Energy prices rally but remain in 2017 downtrend
Costs for fall diesel and propane rise on crude oil rebound
By Bryce Knorr, senior grain market analyst

Is the tank half-empty or half-full? In the energy market charts offer two opposing views.

Bears point to crude oil prices down 15% from winter highs. Bulls find hope in the 11% rally since 2017 lows were posted in June.

Crude and product prices rallied Wednesday on news of a somewhat unexpected cut in U.S. inventories last week. Crude stocks fell 4.7 million barrels, while gasoline and diesel supplies also dropped. While U.S. crude oil production continues to edge higher, so do exports of both crude and products. Gasoline demand is firm on summer driving, even though diesel usage by farmers typically slows once crops are planted and applications slow down.

Refinery outages around the country contributed to product tightness, but Midwest plants ran at 97.7% of capacity in the second week of July, well above the national average. Nonetheless, Midwest diesel inventories fell, helping keep basis against USLD futures delivered in New York Harbor firm at a time of year when they normally begin to ease.

Wholesale fuel prices in the Midwest jumped more than 20 cents a gallon off lows from June, when we recommended locking in most of harvest diesel needs. Whether the market offers another buying opportunity later this summer depends partly on whether investors remain friendly to crude. They bought more than $2 billion worth of crude futures and options so far in July.

Still, crude is trading around $4 below our projected fair value based on global fundamentals. Traders doubt OPEC’s resolve in cutting production, amid signs some countries are again exceeding quotas. The world economy appears to be mending, but growth isn’t strong enough to boost demand beyond producers’ capacity.

A steep selloff on Wall Street triggered by a bearish surprise could take prices back towards the bottom of their trading range for the past year. Otherwise, growers waiting to book fuel are playing chicken.

Propane costs are also on the rise, given a shot by crude’s bounce and a seasonal trend towards higher prices into fall. Stocks are building but remain toward the bottom of their five-year range for mid-July. Wholesale prices are up 16% from June lows.

Growers following our recommendations have already booked 100% of fall drying fuel needs, with 50% done on the break in March and the rest in June.

The rally in gasoline is helping support ethanol prices and production. Ethanol prices dropped a little on Wednesday following news that rising production last week increased inventories. Ethanol values were still good enough to boost plant margins last week due to falling corn costs, providing incentives to produce more of the biofuel.

Recent data shows year-to-date growth in ethanol production continuing to slow. USDA may be up to 25 million bushels too high in its estimate of corn usage, depending on how plant efficiency runs this summer. With the projected corn surplus on Sept. 1 expected to top 2.3 billion bushels, that’s a drop in the bucket to a market focused on weather and new crop production.
Crude Oil Futures and Options

Source: CFTC, NYME

Commitment of Traders - Crude Oil

Source: CFTC, NYME
Average Corn Belt Ethanol Plant Margins

Average Corn Belt Ethanol Prices
U.S. Gasoline Stocks

Source: EIA

Days of Gasoline Supplies

Source: EIA
Total Propane Supplied (Demand)

Source: EIA

Spot propane prices vs Crude oil

- Mid-Continent Propane
- Crude Oil