Market Overview:

A Possible Top Already

It’s barely two weeks in to the new year and already the possibility has emerged that West Texas Intermediate (WTI) crude has hit its peak price for 2020.

The market saw the biggest one-day intraday range in a little more than five years after Iran launched missiles at two U.S. bases in Iraq, bringing with it potentially the year’s high trade in the U.S. benchmark crude. Shortly after headlines on the retaliatory strike hit, WTI futures spiked to $65.65/bbl. Now that prices have retreated by $6, there’s a case to be made that the benchmark has peaked for 2020.

There are 357 more days to go in this year, so such a proclamation is indeed a bold stance. A lot can happen before 2021 is rung in, but the fundamental and technical outlooks are more likely to be headwinds than tailwinds for oil markets in the months ahead.

Despite the recent brinksmanship by the Trump administration and Iran, there has been no disruption in oil flows from the Middle East. The market may need to see an actual (and perhaps extended) supply interruption for a price spike to last for weeks instead of days as witnessed in the last couple of run-ups.

A look at the latest Commodity Futures Trading Commission data shows speculators behaving like it is mid-spring, judging by the amount of length they are holding in WTI futures and options. After the latest decline in prices, some of the speculative length may have indeed become “trapped” and if those players have to get out, their exit could exacerbate the downside for WTI prices.

In addition, it seems recently that WTI spending any time in the low $60s/bbl attracts a wave of producers looking to lock in prices.

The story from the technical side is just as gloomy for market bulls, according to noted technical analyst Walter Zimmerman.

The latest price spike that took WTI to its $65.65/bbl high coincides quite nicely with Zimmerman’s bearish case resistance level at $65.35. Bulls will need a weekly close above that level to even entertain higher prices, not to mention that last week’s high also represents a double-top against the 2019 highs.

“It’s like the bulls have been locked in a closet with their mouths duct-taped shut,” Zimmerman said.

The support level to watch going forward, according to Zimmerman, is $51.60/bbl. If that gives way, prices would likely drop into the $40s.
### GULF COAST

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Methodology: OPIS spot weekly averages are calculated by averaging the daily averages, adding each low and high for each business day and dividing by the total.

Tracking weaker crude oil prices, U.S. gasoline futures slumped by around 5cts/gal last week while ULSD on NY-MEX tumbled by 10cts/gal.

Meanwhile, California physical gasoline trading values drew attention for their moves higher. Both Los Angeles and San Francisco CARBOB basis premiums strengthened by at least 10cts/gal, suggesting some tightness in the prompt market despite a 1-million-bbl build in West Coast gasoline stocks in the latest EIA reporting week.

As of pretime, L.A. CARBOB had last changed hands at 20cts over February RBOB futures. Sources told OPIS that unplanned flaring at Marathon Petroleum’s Los Angeles complex had sparked buying interest.

S.F. CARBOB was last confirmed done at 6cts/gal over the screen, having flipped a similarly-sized discount seen one week earlier as trading values closely tracked the uptick in the Southern California gasoline market.

Chicago CBOB basis discounts narrowed by 3-4cts/gal last week to reach 8cts/gal under futures, which represented a one-month high. Midwest spot trading values have been steadily increasing in the early days of 2020, leaving behind basis discounts in the low- to mid-teens during the latter half of December.

Similarly, Group 3 “V-grade” sub-octane regular gasoline pricing at February futures minus 8cts/gal constitutes the strongest trading values seen in the region in almost two months. Over the last week, V-grade strengthened by about 2cts/gal.

**Frank Tang, ftang@opisnet.com**

### GROUP 3 SPOT MARKET FORWARD INDEX

<table>
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<tr>
<th>Month</th>
<th>ULSD Spot Midpoint</th>
<th>ULSD Spot Buy x Sell</th>
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Permian Pipeline Cos Race to Lure Shippers, But Is Export Ready?

Permian Basin pipeline operators are cutting tariffs to vie for incremental barrels and fill excess capacity but that crude oil could hit a snag in reaching the U.S. Gulf Coast for export, analysts say.

After scrambling to build additional pipelines to cash in on a Permian crude bottleneck, U.S. midstream companies now find themselves in a pricing war to attract shippers as pipeline capacity is set to almost double and significantly outpace oil production in the next two years.

Meanwhile, shipping constraints in Gulf Coast ports, a lack of terminals to dock large tankers to provide economics for exports and changing U.S. crude price dynamics could derail the prospect of future Permian crude shipment, analysts say.

Permian crude output has begun growing again in recent months with the start-up of three new takeaway systems, IHS Markit said in a recent North American crude oil markets outlook. They are the 670,000-b/d Cactus II pipeline run by Plains All American, the 900,000-b/d Gray Oak which is a joint venture between Phillips 66, Marathon Petroleum and Enbridge, and the 400,000-b/d EPIC line operated by private equity firm Ares.

As a whole, the three pipelines are still flowing below nameplate capacity, and full utilization will only take place when additional export terminal capacity is added in 2020, according to IHS Markit.

IHS Markit said it expects additional Permian pipeline capacity to emerge in 2020-2021, due to more available pipeline space, including the Wink-to-Webster project. The joint venture by several companies including ExxonMobil, Plains and Marathon Petroleum should bring 1.0 million b/d to 1.5 million b/d of additional capacity by 2021.

Musical Chairs

With more supply than demand for pipeline space, Permian pipeline operators have aggressively cut pipeline tariffs since the summer of 2019, coinciding with the start-up of EPIC and Cactus II, which added a combined 1 million b/d of new pipeline capacity to Corpus Christi.

OPIS notes that EPIC has previously cut tariffs to around $2.50/bbl from $5/bbl, and it offers tariffs as low as $1.05/bbl for some committed shippers.

