

## Energy

## International and Domestic Crude Price Differential Narrows

## Second Quarter 2014

Oil prices rose during the second quarter. West Texas Intermediate (WTI) crude, the U.S. benchmark, increased \$4 from the first quarter to average \$102.66 per barrel. This is \$8 higher than last year. Brent, the global benchmark, increased slightly to \$109.13. This is up \$6 from last year.

The differential between WTI and Brent narrowed further during the quarter, averaging approximately \$6 per barrel, a \$3 decrease from the first-quarter average (*Chart 1*). The opening of a new pipeline in early 2014 relieved logistical constraints in Cushing, Okla., and helped push up WTI prices.

Oil prices in 2014 appear set to remain higher than originally anticipated. In January, the Energy Information Administration (EIA) and market participants predicted the spot price for Brent crude would average \$105 per barrel in 2014. Prices averaged \$109 per barrel in the first half of the year, close to the 2013 average of \$108 per barrel. In its mid-June forecasts, the EIA estimated that oil prices will average close to \$108 per barrel in 2014. Market participants are forecasting the average spot price of Brent at \$103.50 in 2015, compared with EIA's forecast of \$102.

Retail gasoline prices peaked at \$3.71 per gallon at the end of April and closed the quarter at \$3.70. The EIA estimates that gasoline will average \$3.62 per gallon for the summer driving season and \$3.50 for all of 2014. Retail diesel prices reached a peak of \$4.02 in the second week of March, falling to \$3.92 per gallon at the end of June.

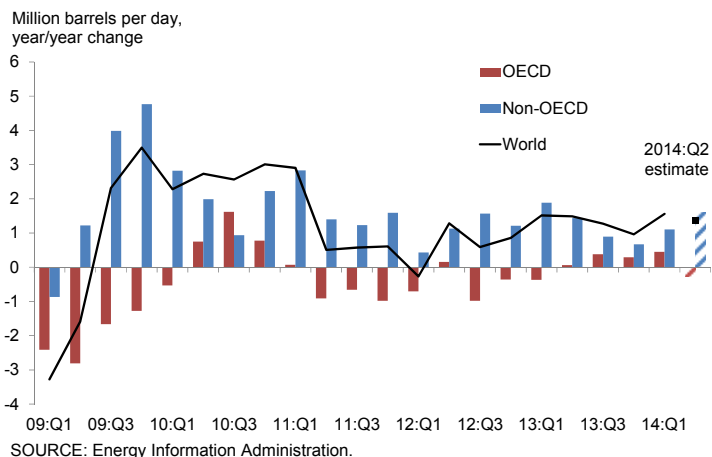
## International Supply and Demand

Total global consumption of oil and oil products grew modestly to 91.4 million barrels per day (mb/d) in second quarter 2014, an increase of 1.4 mb/d from the same quarter in 2013 (*Chart 2*).<sup>1</sup> Much of the growth resulted from increased demand in countries outside the Organization for Economic Cooperation and Development (OECD). Consumption in OECD countries de-

**Chart 1**  
Oil Prices Rise Slightly



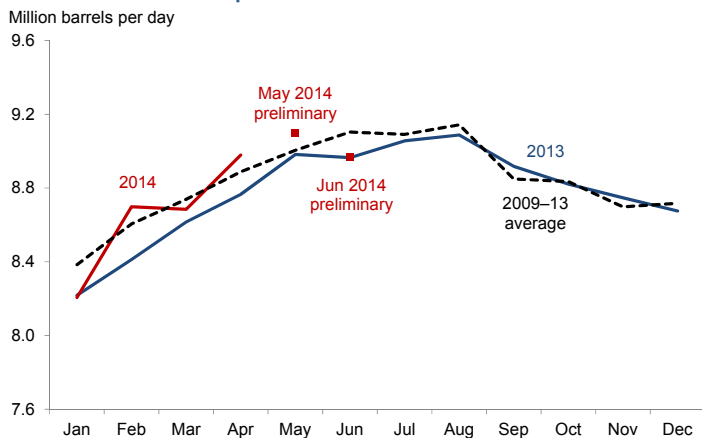
**Chart 2**  
World Oil Consumption Grows at Modest Pace



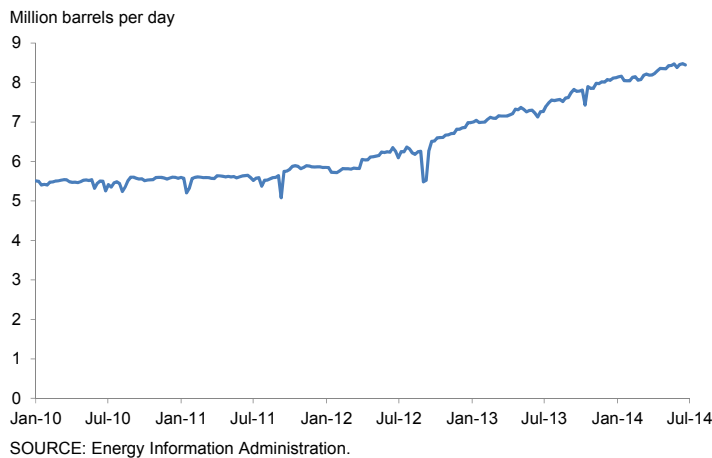
creased slightly during the second quarter compared with the same time last year.

The EIA increased its 2014 global oil consumption growth estimate to 1.3 mb/d in June, up from a first-quarter estimate of 1.2 mb/d. Non-OECD countries are expected to drive nearly all of the growth in global consumption. In particular, the EIA estimates that China will be the largest contributor to demand growth, while Japan and Europe will see declining demand for oil.

