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**Planning Ahead for 2024: Protecting Retail Fuel Profit  
Margins & Choosing the Right Back-Office Software**



# Protecting Retail Gasoline Gross Revenue from Seasonal Pressures

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# Wholesale Price Increases Squeeze Retail Profit Margins

## OPIS Retail Fuel Watch

The Oil Industry's Benchmark for Retail Gasoline and Diesel Prices & Profits

# OPIS

A DOW JONES COMPANY

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### ***Wholesale Price Spikes Hammer Gasoline, Diesel Margins***

A wave of persistently rapid increases in gasoline and diesel rack, or wholesale, prices more than offset gains in prices at the gas pump, hurting the bottom line for gas station operators in the latest week. Fuel marketers saw their diesel margins crater by well more than 10cts. While the drop in gasoline margins was less significant, thanks to a relatively milder increase in rack prices, it marked a fifth consecutive weekly decline. With average retail prices for both gasoline and diesel rising toward their highest levels this year, it is possible that demand could suffer as motorists drive less to avert lofty gas prices. In addition, U.S. fuel demand tends to peak during the week leading to the July 4th holiday. On the other hand, persistent recession concerns and worries over high inflation could dent diesel consumption and hurt gas station operators' ability to raise prices.

During the week ended July 31st, average retail gasoline price increased 14.6cts to \$3.744/gal. At the same time, rack prices, which represent the cost marketers pay for their fuel inventory, jumped almost 18cts to \$2.862/gal. As an unusually large drop in wholesale cost outweighed retail price

gains, gasoline margins fell 3.3cts to 28cts/gal. During their five-week decrease, gasoline margins have fallen more than 12cts from the 40.4cts/gal during the last week of June.

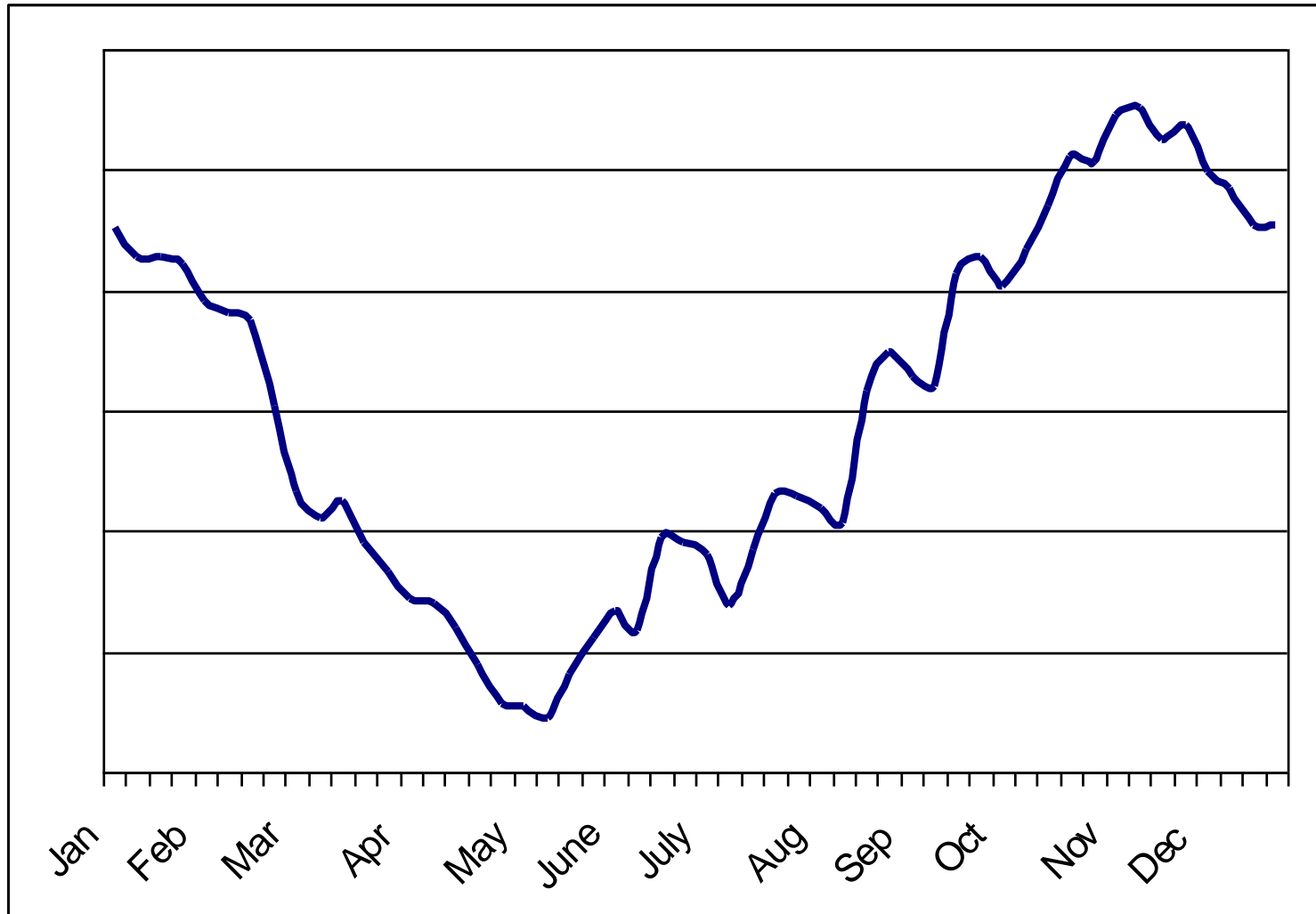
The surge in average gasoline prices in the latest week also broke out a narrow five-cent range between \$3.54/gal and \$3.59/gal that they had held since early May. During that period, rack prices had played a major role in affecting the margins of fuel retailers. Still, the average gasoline price at the pump is \$1 cheaper than the \$4.80/gal at the same time last year when the Ukraine war fueled fears over a global energy crisis. Compared to the same week a month ago, gasoline margins were mostly unchanged. OPIS data also shows gasoline margins were well under 75cts/gal at the same time a year-ago.