Also, Phillips 66 in November cut its Gray Oak tariffs for both spot and committed rates to $3.90/bbl, down from $4.75/bbl previously. In addition, Permian Express pipeline system, a JV by Energy Transfer and ExxonMobil to ship crude to Houston, also more than halved its tariffs to $1.50/bbl.

“There is now plentiful takeaway capacity from the Permian. So, all these pipelines are still fighting for barrels to keep their pipelines full. To do that, they are lowering their tariffs,” said Aaron Brady, vice president of energy oil market services at IHS Markit.

Pipeline companies heavily slashing tariffs to fill new capacity are playing musical chairs with a diminishing number of shippers, said Sandy Fielden, director of oil and products research at research firm Morningstar.

“Not only are they discounting to attract new shippers, but they are also effectively trying to lure away shippers from the older pipelines” such as Magellan Longhorn whose committed shippers are up for renewals, Fielden said.

Another major driver behind lower tariffs is the changing pricing dynamics between Houston and Midland WTI crude prices. Midland’s discount to Houston went as high as $12/bbl in May 2019, and that narrowed to $8/bbl in July, and has shrunk to just $2/bbl currently, highlighting growing takeaway capacity and the easing of the Permian bottleneck.

Lost Incentive, Shipping Constraints

When the price of Midland WTI rises relative to WTI Houston, the financial incentive for shippers to pay for Midland crude disappears, lowering demand to ship Permian crude to the Gulf Coast, said Fielden.

IHS Markit said it expects Midland prices to remain fairly strong due to near-term additional capacity, and the Midland-Houston price differential could compress further due to flattening Permian output amid high base decline rates for the newer and younger shale wells.

Another challenge to move more Permian crude barrels to the coast for export could come from constraint in moving vessels in and out of major ports including Corpus Christi, Houston and Beaumont-Port Arthur, said Fielden.

For example, there are traffic regulations in Corpus Christi, the Houston Ship Channel and Port Arthur on how many and when tankers can use the port. In addition, channel depth could also pose an issue, as supertankers can only be loaded out in the Gulf of Mexico.

“Right now, we haven’t come to a point where we see distress – a bunch of crude that can’t find its way onto a ship – but it’s possible that that could happen,” he said.

The follow-up to Permian pipeline projects is a race to build the first terminal in the U.S. Gulf Coast that can fully load Very Large Crude Carriers (VLCC) to provide better shipping economics for oil all the way to Asia, said Mason...

**CHICAGO SPOT MARKET FORWARD INDEX**

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<tr>
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January 13, 2020

OIL PRICE INFORMATION SERVICE 3
Ship Fuel Selling for Six Times the Value of RBOB in North Atlantic

A funny thing happened while most of the oil world was rightly focused on scenarios that could play out in Iran and Iraq following the assassination of Iranian commander Qassem Soleimani.

Refiners and traders in the North Atlantic are now looking at a midwinter landscape where IMO-compliant bunker fuel (No. 6 oil with less than 0.5% sulfur) fetches a price that yields six times the margin available for winter gasoline.

OPIS confirmed on Jan. 8 that 0.5% sulfur max VLSFO (Very Low Sulfur Fuel Oil, or No. 6 residual fuel) saw Northeast deals consummated at $24/bbl over the front-month Brent number. As of the morning of Jan. 7 that equated to a price of about $89.40/bbl, with March Brent at $65.40/bbl.

Diesel, which represents the cut of the barrel that many analysts speculated might be the biggest beneficiary of IMO, commanded a margin of about $16.50/bbl over Brent, with a pretime outright number of $81.90/bbl. Jet fuel, a cut where some other molecules might slide into VLSFO production, was a penny shy of the spot diesel numbers.

RBOB, which typically slump until spring turnarounds and the shift to difficult-to-manufacture low-RVP summer blend, was just $4/bbl above Brent with a measly value of $1.6525/gal. If the price of RINs for RFS compliance were considered, some merchant refiners saw margins under $4/bbl.

Put into cents per gallon for comparison, gasoline blend-stock fetched a price that was almost 50cts/gal below the gallon value for VLSO.

Does this represent the new IMO world, and will refiner executives trumpet the high returns for VLSFO in upcoming earnings reports?

Not likely, say most analysts who OPIS talked to. Simple, light-sweet-crude refiners can’t make a lot of VLSFO unless they run very expensive sweet crudes that have heavier gravity and yield a reasonable No. 6 oil. Many of the worldwide crude grades best for a highly compliant residual fuel fetch large premiums to benchmarks or feature challenges such as high metals or high acid.

Two crude oil blends bandied about as attractive are Doba crude from Chad and some other blends from Angola. But suspicions are that these high-priced heavy sweet crudes represent only a percentage point or two of global blends.
In the U.S., refineries running Uinta crude might be able to manufacture a compliant No. 6 oil, but that crude is mostly run by Salt Lake City processors with no means to move marine fuel to tidal water.

Thus, some refinery executives may use conference calls to point out that they are doing better than standard crack spread metrics, but it’s tough to trumpet a fuel that might represent just 5% or 10% (or less) of refinery yields.

“This will not be the new normal,” one refinery analyst told OPIS, adding that refineries “need to make their money on the large cuts of the barrel, whether it be distillate or gasoline.”

There is speculation that more distillate molecules will find their way into compliant bunker fuel through blending, and there is evidence that vacuum gasoil is getting blended into the new fuels as well. The diversion of vacuum gasoil from fluid catalytic crackers hasn’t impacted gasoline inventories, but it may play a role in lower total motor fuel output.

Ultimately, this may prove to be a very odd quarter. Refiners collecting margins of nearly $25/bbl on residual fuel won’t make investments to hydrotreat barrels since such an investment might be stranded thanks to scrubber installation on ships or a preference for LNG.

And there is still a chance that gasoline will surge back to the top of the margin pyramid this spring. Even lighter-than-normal refinery maintenance will knock out gasoline production just as the industry approaches its annual challenge to flush out winter gasoline and replace it with summer blends on the fly.

