

# Special Report on RBOB



## Why is Gasoline Valuable?

Reformulated Blend stock for Oxygenate Blending (RBOB) gasoline is a fuel product made from refined crude oil. RBOB gasoline often goes by the name's gasoline, Petro gasoline or petrol.

Edwin Drake, the first American to drill for oil, discovered gasoline by accident when he was distilling oil to make kerosene for heating. Drake considered gasoline a useless byproduct of the distillation process and discarded it. However, after the invention of the automobile in 1892, gasoline became the main source of fuel for cars and light-duty vehicles. This makes gasoline one of the most important and well-known commodities in the world.

## How is Gasoline Made?

Gasoline production takes place in oil refineries. These industrial facilities separate crude oil, which consists of different hydrocarbons, into smaller component hydrocarbons or fractions.

Each fraction has molecule chains of different lengths, and each of these chains has a different boiling point.

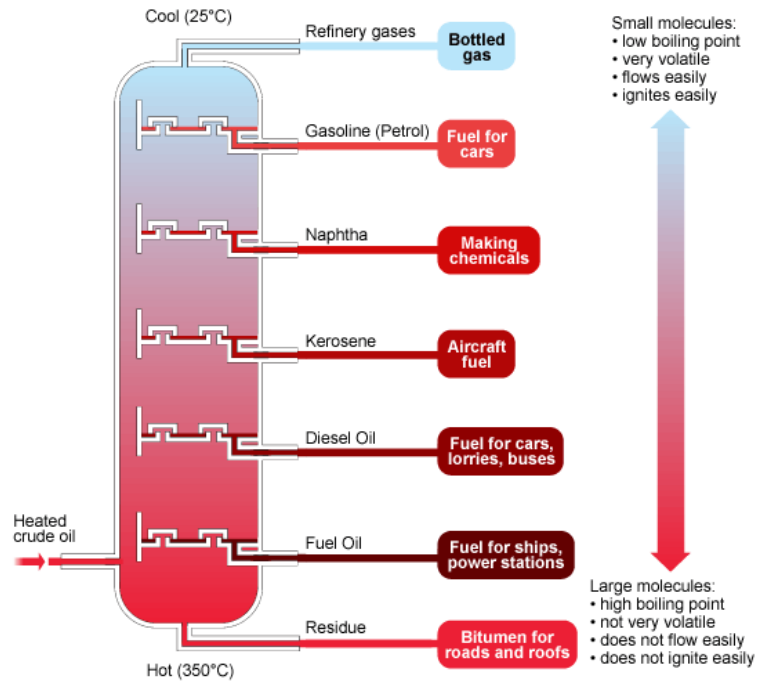
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Refineries heat crude oil at temperatures of several hundred degrees and place the boiling liquid into distillation columns called stills. The boiling process produces gasoline as well as other products including kerosene and diesel fuel.

Each of these products is recovered at different temperature points.

A typical 42-gallon barrel of crude oil yields 45 gallons of petroleum products. Gasoline represents nearly half of the petroleum products produced, which ranks it as the number one product recovered during the refining process.



The supply of gasoline depends on the availability of both crude oil and refineries. Industry watchers measure refiners by their capacity, which is the amount of crude oil that can go into distillation units.

Oil refiners look at crack spreads when making production decisions.

A crack spread is the difference between the wholesale price of a refined petroleum product such as gasoline and the price of crude oil.

Crack spreads are a way to measure the margins for refining crude products and can serve to predict how tight the supply of products is in different markets.

## Where is RBOB Gasoline Made?



## What Drives the Price of Gasoline?

Gasoline prices can fluctuate for many reasons, but the most important ones include the following:

1. Crude oil prices
2. Refining costs and profits
3. Distribution and miscellaneous costs
4. Seasonal demand
5. Political events
6. Global demand picture

## Crude Oil Prices

Gasoline derives from refining crude oil, so the price of crude oil has a big impact on its price.

