Hot Charts
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U.S. Watch

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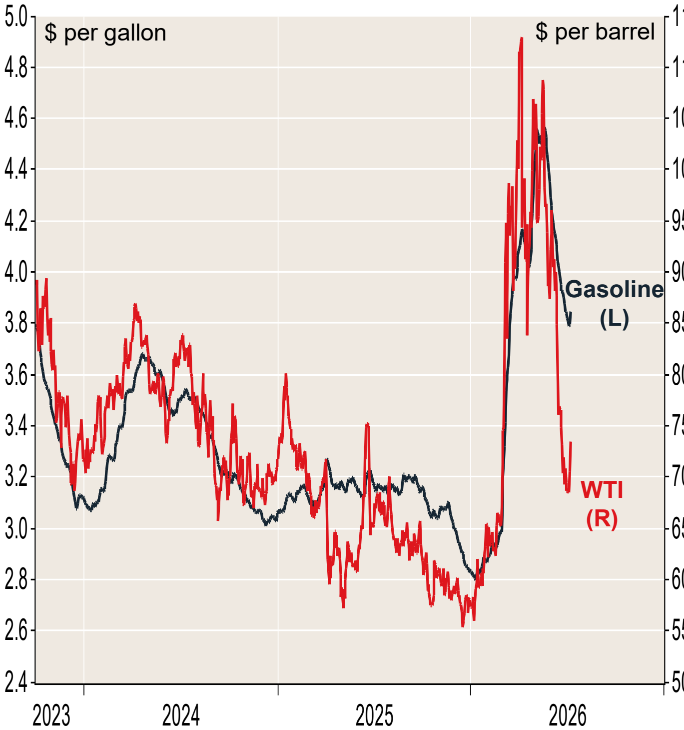
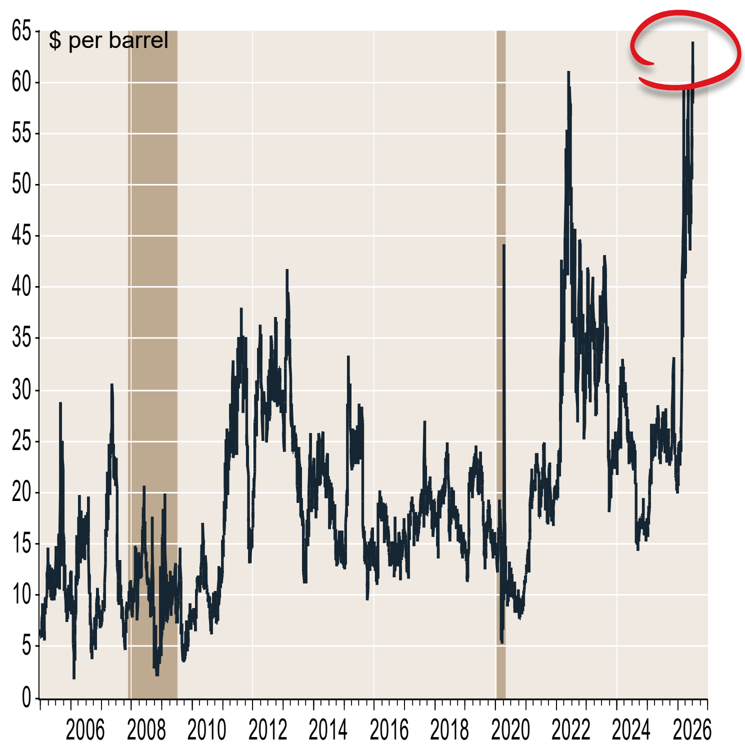
At first glance, the sharp decline in oil prices over the past few weeks should be welcome news for consumers, raising hopes that relief at the pump is finally on the way. That optimism, however, may prove premature. While WTI crude prices have retreated sharply from their recent highs, gasoline prices have eased only modestly and remain roughly 30% above their pre-conflict level. Why such a disconnect? As today's Hot Chart shows, refining margins have surged to nearly US$65 per barrel, the highest level on record, illustrating that the bottleneck has shifted from crude production to the downstream refining sector. The pullback in crude prices therefore reflects in part easing fears about global oil supply but also refiners' reduced ability to process available crude. The Middle East accounts for more than 10% of global refining capacity, and facilities in the region are operating below normal levels because of damage to infrastructure and, perhaps more importantly, slower tanker traffic through the Strait of Hormuz. This comes on top of the recent loss of Russian refining capacity following repeated Ukrainian strikes. The result is a global tightness in refined products rather than crude oil itself, implying that consumers are likely to see only limited relief in fuel prices in the near term. Elevated transportation costs constitute another concern for the rest of consumer basket given still high diesel prices. A relatively rapid return to normal maritime traffic in the Strait of Hormuz and a restoration of refining capacity in Russia will be necessary to avoid a prolonged period of energy-driven inflation.

U.S.: Why isn't cheaper oil delivering much cheaper gasoline?

Gasoline and WTI prices



Crack spread 3-2-1 (gross refining margin)



** The 3-2-1 crack spread is a proxy for refining margins based on the conversion of 3 barrels of crude oil into 2 of gasoline and 1 of distillate*
NBC Economics and Strategy (data via Bloomberg)

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