Despite falling prices at the gas pump, OPIS data showed lower demand for fuel. According to the preliminary data by the latest OPIS Demand Report, which surveys more than 30,000 gas stations across the nation, average same-store gasoline demand fell about 1% for the week ended July 29th compared to the previous-week.

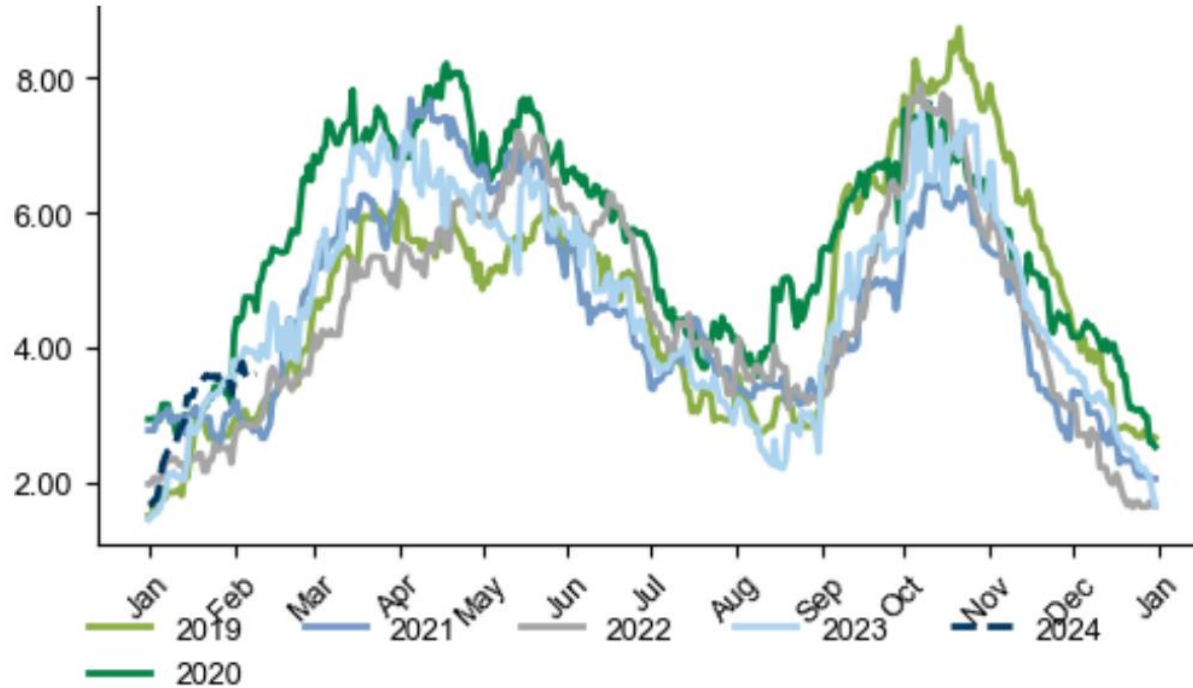
# Retail Gasoline Margin Squeeze

- Refining profit margins generally increase when wholesale prices increase
- Retail profit margins tend to be squeezed when wholesale prices increase – retail prices rise more slowly as customer resistance to higher posted prices grows
- Gasoline retailers are faced with the dilemma of losing margin or losing volume
- The Spring margin squeeze is driven by the combination of rising gasoline demand at the same time refinery maintenance reaches a seasonal peak

# Does This Pattern Look Familiar?



# Global Planned Refinery Maintenance



Source: IIR, Goldman Sachs Global Investment Research

# Hedging

- Risk management strategy used to limit the probability of loss from unknowable fluctuations in the price of a commodity
- The purpose of a hedge is to avoid the risk of adverse price movements impacting the bottom line
- The goal of hedging is to defend your profit margin against energy price volatility, and allow you to concentrate on growing your business

# Definition: Options on Futures Contracts

- An option on a futures contract is the right, but not the obligation, to buy or sell the underlying futures contract at a predetermined price on or before a given date in the future
- As hedging instruments, options can produce offsetting gains in the face of adverse price changes in the cash market
- Options permit you to efficiently deploy capital, in the form of option premium. In this case, you can participate in the price movements of the underlying asset, without having to buy the asset outright

Source: CME Group