But in the meantime, the greatest responsibility and power in U.S. refined products markets may lie with the blenders, whether they be inside or outside the refinery. To the extent that they solve challenges related to what stable mixtures of components work on the high seas (typical residual fuel, diesel, jet fuel, light cycle oil, VGO and other streams) they can become heroes in a market that is as differentiated as we’ve seen in years.

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Pennsylvania Moves to Reduce Sulfur in Home Heating Oil

Pennsylvania is moving ahead with a plan to significantly reduce the maximum allowable sulfur content for home heating oil, bringing its requirements in line with several surrounding states.

Under the proposal, the current sulfur limit of 500 parts per million for No. 2 and lighter commercial fuel oil will drop by 97% to 15ppm.

The rule is being supported by the Pennsylvania Petroleum Association, which says the change will result in reduced logistical headaches for suppliers, increased savings for customers and improved regional air quality.

“The regional storage infrastructure will be greatly enhanced when diesel and heating oil are the same 15 ultra-low-sulfur ppm specification. The current storage capabilities for two varying spec fuels will be combined to one fuel, thus creating the efficiency of the storage capacity dramatically,” Ted Harris, executive vice president of the association, said in comments to state regulators.

“ULSHO will also aid pipeline capacity into the terminals across the state who already operate near capacity,” he added. “This will be very beneficial to the heating oil industry as the need to bring in supply from other parts of the country will increase due to the closure of Philadelphia Energy Solutions which previously produced approximately 40% of the heating oil within the state.”

Harris said the PPA, which represents more than 225 petroleum marketers, surveyed its members and found that more than 50% were already offering ultra-low-sulfur heating oil (ULSHO) on a consistent basis.

“We are pretty confident it’s already in the marketplace in Pennsylvania,” he said.

The commonwealth’s largest city, Philadelphia, already requires ULSHO, so the change would also bring about “statewide consistency” in requirements, according to the Pennsylvania Department of Environmental Protection.

Pennsylvania is a member of the Mid-Atlantic/Northeast Visibility Union, a group of states that agreed to reduce the maximum allowable sulfur content of No. 2 and lighter commercial fuel oil to 500 ppm by 2012 and to 15 ppm by 2016.

But Pennsylvania officials held off on pursuing the tighter regulations due to concerns about the availability of ULSHO within regions of the commonwealth.

The state DEP notes that “the supply of distillate fuel oil throughout Pennsylvania and nationwide with 15 ppm or less is no longer a concern,” with PADD 1 supplies of ULSHO easily outpacing higher-sulfur varieties in the last decade.

The rule would go into effect 60 days after it is published in its final form. Households and businesses that have purchased 500 ppm fuel could continue to use those supplies after the compliance date, the DEP said.

The DEP estimates the change will impact “up to 812 entities and 892,800 households,” but that the ULSHO rule will have little or no economic impact on those who produce the fuel or its users. Refineries in the state already produce or have the ability to achieve a sulfur content of 15 ppm, the DEP said.

Pennsylvania refineries would also be able to continue producing higher-sulfur fuel and retailers could sell it for use in states such as Ohio, West Virginia, Virginia that allow it use, according to the DEP.

While consumers of ULSHO will likely see higher fuel costs, savings on maintenance and cleaning costs due to the lower-sulfur fuel could help to defray that impact, the DEP said.

The PPA said the National Oilheat Research Alliance estimates consumers could realize savings equal to up to 12cts/gal using ULSHO.

“This can be achieved through increased heating system efficiency, reduced need for annual heating system maintenance, and increased heating system longevity,” the associa-
tion said. “These cost savings will offset any potential rack price differentials that currently exist between the high- and low-sulfur products.”

On the spot level, market stakeholders in the Northeast have previously noted the lack of LSHO 500-ppm barrels in the past year, and in particular following the closure of the PES refinery, which was said to be a significant supplier of the 500-ppm specification.

While 500-ppm barrels should be less costly to produce than ULSD, spot prices for LSHO 500-ppm and ULSD have been running relatively close together in the Northeast, with Buckeye Pipeline LSHO 500-ppm sometimes even running stronger than ULSD. Although ULSD should in theory be able to be used in place of LSHO 500-ppm in most instances, according to one trader, some participants cannot take ULSD into their tanks. As a result, LSHO 500-ppm prices occasionally overtake ULSD values.

In recent weeks, LSHO 500-ppm barrels loading into Laurel Pipeline in Philadelphia, headed westward, have even been talked stronger on a spot basis than Laurel Pipeline ULSD - a dynamic which is not often seen.

The DEP estimates its efforts to reduce sulfur in fuel oil since 2016, combined with the new rules, will reduce sulfur emissions by 25,000 tons per year. The move to change the regulations will includes a DEP recommendation for a 60-day public comment period and three public hearings.

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Rachel Stroud-Goodrich, rstroud-goodrich@opisnet.com


MEXICO CITY – President Andres Manuel Lopez Obrador announced last week that by mid-February his administration would present a package of energy projects in its National Infrastructure Plan for public-private partnership investments.

Lopez Obrador said the government is still deciding which project companies will be able to work with state-owned companies Pemex and CFE.

The president previously said that the plan would be released in January. After launching the first package of the program in November, Lopez Obrador said energy projects would be in southern Mexico.

In that November release, the administration announced joint investments for 859 billion pesos ($44.2 billion) across close to 150 projects to advance the country’s infrastructure.

Roads and highways will attract 100 billion pesos ($5.1 billion) of the infrastructure plan, a majority of which come from private investment funds. Those funds will finance 42 projects for roads and highways through 2024.

In November, Mexico City-based Politica Online leaked a draft of the infrastructure program before its announcement, listing the reconfiguration of Pemex’s refineries in the group of energy projects to be tendered by the government.

The projects listed include the conclusion of the Tula coker unit at a cost of $2 billion and an $888-million rehabilitation for the Cadereyta refinery, Politica Online reported.

