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Closer to One Great Pool? Evidence from Structural Breaks in Oil Price Differentials

[Michael Plante](#), [Grant Strickler](#)

 Free Article

Abstract:

We show that the oil market has become closer to “one great pool,” in the sense that price differentials between crude oils of different qualities have generally become smaller over time. We document, in particular, that many of these price differentials experienced a major structural break in or around 2008, after which there was a marked reduction in their means and volatilities. Differentials between residual fuel oil, a low-quality fuel, and higher-valued products, such as gasoline and diesel, experienced similar breaks during the same time period. A growing ability of the global refinery sector to process lower-quality crude oil and the U.S. shale boom, which has unexpectedly boosted the supply of high-quality crude oil, are two factors consistent with these changes. Differentials between crude oils of similar quality in general did not experience breaks in or around 2008, although we do find evidence of breaks at other times.

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Keywords: [Crude oil price differentials](#), [Oil](#), [Structural breaks](#), [Refining](#)

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