# Key Option Elements

- Expiration/Maturity Date - each option also has its own expiration or maturity date. This is the last day on which an option can be exercised into the underlying futures contract. After the expiration or maturity date, the option contract will cease to exist; the buyer cannot exercise and the seller has no obligation
- Strike Price - this is the agreed price at which a transaction will happen, if the option is worth exercising. The strike price for the option contract will determine the value at expiration
- Option Type - option contracts fall into two categories, call options and put options

Source: CME Group

# Options as Insurance: an Analogy

## **Option BUYER (policy holder)**

- Pays premium
- Receives right (to reimbursement if risk occurs)

## **Option SELLER (policy writer)**

- Receives premium
- Takes on obligation (to reimburse policy holder if risk occurs)

## **Types of Options**

- Calls gain value as prices rise (are “called up”)  
Risk avoided: prices rising
- Puts gain value as prices fall (are “put down”)  
Risk avoided: prices falling

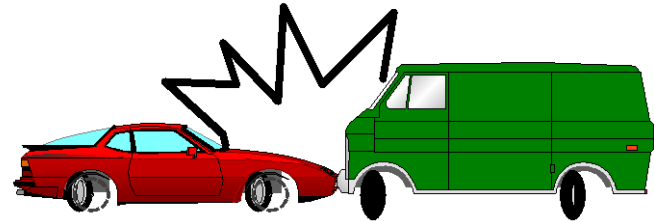
# Call Option Basics

You own the May \$2.60 Call. At expiration, the price of the January future is:

\$3.10: an insurable event  
“in-the-money”

\$2.60: “at-the-money”

\$2.10: no insurance needed  
“out-of-the-money”



# Call Option Scenario #1: Prices Move Higher

Status: Your Co. will need to buy gasoline in May

Sep 26th: Local price – **\$2.50** per gal  
 May RBOB futures – \$2.60 per gal  
 Your Co. buys May call option: the **\$2.60 call for \$0.25** per gal

Apr 26th: Refinery problems – gasoline prices rise to **\$3.25** per gal  
 NYMEX RBOB prices at \$3.35 per gal  
**\$2.60 call option worth \$0.75 per gallon at expiration**

	Cash Prices	Futures Position
Sep 26 <sup>th</sup>	\$2.50	(\$0.25)
Apr 26th	\$3.25	\$0.75
Profit or Loss	<b>-\$0.75</b>	<b>\$0.50</b>

*Effective purchase price \$2.75 per gallon (plus commission and fees)  
 (\$3.25 cash price minus \$0.50 per gallon option proceeds)*