Both initiatives are in the first 15-project infrastructure package the government expects to grant during the first quarter of 2020, according to the report.

The Tula reconfiguration is listed in Pemex’s 2019-2023 Business Plan as one of the company’s strategic projects. By building a coker, Pemex will eliminate Tula’s fuel oil production and increase the production of ultra-low-sulfur diesel (ULSD).

The previous administration estimated the reconfiguration would expand Tula’s production yield of diesel and gasoline to 85% compared with 65%, growing to 220,000 b/d from 154,000 b/d.

Building a coker would help Pemex improve its variable refining margin by eliminating Tula’s production of high-sulfur fuel oil, a residual fuel whose value is being impacted by its ban for maritime use under new International Maritime Organization (IMO) regulations.

The refinery reconfiguration was started in 2013 under former President Enrique Peña Nieto. The construction of the coker is 63% completed. However, the reconfiguration in its entirety is only 53% completed.

According to the business plan, Pemex requires $3.2 billion to complete the project. Of this, the company needs $800 million to complete the integration and engineering work, $650 million to complete the coker, $650 million to complete a ULSD production unit, and $660 million for auxiliary services, hydrotreating naphtha, and sulfur recovery units.

The idea behind the Infrastructure Plan is to reactivate Mexico’s construction sector, which has been stagnant over the last year. The project also aims to improve Mexico’s infrastructure to incentivize the private sector to invest.

Among other projects listed in the first package of projects is the interconnection of Engie’s Mayakan natural gas pipeline with the rest of the country as well as port and road expansions.

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*Note: Prompt Crack Spreads calculated as of 1/7/20. *Calendar Month Avg. for WTI and spot price differentials from Net Energy Exchange.*
Year-End Tendencies, Weather Delays Dot Latest Data

Some petroleum supply and demand patterns of the last few years apparent in the latest EIA weekly report were exacerbated by recent weather delays in the Houston.

The 9.1-million-bbl build in U.S. inventories of gasoline in the week ended Jan. 3 was eye-catching, although such increases often appear in statistics for the last few days of one year and the first few of the next.

The Gulf Coast’s 5.6-million-bbl contribution to the total was said to be a function of fog delays in the Houston Ship Channel. Gasoline exports – most of which originate in PADD 3 – declined by 219,000 b/d or about 1.5 million bbl in total.

Meanwhile, production of gasoline slid to 9.035 million b/d, a nearly four-year low. Also, imports slowed to 401,000 b/d, off another 72,000 b/d on the week. The two moves together more typically lead to inventory drawdowns, but gasoline stocks rose in each PADD region.

Gasoline demand as gauged by EIA – often slack at this time of year – was particularly weak. At 8.133 million b/d, demand was close to a three-year low and the rest of January may not allow for much of an increase if history is any indication.

Distillate inventories notched a solid build of 5.3 million bbl, but total levels in storage continue to run more than 10 million bbl below the five-year average.

Midwest and Gulf Coast distillate grew the most in the latest reporting week, with the Gulf Coast tally increasing by 3.1 million bbl even as exports ramped up by roughly 250,000 b/d, to 1.428 million b/d.

Distillate demand at 3.373 million b/d may look soft, but it rose by 318,000 b/d on the week and stands 418,000 b/d higher year on year.

The fact that crude oil inventories rose (by 1.2 million b/d) instead of fell was also a surprise amid expectations for a drawdown.

However, refinery inputs of crude decreased and exports fell back by almost 1.4 million b/d from a record level, to 3.064 million b/d. Lower exports appeared to be responsible for the 2.1 million-bbl increase in Gulf Coast crude stocks, which still trail the level seen a year ago. However, at more than 220 million bbl, PADD 3 supply on hand is considered comfortable.

Denton Cinquegrana, dcinquegrana@opisnet.com
The midweek slide in futures prices offset some recent upticks at Rockies racks, OPIS data reveal. That has left rack and retail prices relatively static, resulting in continued strong rack-to-retail margins.

PADD 4 product supply appears to be comfortable. Gasoline inventories rose 5% in the week ended Jan. 3, resulting in an almost-1-million-bbl surplus to a year ago. Distillate appears to be less cushioned year on year, running 454,000 bbl ahead of a year ago.

The slump in demand suggested by latest weekly EIA statistics.

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There has been virtually no demand for ultra-low sulfur kerosene this year, and it is about a nickel per gallon cheaper than compliant ships’ bunkers.

Several multistate fuel jobbers got nailed in the bankruptcy of Borden Dairy, which has a huge fleet of vehicles for distribution.

The lower Atlantic region stood out among most clusters of states last week in that it did not see gasoline stocks increase (like the rest of the country) in the EIA reporting week ended Jan. 3, but instead saw a 1-million-bbl inventory decline.

The slump in demand suggested by latest weekly EIA statistics.

Gulf Coast gasoline and distillate spot prices tumbled to some of their lowest marks in about a month last week, driven by a steep round of NYMEX selling following heightened geopolitical tensions between the U.S. and Iran.

Last week’s EIA report showed PADD 3 distillate stocks soared by 3.2 million bbl, to 44.8 million bbl, the highest inventories have been since February 2019. Gasoline inventories also skyrocketed by 5.4 million bbl, to 91 million bbl, which is ahead of both year-ago levels and the five-year average.

Los Angeles and San Francisco CARBOB were assessed at multi-week highs on Jan. 8 following market talk of buying by refiners.

Regional refinery utilization slipped by four percentage points to 93.8% in the week ended Jan. 3, retreating from a 16-week high, according to EIA data.

PADD 2 gasoline stocks rose to more than 55 million bbl in the latest EIA reporting week, hitting the highest inventory level since March.

Refinery utilization in the Midwest slid by 3.5 percentage points to 93.8% in the week ended Jan. 3, retreating from a 16-week high, according to EIA data.

