By: Alex Mills **May 5, 2016**

Refiners Try To Cope With Rising Oil Price, Increased Competition

Even though the upstream (exploration and production) oil business is in a state of crisis, the downstream sector (refining) has enjoyed a period of healthy profits.

However, since crude oil prices have rebounded from its low of $26 per barrel in January to roughly $45 on the New York Mercantile Exchange (NYMEX) for 30-day delivery, the profit margin for refineries has been cut in half, according to a report in the May 4 issue of The Wall Street Journal.

“U.S. refiners, which posted robust profits the last 18 months even as other parts of the oil business were racked by low crude prices, finally saw their roll come to a halt in the first quarter,” the story by Bradley Olson and Alison Sider stated.

The story quoted Valero Chief Executive Joe Gorder, “The first quarter presented us with challenging markets, with gasoline and diesel margins under pressure.” Valero, headquartered in San Antonio, is the world’s largest stand-alone refiner.

Refined products from U.S. refiners have run into an increasing amount of competition in foreign markets forcing smaller margins.

Also, the 40-year-old ban on crude oil exports was lifted six months ago, which has allowed domestic oil producers to ship crude oil to foreign refineries. Before the ban was lifted, refiners had an oversupply of cheap oil produced in Texas and throughout the U.S. Removing the ban allowed producers the ability to ship their crude to foreign markets where the price was higher.

Clearly, the price of U.S. crude oil has increased, and the price has moved much closer to the international traded price for Brent crude on the London exchange. In 2011, there was as much as a $25 a barrel difference between crude oil prices in the U.S. and oil traded on the London exchange.

Today, however, that margin has closed to $1. Oil closed at $44.62 in London on May 4 and $43.78 on NYMEX, which is a difference of $0.84. Experts are trying to determine if the narrowing of the margin is because U.S. prices rose closer to the London price, or is it because the price of oil on the London exchange declined because of increase oil from U.S. forced prices down.

“It is hard to overstate how good the refining business has been in recent years,” the story stated. “Since mid-2012, shortly after two companies spun out their fuel processing units into standalone companies, the four best performing energy stocks on the S&P 500 index were refiners. All four companies – including Valero, Tesoro Corp., Marathon Petroleum Corp. and Phillips 66 – more than doubled in value. Last year, the average U.S. oil price fell by almost half to about $45 a barrel, Valero shares rose 43 percent.” Valero Energy Corp. stock increased from a 2015 low of $43.45 on Jan. 15 to a high of $73 in November, but has declined in 2016 to close at $56.29 on May 4.

Tesoro Corp., also based in San Antonio but most of its refineries located in California, had an exceptional 2015, too. Tesoro’s stock increased from $64.16 to $119.67. It, too, has experience a decline in stock price to $78.16. Tesoro refineries process an average of 844,160 barrels per day.

Phillips 66’s stock has remained flat this year. It opened in January at $80.08 and closed on May 4 at $79.67.

Marathon Petroleum’s stock has declined from $51.84 to $36.28 this year.

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