# Call Option Scenario #2: Prices Move Lower

Status: Your Co. will need to buy gasoline in May

- Sep 26th: Local price – **\$2.50** per gal  
May RBOB futures – \$2.60 per gal  
Your Co. buys May call option: the **\$2.60 call for \$0.25** per gal
- Apr 26th: China real estate collapse – gasoline prices fall to **\$1.75** per gal  
NYMEX RBOB prices at \$1.85 per gal  
**\$2.60 call option expires worthless**

	Cash Prices	Futures Position
Sep 26 <sup>th</sup>	\$2.50	(\$0.25)
Apr 26th	\$1.75	\$0.00
Profit or Loss	<b>\$0.75</b>	<b>-\$0.25</b>

*Effective purchase price \$2.00 per gallon (plus commission and fees)  
(\$1.75 local price plus \$0.25 per gallon option premium paid)*

# Call Spreads May Offer Cost-effective Upside Protection

- Call spreads offer the buyer a defined range of price protection to the upside. This protection comes at a known premium cost that is significantly less than the price a call option by itself
- To protect Spring 2023 retail gasoline margins, POWERHOUSE clients typically bought call spreads with a maximum gross gain of 30 cpg for roughly 10 cpg (for a maximum net 20 cpg gain)
- If wholesale RBOB prices decline during the hedged month, the retail gasoline marketer will likely experience better-than-expected margins while the hedge loss is not one-for-one, but limited to the option premium paid

# Option Strategy: How to Express a Bullish View with Defined Risk

## **Bull Call Spread**

A bull call spread consists of a buy leg (lower priced strike) and a sell leg (higher priced strike) for the same expiration month and the same underlying contract.

Buyers of a bull call spread pay a net premium when entering the trade. The proceeds of the sold, higher priced call option reduces the net premium cost. The maximum gain for the spread is attained if the market price finishes at or above the upper strike price.

Maximum loss is limited to premium paid and occurs when the market finishes below the level of the purchased call.

***Bull call spreads offer a defined profit potential while limiting capital at risk.***

## Example: Long Call Spread

Buy a Call, Sell a Call with a Higher Strike Price

Buy 1 May '24 RB \$2.60 Call:	Pay \$0.2500
Sell 1 May '24 RB \$2.90 Call:	<u>Receive \$0.1500</u>
	Net Cost: \$0.1000

At Expiration:

Max Spread Value: \$0.3000 per gal.

Max Loss \$0.1000 per gal.

Max Net Profit: \$0.2000 per gal.