PADD 2 gasoline stocks rose to more than 55 million bbl in the latest EIA reporting week, hitting the highest inventory level since March.

PBF Energy’s 188,000-b/d refinery in Toledo, Ohio, will undergo a turnaround of 40-50 days that will include work on a crude unit in February and FCC maintenance in March, according to an industry source.

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Regional refinery utilization slipped by four percentage points to 86% for the week ended Jan. 3, according to the EIA.

New York-based JetBlue in July will start offsetting carbon emissions from all U.S. flights, it said, and will start using sustainable aviation fuel on flights from San Francisco International Airport by mid-2020.

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French Refineries Blockaded, Few Workers on Strike

Three Total-operated refineries in France remain blockaded on Jan. 9, but union representatives leading the actions have yet to call for strikes that would precipitate shutdowns.

“(Product deliveries from) the refineries of Donges, Feyzin, Grandpuits and the eco-refinery of La Mède ... are blocked due to the social movement currently ongoing in France,” a spokeswoman for Total told OPIS on Jan. 7. “The sites themselves are prepared for such blockades, and no shutdown is foreseen,” she added.

As of pretime, the situation was unchanged, the spokeswoman said. Asked how many Total refinery workers were estimated by the company to be on strike, she put the figure at 5% of refinery employees.

Only output at Grandpuits, which has a 100,000-b/d capacity, has been particularly affected by worker strike action, according to local media reports. Donges has capacity of 230,000 b/d, while maximum output at Feyzin is around 120,000 b/d.

The renewed blockades at Donges and Feyzin on Tuesday came after the CGT union called for all of the country’s refineries to be blockaded over Jan. 7-10. The actions hitting the country’s refineries have been timed to coincide with a monthlong series of protests and strikes that have crippled parts of France’s transport network.

The strikes were called in reaction to government plans to unify France’s 42 pension schemes into a single national system. Some of those schemes allow for early retirement, while the new system would raise the eligibility age for retirement for all workers from 62 to 64.

Union representatives have appeared wary of calling for shutdowns of France’s refineries. Fabien Privé Saint-Lanne, the CGT’s delegate representing workers at Donges, told French newspaper Libération: “Be aware that shutting down the refinery facilities would be a big deal, which can take three or four days to be effective but would require between a week and a month to restart.”

Strikes Lift French Retail Fuel Prices in December

Diesel retail prices in the five largest European economies increased in December in line with firmer oil prices, while French drivers paid extra for their fuel due to ongoing strikes, data from OPIS NAVX shows.

Diesel prices increased by an average of 5 Euro cents/liter (8.8 U.S. cts/liter) in Germany, Spain, France and Italy, while prices in the U.K. stayed flat. Meanwhile, Brent prices rose by an average of $2.40/bbl to $58.69/bbl in December compared to November.

Gasoline prices in all countries, bar France, remained flat in December.

French fuel prices were lifted by union strikes during the month. The protesters blocked three large refineries, which in turn led to increased fuel imports, price rises and shortages in fueling stations.

Gasoline prices in France increased by 1.2 Euro cents/liter (U.S. 2.3 cts/liter) and diesel prices rose by 1.8 Euro cents/liter (U.S. 2.8 cts/liter).

The Italians paid the most for their gasoline, doling out 1.6 Euro/liter (US $1.78/liter). Italy also has the highest diesel prices in the Eurozone, with drivers paying 1.49 Euro/liter (US $1.65/liter) for the fuel.

Anthony Lane, alane@opisnet.com
Selene Law, slaw@opisnet.com

Suncor Asks Court to Review EPA Denial of SRE Petition

Canada’s Suncor Energy is suing EPA over its October determination that the company’s Denver-area refining operations are not eligible for a small-refinery exemption (SRE) under the Renewable Fuel Standard (RFS).

The company on Dec. 23 asked the 10th U.S. Circuit Court of Appeals to overturn the agency’s Oct. 25 final decision denying its requests for economic hardship waivers for the 2018 RFS compliance year for its West and East refineries in Commerce City.

In its petition to the court, Suncor attached a redacted copy of EPA’s decision that found the company’s Colorado refineries were ineligible to receive SREs because “they function as a single refinery” with an average daily throughput that exceeded 75,000 bbl (the small-refinery capacity threshold under the RFS) in 2017 and 2018.

“Based on the information available to EPA, including Suncor’s own statements, it is evident that the Suncor East Refinery and the West Refinery have been integrated to the point that they are now operated as a single refinery with an average daily crude oil throughput that exceeded 75,000 bbl in both 2017 and 2018,” the agency said.

Jeff Barber, jbarber@opisnet.com

SELECTED REFINERY FEEDSTOCKS PRICES

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<tr>
<th></th>
<th>U.S.</th>
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<tbody>
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<td></td>
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</table>

*Prices shown in U.S. $/bbl. # Prices shown in U.S. $/MT

Methodology: OPIS spot weekly averages are calculated by averaging the daily averages, adding each low and high for each business day and dividing by the total.

January 13, 2020
Slack Seasonal Blending Keeps Ethanol on the Skids

The transition into a new year is often a slow period for ethanol markets dealing with what usually turns out to be some of the stingiest demand levels of the year. Last week was true to form due to both a lack of trade activity as well as bearish supply and blending indications.

Even as the Chicago-area bulk ethanol market remained exceedingly thin in terms of cash trading, spot ethanol prices for transfers last week slumped under $1.30/gal. Talks last heard at $1.27 by $1.28/gal were failing to drum up a confirmed deal. Volume available this week had offers slumping as low as $1.265/gal. That was down by as much as a dime from New Year's Eve and had ebbed as much as 2.6cts since the start of the week.

Some of the backwardation through January remained flattened, with prices for any-January discussed at or near prompts and week-out transfers at different times. However, it is also notable that some in the trade called any-February values upwards of several cents higher than January.

