

Introduction of the global demand for crude



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Introduction

Crude oil refers to a combination of organic hydrocarbons that exists naturally. The mixture that forms crude oil is normally separated to its individual hydrocarbon compounds. Such compounds include: gasoline, kerosene and jet fuel.

The components of the crude oil are separated by industrial physical process called fractional distillation. Gasoline is another name for the commonly known petrol. It is a highly flammable compound and exists in liquid form. It is a component of crude oil. This paper seeks to discuss issues that pertain to the crude oil market and the U. S. retail gasoline market with the view of determining whether or not “ there exists a relationship between the crude oil market and the U.

S. retail gasoline market”. The paper will look into the views that have been held by stakeholders in the two markets with the view of establishing the values, experiences and responsibilities that have led to such views.

Key Determinants in the Price of Gasoline

Just like the volatility in the prices of crude oil, the price of gasoline often varies with relatively unpredictable trend. One of the determinants of the gasoline price is the global demand for the crude oil. The trend of the global demand for crude oil is also seen to be a factor in the price of crude oil in the United States. This view of the global demand of crude oil as a factor towards the price of both crude oil and that of gasoline is derived from the study of the prices of the two commodities in the United States over the time

period between the years 2002 and 2008. It was noted that the prices of the two commodities remained high for the mentioned period of time.

However, the prices fell in the period of 2008 while the global supply for oil remained the same. A study of the global economic recession that was experienced during the period beginning in 2008 explained the cause of price changes. It was realized that before the recession, there was a high global demand for crude oil over the supply of the same. This pushed the prices up with respect to the laws of demand and supply. The fall of global demand following the recession, therefore, led to the reduced prices experienced since the year 2008 (Killian, 92). Another view that has attempted to explain the high gasoline price in the period between 2002 and 2008 is the actions engineered by the investors in the crude oil. Killian explains that in a bid to exploit the profitability of the oil market, "the investors in search for high returns bought crude oil and stored it in anticipation of higher future prices" (Killian, 92).

This act is commonly referred to as hoarding. In this bid, investors can in anticipation of increased prices or in an attempt to cause price increase of a commodity, buy and store the commodity with the aim of selling it when the prices go up. This step of buying and keeping suppliers creates a shortage of the supply hence increased prices. This view is, however, inconsistent with the data provided by records of the organization for economic cooperation and development (OECD). The data indicated a supply of crude oil in the period contrary to the uneven data that would have otherwise been realized. There was also a general trend of increase in prices

of other commodities during the period which further refutes the claim of investor manipulation of the market (Killian 92).

Gasoline Market

Another determinant of the gasoline prices in the United States is attributed to the “ unanticipated disruption of U. S. refinery output” (Killian, 100).

Events like fire that abruptly halts the operations of the refineries have been characterized with “ significant increase in the real price of gasoline” (Killian, 100).

These particular disruptions, however, have less significant effects in the prices of the imported crude oil. The phenomenon is expected to have the reverse effect of reducing the price of crude oil as a result of reduced demand which is insignificant in the world market. The factors determining the demand for crude oil and the price of gasoline in the United States such as disruptions results in specified shocks in supply and demand are not easily predictable(Killian, 100).

It has been noted as a problem in the United States that there is lack of facilities to process gasoline. The lack of enough refinery capacity has witnessed a demand for the gasoline product that exceeds the supply. A difference in trend is therefore realized in the case of gasoline and that of crude oil.

While the price of crude oil is majorly driven by the international forces, the gasoline prices are further determined by the production capacity of the refining industry. Another factor in the market of gasoline is the existence of many varieties of gasoline which has “ hindered market flexibility” (OPEC <https://assignbuster.com/introduction-of-the-global-demand-for-crude/>

151). Insufficient regulatory measures also lead to disparities in gasoline prices across regions of the United States (OPEC 151). The new specifications established in the gasoline refinery industry that was aimed at improving the quality of gasoline also led to lower supply of gasoline in the U. S. (OPEC 152). The factors to the price of gasoline have also been attributed to calamities.

One of such occurrences was the “ damage to the gulf coast drilling wells and refineries” (Out of gas 3). The damages for example would translate to the shortage of gasoline leading to subsequent increased prices. The high prices of the gasoline can also be attributed to government policies that have over time been oriented to only one aspect of controlling the price.

The “ chimney plan: to perpetuate the nation’s addition to cheap petroleum” (Out of gas 3) has been criticized as a profit oriented move rather than price control. It is however viewed that steps to reduce the consumption of gasoline would rather reduce the price as opposed to increasing its supply (Out of gas 3). Bodies are, however, put in place to collect and analyze data with the aim of a better understanding of the trends of the crude oil and gasoline in terms of demand, supply and prices. According to the director of petroleum division at API, “ API’s weekly surveys of US oil supply data are essential” to a variety of parties including the US government (Matusic 1). These bodies “ collect industry data and disseminate the information”(Matusic 1) that can then be used for planning purposes.

Crude Oil Market

In the earlier decades, the rises in oil prices in United States were attributed to political aspects like the wars in the Middle East and embargoes by the Arab states as retaliation to the United States' support for Israel, which limited supply of crude oil into the United States from the Middle East countries.

The major determinant in the oil sector is still recognized to be its supply relative to its demand. The industrialization of countries like the people's republic of China and India has put pressure on the global supply of oil due to the relatively increased demand for crude oil. The threat of the United States' supply of oil has been worsened by the move of oil supplying countries in the Middle East to reserve their oil for domestic use. The increased consumption by the two giant countries, China and India, has led to increased global oil prices due the increased demand. There is need for "international effort to reduce demand for oil" (Katel 7).

With this respect, no solution has been identified to help control the prices downwards. This factor is beyond the control of the United States according to professionals in the energy sector. According to Medlock, "it is going to be difficult for the energy supply to expand production at a significant enough pace to drive down prices" (Katel 7). The external drivers of the international oil price are passed to the price of crude oil in the United States and subsequently the prices of the separated components of the crude oil of which gasoline is part(Katel 24).

Conclusion

The prices of both crude oil and gasoline are seen to be dependent on a variety of factors. The stake holders in the energy industry are all seen to be players in determining the demand, supply as well as the prices of the crude oil and gasoline. Other factors like natural calamities are also identified to be determinants of prices of crude oil and gasoline. With respect to the extensive exploration of the two subjects, it is identifiable that the price of gasoline has over the past periods of time depended on a large number of factors besides the price or even supply of crude oil.

It can therefore be concluded that the market for gasoline and that for crude oil in the United States does not bear a significantly close relationship to one another. The market for crude oil is significantly determined by many other factors at the international market while the market of gasoline greatly depends on a large number of domestic factors. It must, however, be noted that since gasoline is a product of crude oil, the market of gasoline in the united states shapes the bearing of the crude oil demand in the united states and not globally.

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