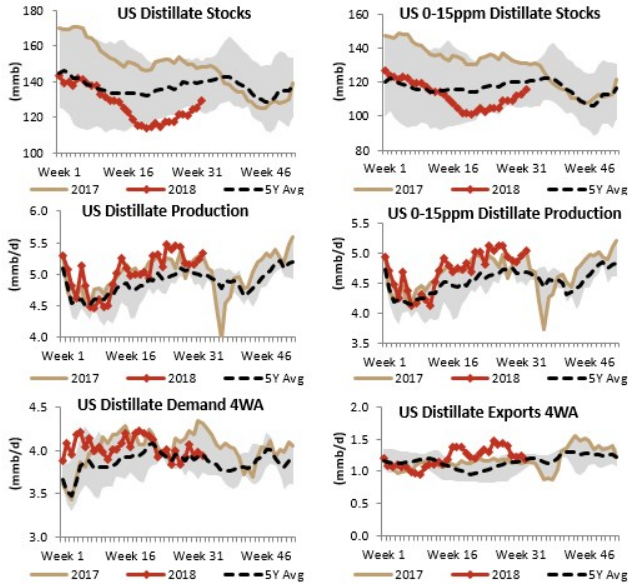


August 22, 2018

Distillate Price Spike Possible This Fall



Source: EIA

Heading into fall, US distillate inventories are the lowest they've been since 2014 despite building through much of the summer. The primary builds have been in 0-15ppm stocks while stocks of 15-500ppm distillate remain well below prior year levels despite production near five-year average levels. Stocks of +500ppm distillate are below average, while production has also been falling, a logical development given that fuel's declining use.

Even with steady builds, stocks of 0-15ppm fuel remain below the five-year average, and an unexpected spike in demand, for example from a cold snap, could cause prices to jump. Given widening crack spreads since June, refiners should continue to prioritize manufacturing ULSD into maintenance season but another weather disruption like that seen from Hurricane Harvey would be a serious impediment, and seriously impact prices. Last year, after Hurricane Harvey made landfall, diesel cracks spiked on reduced supply because of shut-in refineries and flooded pipelines despite stocks healthily above average for that time of year. Distillate demand and stock levels bear watching through winter, as a slowdown in distillate demand could indicate a slowdown in regional trade, a potential side-effect of Washington's multiple trade battles.



Source: Thomson Reuters