Railcars trading for last week under Rule 11 terms showed a bit more firmness than other markets by midweek, with trades at $1.295/gal before word that $1.31/gal the price is still a few pennies below the next nearest market. Margins for L.A. blenders are the best in the nation, having climbed by 2.68cts on the week to reach 4.88cts/gal.

Meantime, weekly EIA data didn’t lend ethanol spot prices any traction. U.S. inventories were reported to have increased by 1.428 million bbl nationwide in the week ended Jan. 3 to 22,462 million bbl, a 14-week high. The huge build’s impact may be mitigated by the fact that stockpiles remained 3.4% lower than a year ago, but decreased ethanol blending added to the bearish nature of the report.

Gasoline demand slid steeply and EIA reported that ethanol blender net input marked a two-year low. At 801,000 b/d, the blender input measure dropped 82,000 b/d week to week, and by more than 14.6% over the last two weeks. Inputs were also 1.7% lower than a year ago.

Ethanol output fell 4,000 b/d to 1.062 million b/d. Over the last two weeks production has declined by 1.9%. Still, ethanol output is relatively sturdy, holding 6.2% ahead of the same week in 2019.

Ethanol imports recorded by EIA remained at zero for the fourth week in a row after averaging more than 29 million b/d the previous four weeks. The lack of imports in recent EIA accounting could represent delayed data compilation on import figures rather than a complete shutoff of overseas deliveries.

Cory Wilchek, cwilchek@opisnet.com

Los Angeles E10 Soars, Jumps Over Other Markets

After vying with New York as one of the more expensive markets in the nation last week, Los Angeles 10%-ethanol-blended gasoline (E10) shot sharply higher to tower over the rest of the U.S.

L.A. CARBOB spiked by more than 14.50cts/gal to $1.8765/gal. It was the only blendstock market to see values over $1.70 and now exceeds New York levels by some 20cts. At the beginning of January premiums were 2.50-3.00ctc. However, ethanol values stumbled by 6.50cts to $1.5350/gal.

E10 in L.A. jumped by almost 12cts on the week, moving to $1.8275/gal, or more than 20cts higher than the next nearest market. Margins for L.A. blenders are the best in the nation, having climbed by 2.68cts on the week to reach 4.88cts/gal.

Chicago remained the weakest market in the nation. CBOB in the region saw the smallest loss on the week (just 0.67cts), but at $1.5688/gal the price is still a few pennies below the next nearest market. Ethanol saw a drop of 9cts to $1.2750/gal, again ranking as the least expensive market in the U.S.

Cory Wilchek, cwilchek@opisnet.com
### U.S. Propane, Propylene Inventories Increase, Contradicting Estimates

U.S. propane and propylene stocks increased by 700,000 bbl in the week ended Jan. 3, to a total combined inventory of 88.9 million bbl, the EIA reported last week. Propylene inventories increased by 100,000 bbl week over week to 6.1 million bbl.

An OPIS survey of analysts and traders forecast an average propane and propylene stock draw of 990,000 bbl. It was noted that one polled source estimated a build of 1 million bbl.

Combined propane and propylene stocks in the Gulf Coast increased by 1.2 million bbl to 59.4 million bbl week over week. Midwest inventories decreased by 600,000 bbl to 19.5 million bbl. East Coast inventories increased by 400,000 bbl to 6.8 million bbl, and Rockies and West Coast inventories together decreased by 300,000 bbl to 3.2 million bbl.

Implied demand for propane and propylene increased by 229,000 b/d to 1,514,000 b/d.

Propane and propylene imports saw a decrease of 25,000 b/d to 137,000 b/d for the week, and exports decreased as well by 284,000 b/d to 988,000 b/d.

U.S. inventories are up 29.3% from the year-ago period.

To see a visualization of this data, follow this link: [https://tabsoft.co/2FgNnvx](https://tabsoft.co/2FgNnvx)

Ben Scriber, bscriber@opisnet.com

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### U.S. & CANADA LP-GAS WEEKLY AVERAGES

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<tr>
<th>Location</th>
<th>Propane*</th>
<th>Isobutane*</th>
<th>N. Butane*</th>
<th>Isobutane**</th>
<th>N. Gasoline*</th>
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<td>NOTE: MAPC prices are now designated as In-Well, **NON-TET, ***TET=LDH</td>
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### Los Angeles

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### Other LP-Gas Markets

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Daily Any NGL prices for the above markets, as well as Prompt and Out-Month assessments, are available. To trial any of our daily pricing services call 1-888-301-2645 or e-mail us at energycs@opisnet.com..

Methodology: OPIS LP-Gas spot weekly averages are calculated by averaging the daily “Any” averages, Friday - Thursday. ***Formerly N. BUTANE
Asia Petchem Makers to Cut LPG Use in Feb. to Four-Month Low

Asian petrochemical producers plan to cut liquefied petroleum gas (LPG) cracking for a second straight month in February, to a four-month low, as a surge in gas prices squeezes ethylene margins, a survey showed.

However, LPG cracking may pick up if tensions in the Middle East heighten further and even disrupt naphtha supplies, especially in the unlikely event of a closure of the Hormuz Strait, some respondents said. This would give U.S.-sourced propane an edge, industry sources said.

Sixteen petrochemical companies in North and Southeast Asia will crack 566,000 mt of LPG in February, down 8.6% from 619,000 mt planned in January, according to an IHS Markit OPIS poll conducted on Jan. 2-8. The February volume, if materialized, would be the smallest since October 2019.

“The recent jump in LPG price is due to deeper OPEC production cuts, some shipping delays in the U.S. Gulf Coast and winter heating demand,” said Matthew Chew, principal oil analyst at IHS Markit in Singapore. “The impact will diminish soon and should not have long-term impact,” Chew said. “Once the seasonal factors are gone, probably in the second quarter, LPG cracking will rise again.”

LPG prices usually strengthen in the northern hemisphere winter months as demand for heating use intensifies.