Break Even: \$2.7000

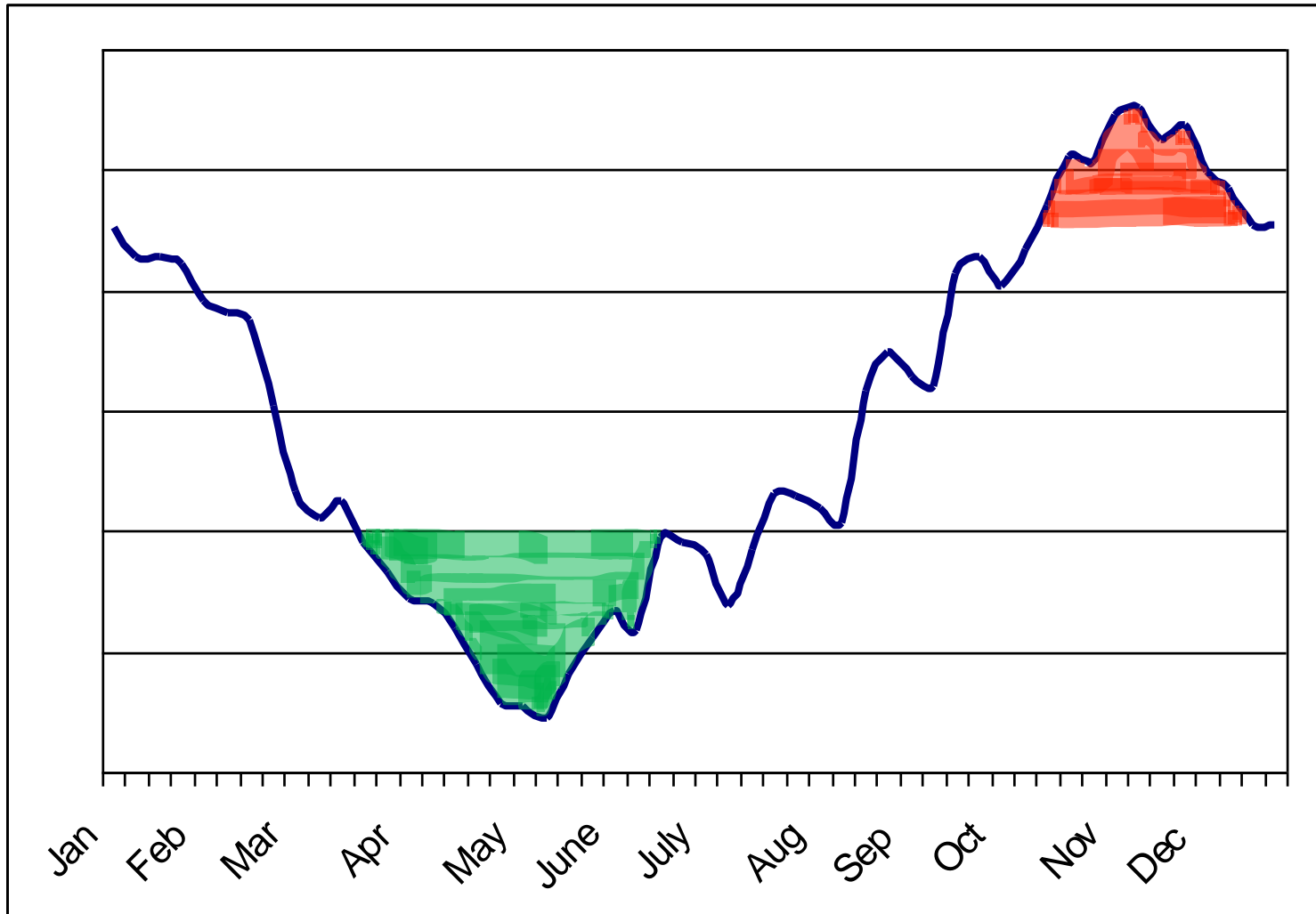


# Building Your Own Risk Roadmap – an example

Month		Avg. Retail Margin ( 3 years)	% of Avg. Margin	Projected Gas Volumes	Gross Revenue	% of Avg. Gross Revenue
JAN		\$0.0713	84.62%	6,014,343	\$428,822.66	78.46%
FEB		\$0.0522	61.95%	6,131,941	\$320,087.32	58.56%
MAR		\$0.0423	50.20%	6,202,194	\$262,352.81	48.00%
APR		\$0.0309	36.67%	6,332,158	\$195,663.68	35.80%
MAY		\$0.0541	64.21%	6,527,528	\$353,139.28	64.61%
JUN		\$0.0674	79.99%	6,808,484	\$458,891.80	83.96%
JUL		\$0.0841	99.81%	7,222,281	\$607,393.86	111.13%
AUG		\$0.1012	120.11%	6,939,864	\$702,314.20	128.49%
SEP		\$0.1235	146.57%	6,625,377	\$818,234.06	149.70%
OCT		\$0.1326	157.37%	6,523,387	\$865,001.16	158.26%
NOV		\$0.1434	170.19%	6,361,883	\$912,293.97	166.91%
DEC		\$0.1081	128.30%	6,153,516	\$665,195.08	121.70%

AVERAGE	\$0.0843			6,486,913	\$546,576.48	
TOTAL				77,842,956		

# Attempting to Smooth Seasonal Margin Slumps



# Want to Learn More?

## POWERHOUSE Practical Fuel Hedging November 16 & 17 Austin, TX

**Study Groups Members Save 10% off registration**

**Full Agenda and Registration: <http://powerhousetl.com/pfh/>**

*"Fantastic course. I'd highly recommend to anyone getting started. I've read multiple books, listened to speakers and talked to 2 other FCMs and this course taught me more than any of those other resources."*

POWERHOUSE's two-day, in-person class teaches practical strategies to navigate a volatile energy price environment and grow your business through hedging.

# Disclaimer

## Futures Disclaimer

Futures and swaps trading involves significant risk and is not suitable for everyone. Transactions in securities futures, commodity and index futures, options on futures markets and swaps carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract, meaning that transactions are heavily “leveraged”. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit: this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the clearing firm to maintain your position. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be liable for any resulting deficit.

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