Forecasters See Oil Prices Hit $100 a Barrel by Year End, Raising Gas and Diesel Prices.

By: IER | INSTITUTE FOR ENERGY RESEARCH (IER)

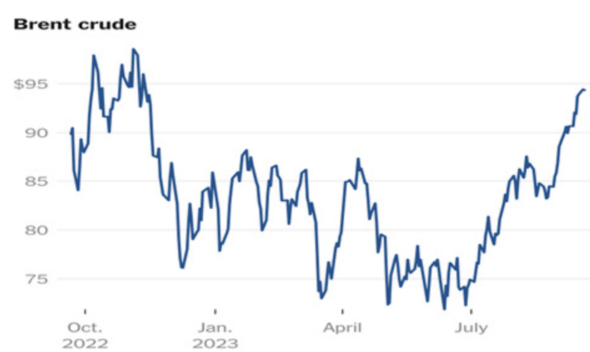
PRESIDENT BIDEN'S ENERGY POLICIES ARE HELPING TO RAISE OIL PRICES TO $100 A BARREL.

Biden's actions since his first day in office have removed the U.S. as the swing producer in the world, and Saudi and Russian market moves now have enormous impacts on world prices.

Last year, Biden sold oil from the emergency reserve to moderate prices as the mid-term election neared, drawing down reserves to a 40-year low.

Distillate inventories are low, and diesel prices are rising as refiners are reducing output and switching to biofuel production which gets massive taxpayer benefits.

Goldman Sachs Group Inc. raised its oil price forecast to triple digits, joining the $100-a-barrel oil club, as worldwide demand, particularly from China, hits unprecedented levels and OPEC+ supply curbs continue to tighten the market. Despite China's economic downturn, it has continued importing oil at a high rate to mitigate geopolitical risks and shore up its manufacturing and transportation industries. Oil prices advanced by more than 30 percent since mid-June to breach $95 a barrel recently and Goldman Sachs increased its 12-month forecast for global benchmark Brent oil to $100 a barrel from $93. The bank sees a deficit of 2 million barrels a day over this quarter as Saudi Arabia and Russia extended their production cuts of 1.3 million barrels per day to the end of the year. Chevron and Energy Aspects also see triple digit oil prices. While oil prices slipped slightly below the 10-month high, analysts believe that the months long rally that has sent prices close to $100 a barrel is not over, posing a big risk for global growth and complicating efforts to tame inflation.



Source: New York Times

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$100 Oil.

West Texas Intermediate, the U.S. benchmark, is on pace for its fourth consecutive weekly gain, and is up about 27 percent this quarter, pushing gasoline prices to an 11-month high. And, the price of diesel, which is used to fuel trucks and factories, has increased even faster, especially in Europe. Diesel is often referred to as "the workhorse of the economy" because of its importance to transportation, agriculture, construction and shipping.

GAS PRICES

On September 20, gas prices rose to $3.88 per gallon, according to AAA, the highest level since October. Despite it being lower than the peak in June 2022, when the average briefly ticked over $5 a gallon, it is still much higher than historical averages, even for summer, when prices tend to rise. The price of a gallon of gas has risen around 20 percent since the start of the year and more than 8 percent since June 1, according to AAA. And in California, gas prices are inching toward $6 a gallon, currently at $5.793 a gallon.

When gas prices were over $5 a gallon last year, Biden used the Strategic Petroleum Reserve to drive down oil and gas prices as 2022 was an election year, leaving the emergency reserve at historically low levels—a 40-year low. The Biden administration has delayed restocking the reserve because of prices above its preferred $70 a barrel mark and is unlikely to restock until prices fall from where they are now. As a result, Biden is in discussion with Iran and Venezuela for them to increase their oil exports despite sanctions on both countries, rather than reversing his positions opposing Canadian or Alaskan oil.

Also affecting gas prices is reduced production capacity at U.S. refineries as a number have either shuttered or are converting to biofuels, where large federal and state subsidies encourage their production. For example, renewable diesel fuel makers in California receive a $3.70 per gallon premium in benefits over regular diesel for switching their refineries. The hot summer has also led to some downtime at refineries.

DIESEL PRICE FORECAST

The U.S. Energy Information Administration (EIA) raised its U.S. diesel price forecast for 2023 and 2024 in its September short term energy outlook (STEO) report, to $4.31 per gallon this year and $4.07 per gallon next year. In its previous STEO, which was released in August, the EIA projected that on-highway diesel fuel prices would come in at $4.17 per gallon in 2023 and $3.94 per gallon in 2024. Both forecasts are lower than current diesel prices. As of September 20, the average diesel price in the United States was $4.585 per gallon, according to AAA.

The agency raised its diesel price forecast because of higher than expected August diesel crack spreads (the price of a gallon of diesel minus the price of a gallon of crude oil) and its expectation for lower distillate inventories in the fall. Announced maintenance at the Irving Oil refinery in St. John, New Brunswick, and at the Monroe Energy refinery in Trainer, Pennsylvania, are expected to reduce distillate fuel oil supplies to the East Coast. U.S. distillate inventories have been well below average since last year, and EIA estimates U.S. distillate inventories will decline by about 11 million barrels in October, more than the average October draw from 2018–22 of nearly 8 million barrels, largely because of maintenance.

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$100 Oil.

The draw will contribute to additional increases in the distillate crack spread in October, which EIA estimates will average $1.29 per gallon, a 31-cent increase compared with its previous forecast.

Both seasonal increases in demand along with refinery maintenance will reduce distillate inventories. East Coast distillate demand increases in the winter months because many households in the U.S. Northeast use distillate heating oil In the Midwest, distillate demand tends to increase in September and October because of agricultural demand associated with the harvest season. Refinery maintenance and increased end-of-year distillate consumption are typical, but the outlook for higher distillate crack spreads reflects the low global distillate inventories.

CONCLUSION

The United States need not be in this position regarding higher oil, gasoline and diesel prices as our domestic resources are able to deal with OPEC+ production cuts and increased demand if only Biden did not get in the way of the U.S. oil and gas industry with regulations, fee increases, and limiting areas where production can take place that have been occurring since he took office. Oil prices are currently on the rise due to increasing global demand and voluntary production cuts by Saudi Arabia and Russia. Last year, Biden stemmed oil and gas price increases by selling oil from the Strategic Petroleum Reserve. With the reserve at a 40-year low, Biden is now turning to Iran and Venezuela to export more oil to lower prices, despite sanctions on both countries. This contrasts with his position of cutting off potential supplies from Canada (Keystone XL pipeline permit repeal) and Alaska (ANWR lease cancellations and National Petroleum Reserve land withdrawals). Higher energy prices, whether by market forces or political design, make life harder for Americans and make economic recovery more difficult, as energy prices lead to inflation across the board. ■

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