This winter, LPG found further support from Chinese petrochemical companies, tighter supply from the Middle East and fog in Houston which disrupted shipping.

All of these factors pushed CFR Japan LPG to a five-year peak of $702.00/mt on Dec. 30, 2019, IHS Markit OPIS data showed.

On the other hand, naphtha prices lost steam as some cracker operators reduced runs amid a squeeze in ethylene margins due to sluggish demand. The CFR Japan price fell to $577.625/mt on Jan. 8 compared with $588.500/mt on Dec. 27, 2019, the highest since late-April.

Tensions between the U.S. and Iran escalated last week after Tehran retaliated against the Washington airstrike that killed a top Iranian general by bombing U.S. military bases in Baghdad.

If tanker passage through the Strait of Hormuz is hindered, both naphtha and LPG prices will jump, although the impact on propane may be less pronounced due to the availability of U.S.-origin cargoes, traders said.

For now, producers are focused on feedstock economics as the U.S. and Iran standoff appeared to have cooled off slightly.

LPG cracking economics deteriorated with the propane/naphtha price ratio assessed at 101.0% on Dec. 30, the highest since Dec. 21, 2017, IHS Markit OPIS data showed.

The ratio compares the first physical trading cycle for naphtha with the second cycle for the CFR Japan price of 23,000 mt of propane.
expected to be placed into commercial service by the second half of 2023.

Once operational, its listed capacity will be 550,000 mt/yr of propylene, which will be fed from the PDH unit into the site’s PP plant.

Previously, the in-service date was projected as mid-2023.

The contract, which was awarded to Heartland Canada Partners, a joint venture of Fluor and Kiewit, will fix approximately 60% of the cost so far of the PDH/PP facility. The contractor selection for the PP part of the complex is ongoing.

Pembina Pipeline Corp., which together with Petrochemical Industries Company of Kuwait is developing the PDH/PP complex, has revised its proportionate share of the capital cost of the PDH/PP facility, including the 100% directly owned supporting facilities, to $2.7 billion. Nearly a year ago, Pembina’s share was estimated at $2.5 billion.

The complex will be capable of converting about 23,000 b/d of propane into 550,000 mt/yr of PP. The final investment decision for the PDH/PP complex was announced in February 2019. The facility will be located adjacent to the Redwater Fractionation Complex, just north of Fort Saskatchewan, Alberta.

David Barry, david@petrochemwire.com

Canada Kuwait Petrochemical Awards

EPC Contract for PDH Plant

Canada Kuwait Petrochemical Corp. awarded a lump sum EPC contract for its Alberta propane dehydrogenation (PDH) facility and said that the propylene/polypropylene complex is expected to be placed into commercial service by the second half of 2023.

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Canada Kuwait Petrochemical Corp. awarded a lump sum EPC contract for its Alberta propane dehydrogenation (PDH) facility and said that the propylene/polypropylene complex is expected to be placed into commercial service by the second half of 2023.

The complex will be capable of converting about 23,000 b/d of propane into 550,000 mt/yr of PP. The final investment decision for the PDH/PP complex was announced in February 2019. The facility will be located adjacent to the Redwater Fractionation Complex, just north of Fort Saskatchewan, Alberta.

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### Wkly Propane Contract Avgs.

#### Prices shown are for FOB terminal in cts/gal excluding taxes and discounts

**CONWAY, KS**
- Average: 46.91

**DIXIE PL**
- ALBANY, GA
- Average: 55.30

**ALMA, GA**
- Average: 55.97

**CHERAW, SC**
- Average: 57.24

**DEMPOLIS, AL**
- Average: 53.51

**HATTIESBURG, MS**
- Average: 52.51

**LEXINGTON, SC**
- Average: 56.57

**MILNER, GA**
- Average: 55.11

**ONEOK PL**
- BUSHTON, KS
- Average: 47.74

**NORFOLK, NE**
- Average: 50.55

**TODHUNTER, OH**
- Average: 72.34

**CORPUS CHRISTI, TX**
- Average: 61.88

**BALTIMORE, MD**
- Average: 69.90

**EL DORADO, KS**
- Average: 51.10

**CATLETTSBURG, KY**
- Average: 88.08

**LIMA, OH**
- Average: 75.93

**HOBBS, NM**
- Average: 61.18

**CALUMET, OK**
- Average: 57.60

**GRIFFITH, IN**
- Average: 55.58

**INVER GROVE HEI, MN**
- Average: 58.60

**HUNTINGTON, IN**
- Average: 57.71

**BRIDGEPORT, TX**
- Average: 59.60

**GREEN BAY, WI**
- Average: 68.83

**GREENELEY, CO**
- Average: 70.35

**CINIZA NM - CINIZA**
- Average: 58.00

**CINIZA NM**
- Average: 58.00

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**Prices shown are for FOB terminal in cts/gal excluding taxes and discounts**

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**January 13, 2020**

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**Daily propane rack prices for the above markets are also available. To receive a complimentary 5-day pricing feed for one propane rack city or to trial any of our daily pricing services, call 1-888-301-2645 or e-mail us at energycs@opisnet.com.**
Jet fuel prices throughout the United States shed at least a few pennies last week, following a steep round of NYMEX selling due to continued geopolitical tensions between the U.S. and Iran. Those declines, OPIS data show, brought cash values to some of their lowest levels in about a month.

U.S. jet fuel prices were averaging $1.96-1.97/gal last week, down from the prior week’s $2/gal level. All of that decline can be attributed to futures losses, which fell by more than 8cts/gal on the week.

Some of the steepest decreases were in southern California. Los Angeles jet fuel traded weaker by nearly 3cts/gal which, when combined with NYMEX selling, took outright prices down by more than 7cts/gal, averaging around $2.02/gal for the week. Also of note, L.A. jet fuel cash values dropped below $2/gal for the first time since mid-December.

