



Gas prices drift lower as fears of dwindling demand increase

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By: Lauren Krugel, THE CANADIAN PRESS

CALGARY - Gasoline prices have been ratcheting down in some parts of Canada as economic jitters chip away at oil and fuel demand. However an energy analyst said Tuesday he expects the break to be short-lived.

A litre of regular gasoline in Toronto, Canada's most populous city and a fiercely competitive market, averaged around \$1.11 on Tuesday, with some stations posting prices below \$1.09, according to the price-tracking website Gasbuddy.com. On Monday the average was \$1.17.

Other Ontario cities like London and Hamilton were among the cheapest in the country.

Prices were dropping less drastically or holding steady in Quebec, British Columbia the Maritimes and the Prairies.

The price of oil, which accounts for about 40 per cent of the cost of gasoline, dropped US\$10.52 to settle at US\$96.36 Monday amid worries that the Wall Street financial crisis will squeeze global growth and cut demand for oil.

In trading on Tuesday, the price of crude rebounded by almost \$4 to US\$100.15 a barrel on renewed hopes the U.S. Congress will eventually pass a US\$700 billion bailout plan for Wall Street that was defeated Monday in the House of Representatives.

Roger McKnight, a senior petroleum adviser for En-Pro International Inc., said he doesn't expect the holiday from high fuel prices to last.

"It's going to be extremely volatile until the Wall Street mess and the election is sorted out," said McKnight, whose Oshawa, Ont.-based firm advises transportation and other industries on fuel hedging strategies.

He said it's been tough to offer his clients guidance on a long-term basis.

"We're almost working from hour to hour. It's very very frustrating indeed," he said. "Basically you're just going to have to grin and bear it. It's hard to grin and sometimes it's hard to bear it."

The picture looks grim right now, but McKnight foresees real problems taking hold in the spring, as dwindling fuel inventories and low refinery utilization rates come to a head at a time of year when demand traditionally ramps up.

"The inventory numbers really scare me," he said. "The inventory situation is very critical and I'm very doubtful that it can be brought back online in time for next spring."

Rob Laidlaw, an investment adviser with Acumen Capital Partners in Calgary, said pump prices are finally beginning to reflect drops in crude oil, which has been descending sharply since July when it hit US\$147 a barrel.

"They may have come down even quicker if it hadn't have been for hurricane Ike," he said, referring to the storm that hampered refining operations along the U.S. Gulf Coast in early September.

"When you have a tighter supply of gasoline coming out of the States, it keeps the prices a little more buoyant than they would have been otherwise."

The price of crude oil has likely reached a bottom, which bodes well for pump prices, Laidlaw added.

"I think gasoline prices have a little ways to come down from where they were," he said. "Now that we're going into a slower season, just the supply-demand factor would suggest that gasoline prices would come down."

The moves in energy prices will likely have a mixed impact on the overall business environment in Canada.

En-Pro's McKnight said he has noticed a stark drop in truck traffic along Highway 401, the main artery that crosses through southern Ontario's industrial heartland.

"Manufacturing in Ontario is in dire straits. People are just barely hanging on," he said. "The blessing right now is the Canadian dollar dropping."

As the loonie, which is tied closely with the price of crude oil, falls, it is easier to sell Canadian goods in the United States.

The loonie was worth about 93.95 cents US on Tuesday, down 1.84 cents from Monday.

"Then again if this Wall Street thing isn't sorted out real quick, you're not going to have any customers south of the border anyway. It's a pretty miserable time right now," McKnight said.

In Western Canada, where the oil industry reigns, some costly oilsands developments could see their margins narrow if the price of crude oil drops below the US\$70 to US\$80 range on a sustained basis.

But offsetting that would be a cooling down in the prices of labour and construction materials, which had been among the industry's biggest costs, as global economic growth slows.

Energy companies have been doing the right things to shield themselves from wild commodity price swings, Laidlaw said.

"The oilpatch still makes a lot of money at \$95 a barrel. Everyone always forgets it was only \$15 a barrel 10 years ago. These companies have done a great job over the last decade of maintaining some pretty lean and mean balance sheets," he said.