.4 yen/l for gasoline, by 0.2 yen to 122.7 yen/l for diesel oil and by 0.1 yen/l to 88.1 yen/l for kerosene. The gasoline price dropped for the second straight week. The diesel price declined for the first time in two weeks. The kerosene price fell for the first time in 27 months on an 18-liter tank basis. Gasoline prices increased in one of Japan's 47 prefectures, remained unchanged in seven and decreased in 39. The lowest gasoline price among the prefectures was 138.7 yen/l in Tokushima Prefecture (down 0.4 yen/l from a week earlier). The second lowest was 140.2 yen/l in Saitama (down 0.4 yen/l). The highest price was 152.9 yen/l in Okinawa (down 0.7 yen/l). Posting the largest price hike of 0.1 yen/l was Kagawa (145.6 yen/l). Logging the largest price drop of 1.7 yen/l was Yamaguchi (142.0 yen/l).

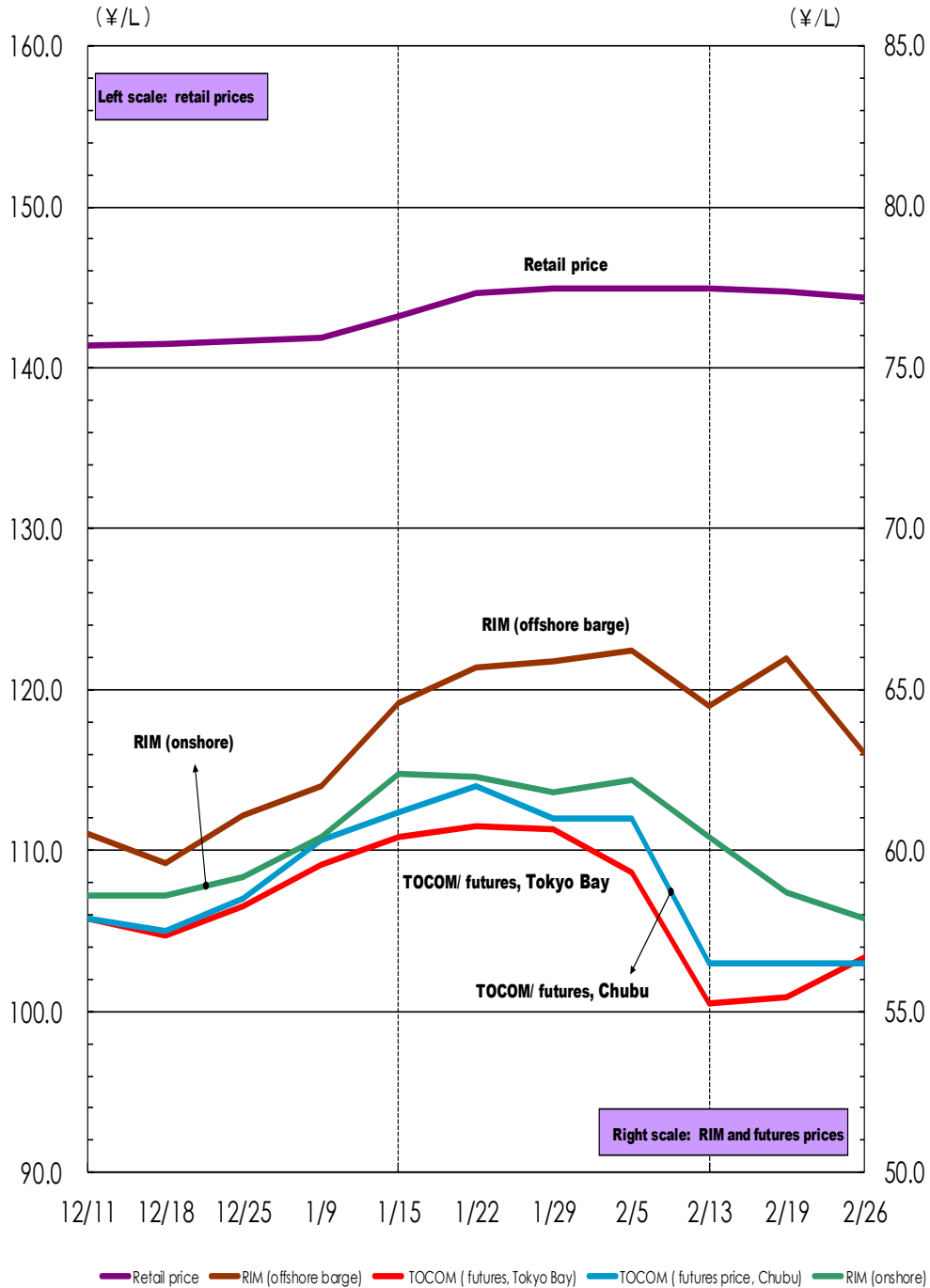
While crude oil cost decreased in the previous week, Motouri companies cut their wholesale prices by 1.0-1.5 yen/l for gasoline, by 1.0-1.5 yen/l for diesel oil and by 0.0-1.0 yen/l for kerosene. The average retail gasoline price fell for the second straight week. This week, crude oil cost increased as crude oil prices rose, with the yen leveling off against the dollar. Retail gasoline and kerosene prices are expected to increase slightly next week (as of March 5).

(Published by ANRE)[Weekly trend]		(Unit: yen/l)			
		This week (2/26)	Previous week (2/19)	From a week earlier	Latest high
Retail Price	Regular	144.4	144.7	▼ -0.3	08/8/4 185.1
	Kerosene	88.1	88.2	▼ -0.1	08/8/11 132.1
	Diesel oil	122.7	122.9	▼ -0.2	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

(2017/12/11 ~ 2018/2/26)



(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. 46 for 2017) will be announced at 14:00 on March 16.

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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).