Several factors can impact the global demand for crude oil, but the most important one is overall economic strength. Other factors that impact crude oil pricing include:

- The strength of the US dollar (crude prices generally move in an inverse relationship with the dollar)
- Political events, such as decisions by the Organization of the Petroleum Exporting Countries (OPEC) to increase or limit production
- Weather conditions
- Competition from competing energy sources such as solar, hydroelectric and wind power



## Refining Costs and Profits

The costs of operating refineries and the productivity of those refineries can have a major effect on gasoline prices.

Crude oil varieties and the technology available for refining them can lead to different gasoline products and pricing from one refinery to the next.

Seasonal pollution requirements for gasoline can also lead to disparities in pricing as can weather-related disruptions to refinery operations.

## Distributions and Miscellaneous

Costs The cost of crude oil and refining it represent the major components of gasoline pricing, but several other miscellaneous factors can affect the final price consumers pay:

- Transporting gasoline from refineries to terminals near gas stations: Harder-to-reach destinations often translate to higher prices.
- Regulatory requirements: In some markets, gasoline producers must add ethanol to comply with laws.
- Local market economic conditions: Affluent areas often have higher prices than poorer areas.



## Seasonal Demand

Gasoline prices show strong seasonal patterns. In the lead-up to summer, prices tend to rise in anticipation of peak driving season. Prices tend to fall in the winter when inclement weather keeps consumers off the roads.

Seasonal patterns also emerge as a result of formulation requirements for gasoline. Environmental regulations in the United States, for example, require gasoline sold in the summer to be less susceptible to evaporation. This requires refiners to substitute more expensive components into gasoline.



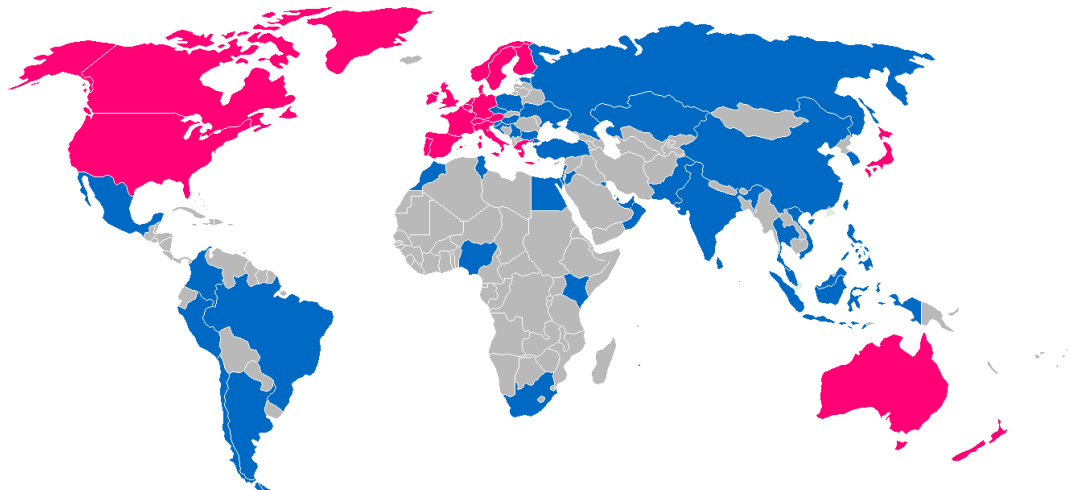
## Political Events

Turmoil in important oil-producing countries can create spikes in gasoline prices. In the past, Middle East wars, oil embargos, political coups and acts of terrorism have created fears of supply disruptions and higher prices.



## Global Demand Picture

Increasing demand for gasoline in Asia, Latin America and the Middle East often outpaces supply from those regions. By the same token, demand for gasoline has been steadily declining in Europe and the United States. Fluctuations in global demand and how refineries respond to changes in demand can materially affect gasoline prices.



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