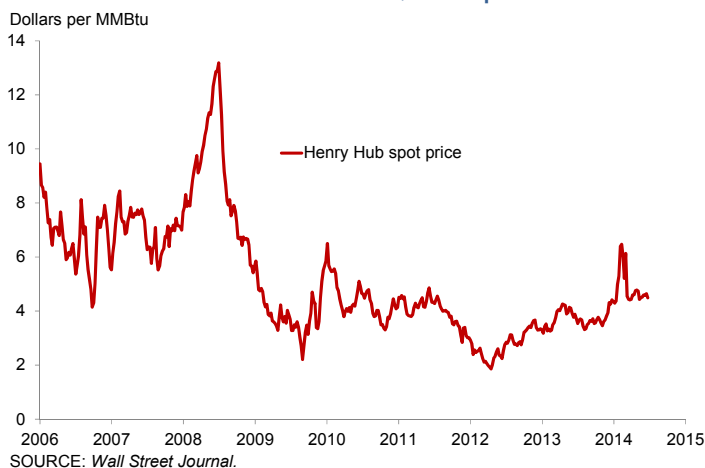
**Chart 3**  
**U.S. Gasoline Consumption on Par with Recent Years**



**Chart 4**  
**U.S. Oil Production on the Rise**



**Chart 5**  
**Natural Gas Prices Decline from First-Quarter Spike**



Global production edged up to 91.5 mb/d in second quarter 2014, a 1.2 mb/d increase from second quarter 2013. Organization of the Petroleum Exporting Countries (OPEC) production of crude oil and natural gas liquids increased slightly at the end of the quarter after dipping to less than 35.7 mb/d in April, while non-OPEC production increased to 55.7 mb/d in May.

Production outages continue to plague the market. The EIA estimated that production outages averaged 3.3 mb/d in May, resulting primarily from issues in Libya, Iraq and Syria. Libyan production is 80 to 90 percent below capacity due to political instability. The EIA estimates that global production of liquid fuels will increase 1.4 mb/d in 2014 and an additional 1.1 mb/d in 2015, predominantly from higher U.S. and Canadian production.

**U.S. Energy Indicators**

Domestic demand for motor gasoline increased at a healthy rate during the second quarter, averaging approximately 9 mb/d (*Chart 3*). This is slightly above the average consumption during the second quarter of last year.

Drilling activity remains strong in the U.S. The number of active rigs averaged 1,861 in June, according to Baker Hughes. There were 1,545 rigs drilling for oil, the most since the data series began in the 1980s. The number of gas rigs shrank to 314 in June.

Domestic production of crude oil increased to an estimated average of 8.4 mb/d in the second quarter, up 1 mb/d from last year (*Chart 4*). The EIA expects production to average 8.4 mb/d in 2014 and increase to 9.3 mb/d in 2015. Growth in domestic production has led to a decline in petroleum imports, and the EIA estimates that the share of U.S. consumption met by net imports (total imports minus exports) will decline to 23 percent in 2015—its lowest level since 1970.

Texas and North Dakota continue to see big increases in crude oil production. In Texas, production surpassed 3 mb/d during the second quarter to an estimated 3.5 mb/d at the end of June. Similarly, in North Dakota, production exceeded 1 mb/d for the first time in history. According to the EIA, Texas and North Dakota together produce over half of U.S. crude oil.

**Natural Gas**

Natural gas prices declined in the second quarter following a dramatic increase in the first quarter (*Chart 5*). Prices averaged \$4.66 per million British thermal units

(MMBtu) in the second quarter, down from \$5.14 in the first quarter. The EIA expects the Henry Hub spot price will average \$4.74 in 2014 and \$4.49 in 2015.

Inventories of natural gas increased at a healthy rate over the second quarter after reaching a trough of 822 billion cubic feet near the end of the first quarter. Levels remain significantly lower than at this time last year (*Chart 6*). Given the concern that inventories may not rebuild fast enough for the next winter heating season, market participants expect elevated natural gas prices through the rest of 2014.

—Kristin Shepard and Michael Plante

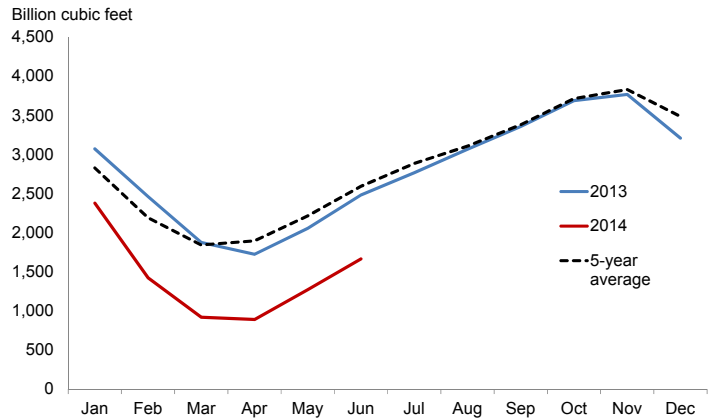
**Note**

1. The EIA data measure consumption of “liquid fuels,” including crude oil and oil products, natural gas liquids, biofuels, and liquids derived from other hydrocarbon sources. Liquefied natural gas and liquid hydrogen are not included.

**About the Authors**

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**Chart 6**  
**Natural Gas Inventories Remain at Historically Low Levels**



SOURCE: Energy Information Administration.