Gulf Coast jet fuel basis discounts were relatively stable, trading right around 8cts/gal below February NYMEX ULSD. However, outright jet fuel prices shook off nearly 4cts/gal, averaging $1.91-1.92/gal. For comparison, the Gulf Coast remains the cheapest market for jet fuel in the country, and prices are now at a one-month low.

New York Harbor and Group 3 jet fuel trading values also slipped by at least three pennies last week and hit some of their lowest levels since mid-December.

Chicago jet fuel basis discounts narrowed by a sizable 6cts/gal. Although the stronger trading levels offset much of NYMEX decline, jet fuel cash prices shed less than a half-cent on the week.

With last week’s downturn, all U.S. spot jet fuel markets are now pricing below the $2/gal threshold, with cash prices in the Gulf Coast and Chicago a few pennies beneath $1.90/gal. Andrew Atwal, aatwal@opisnet.com
## Commercial Airline Jet Fuel Ranges

(Contract prices into major airline storage in cts/gal, ex-taxes and discounts)

<table>
<thead>
<tr>
<th>Location</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALBANY, NY</td>
<td>216.06</td>
</tr>
<tr>
<td>ATLANTA, GA</td>
<td>197.04</td>
</tr>
<tr>
<td>AUSTIN, TX</td>
<td>204.57</td>
</tr>
<tr>
<td>BALTIMORE, MD</td>
<td>198.71</td>
</tr>
<tr>
<td>BANGOR, ME</td>
<td>213.11</td>
</tr>
<tr>
<td>BATON ROUGE, LA</td>
<td>204.21</td>
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<tr>
<td>BIRMINGHAM, AL</td>
<td>201.71</td>
</tr>
<tr>
<td>BOSTON, MA</td>
<td>208.11</td>
</tr>
<tr>
<td>BUFFALO, NY</td>
<td>211.61</td>
</tr>
<tr>
<td>CHARLESTON, SC</td>
<td>199.87</td>
</tr>
<tr>
<td>CHARLOTTE, NC</td>
<td>198.67</td>
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<tr>
<td>DALLAS METRO, TX</td>
<td>200.21</td>
</tr>
<tr>
<td>DC-DUULLO, VA</td>
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</tr>
<tr>
<td>FT. LAUDERDALE, FL</td>
<td>201.21</td>
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<tr>
<td>GREENSBORO, NC</td>
<td>198.87</td>
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<tr>
<td>GULF COAST, TX</td>
<td>217.14</td>
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<tr>
<td>HARTFORD, CT</td>
<td>210.21</td>
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<tr>
<td>HOOKER’S PT, FL</td>
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<tr>
<td>HOUSTON, TX</td>
<td>200.21</td>
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<tr>
<td>JFK, NY</td>
<td>206.11</td>
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<tr>
<td>LINDEN, NJ</td>
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<tr>
<td>LITTLE ROCK, AR</td>
<td>212.85</td>
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<tr>
<td>MIAMI, FL</td>
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<tr>
<td>MOBILE, AL</td>
<td>204.32</td>
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<tr>
<td>NASHVILLE, TN</td>
<td>200.14</td>
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<tr>
<td>NEW ORLEANS, LA</td>
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<td>ORLANDO, FL</td>
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<td>PHILADELPHIA, PA</td>
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<tr>
<td>PITTSBURGH, PA</td>
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<td>PORTLAND, ME</td>
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<td>PTD. EVERGLADES, FL</td>
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<tr>
<td>RALEIGH, NC</td>
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<td>RICHMOND, VA</td>
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<td>ROCHESTER, NY</td>
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<td>SAN ANTONIO, TX</td>
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<td>SAVANNAH, GA</td>
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<tr>
<td>SHREVEPORT, LA</td>
<td>225.98</td>
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<tr>
<td>SYRACUSE, NY</td>
<td>214.78</td>
</tr>
<tr>
<td>TAMPA, FL</td>
<td>210.21</td>
</tr>
<tr>
<td>WILMINGTON, NC</td>
<td>198.98</td>
</tr>
<tr>
<td><strong>Total Imports</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Current Week (01/03/20)

<table>
<thead>
<tr>
<th>Location</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Jet Kero Stocks (1000 bbls)</strong></td>
<td><strong>179,600</strong></td>
</tr>
</tbody>
</table>

### Last Week (12/27/19)

<table>
<thead>
<tr>
<th>Location</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Jet Kero Stocks (1000 bbls)</strong></td>
<td><strong>179,600</strong></td>
</tr>
</tbody>
</table>

### Last Year (01/04/19)

<table>
<thead>
<tr>
<th>Location</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Jet Kero Stocks (1000 bbls)</strong></td>
<td><strong>179,600</strong></td>
</tr>
</tbody>
</table>

---

**U.S. Jet Fuel Inventory Picture**

(figures in 1,000 b/d)

### Current Week (01/03/20)

- **Total Imports**: 136
- **Total US Distillates**: 139,100

### Last Week (12/27/19)

- **Total Imports**: 122
- **Total US Distillates**: 133,700

### Last Year (01/04/19)

- **Total Imports**: 119
- **Total US Distillates**: 140,000

---

**Total Jet Kero Stocks (1000 bbls)**

<table>
<thead>
<tr>
<th>Location</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Total</strong></td>
<td><strong>40,000</strong></td>
</tr>
<tr>
<td><strong>PADD 1</strong></td>
<td>10,300</td>
</tr>
<tr>
<td><strong>PADD 2</strong></td>
<td>6,600</td>
</tr>
<tr>
<td><strong>PADD 3</strong></td>
<td>13,000</td>
</tr>
<tr>
<td><strong>PADD 4</strong></td>
<td>700</td>
</tr>
<tr>
<td><strong>PADD 5</strong></td>
<td>9,300</td>
</tr>
</tbody>
</table>

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**OIL PRICE INFORMATION SERVICE**

January 13, 2020