

## 15:54 11Mar2009 ANALYSIS-US gasoline prices seen rising ahead of summer

By Janet McGurty

NEW YORK, March 11 (Reuters) - U.S. motorists have enjoyed a reprieve from high gasoline prices in recent months but may soon find filling up more painful due to lower supplies and rebounding demand as summer driving season approaches.

While experts say prices are not likely to soar to the highs of \$4 a gallon level that shocked drivers last year, they add current low prices look unsustainable.

U.S. gasoline now averages \$1.90 a gallon, just below government forecasts of \$1.96 a gallon for the entire year, and should rise further as the start of the peak driving season from late May through August draws nearer.

"We have seen crude rise steadily and what could drive further increases is, of course, crude oil," said Tancred Lidderdale, an analyst with the U.S. Department of Energy's Short-Term Energy Outlook.

"It also appears that the weakness we have seen in the gasoline market has started to narrow significantly," Lidderdale added.

U.S. crude oil is currently trading over the \$40-a-barrel benchmark used by the Energy Department to build its gasoline forecasts. On Wednesday, the price hovered around \$43 a barrel. The DOE says every dollar rise in crude adds 2.4 cents a gallon at the gasoline pump.

(To view a graph on U.S. gasoline demand versus price, please click on: <http://www.tinyurl.com/bejls1> ).

In addition, weekly government data showed gasoline demand over the past four weeks up 1.6 percent over year-ago levels, as motorists begin to drive more due to lower prices.

U.S. gasoline demand dropped more than 3 percent last year, the first decline since 1991, as Americans eased up on driving, while overall fuel consumption fell by 6.1 percent to a 10-year low.

"When gasoline went over \$4 a gallon in July and August (2008) we were looking at year-on-year declines of over 5 percent." Lidderdale said.

With gasoline-making a money-losing proposition in the last half of 2008, most refiners cut back on production, helping to tighten gasoline markets.

"Reduced supply, not recovering demand, appears to be the real driver behind the recent recovery in gasoline fundamentals," said Antoine Halff, deputy head of research at Newedge USA LLC.

In the last 10 weeks, refinery use has held in the mid-to-low 80 percent range, keeping inventories in the lower half of the average range, according to the EIA.

Data from the Energy Department's Energy Information Administration released on Wednesday showed gasoline inventories off 3 million barrels in the week to March 6, as U.S. output of the motor fuel fell by 464,000 barrel per day to 8.54 million bpd.

Total gasoline inventories stood at 212.5 million barrels, down nearly 10 percent from the previous year.

The gasoline data has provided support to the U.S. oil complex, which saw demand battered last year by both high prices as well as the economic crisis.

**"Gasoline fundamentals continue to gather bullish steam as the bigger-than-expected draw for gasoline stocks, driven by stronger demand and weaker utilization rates, are pushing stocks well below the trailing five-year average ahead of the driving season," said Chris Jarvis, senior analyst for Caprock Risk Management in Hampton Falls, New Hampshire.**

Still, with refiners able to ramp up production if the nascent demand rise continues, prices will not likely rise too high.

"There is still a lot of spare capacity for producing gasoline here," said Phil Flynn, analyst for Alaron Trading in Chicago.

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