

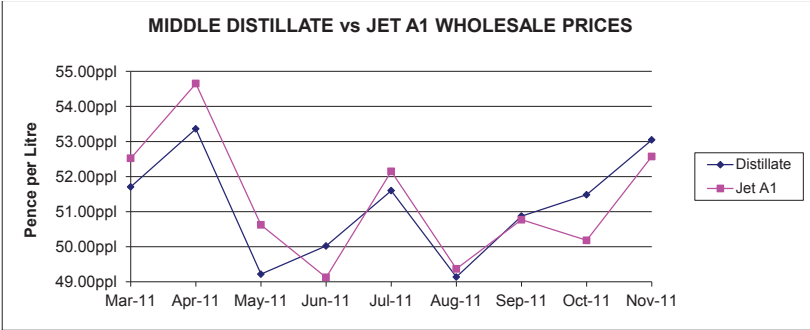
# January update

When analysts and traders try to explain markets, the main aim is usually not to make things clear – rather paint a complex picture, punctuated by jargon and TLAs (three letter acronyms) in an attempt to prove their devilish intelligence. The actual truth is that most markets are fairly simple and none more so than oil, following as it does the levers of supply and demand. It is for this reason that market data, and not the spin of market “experts”, still offers the best insights into economic trends and socio-economic cycles. So this month’s report is dedicated to a ground-breaking new energy theory which states that people go on holiday in the summer, keep warm in the winter and go shopping around Christmas time.

**A simple explanation**

The main grade of fuel used by aeroplanes is kero, officially called jet A1 or AVTUR and in the modern world, people tend to fly when they go on holiday. The main European heating oil grade is gasoil (not kero as in the UK); whilst to buy Christmas presents, items first need to be delivered by lorries from factories, warehouses and ports. Lorries use lots of diesel. In refining terms, Jet A1 is a paraffinic grade based on the original paraffin spec, whilst both gasoil and diesel are called middle distillates – because they come from the middle of the crude “barrel”.

Looking at the above graph, we can see both grades of fuel moving up and down in price during the period, following as they do



	Distillate	Jet A1	Diff
Mar-11	51.71pppl	52.52pppl	-0.81pppl
Apr-11	53.36pppl	54.65pppl	-1.29pppl
May-11	49.22pppl	50.62pppl	-1.40pppl
Jun-11	50.02pppl	49.12pppl	0.90pppl
Jul-11	51.60pppl	52.15pppl	-0.55pppl
Aug-11	49.14pppl	49.37pppl	-0.23pppl
Sep-11	50.87pppl	50.77pppl	0.10pppl
Oct-11	51.48pppl	50.18pppl	1.30pppl
Nov-11	53.04pppl	52.57pppl	0.47pppl

the volatility of crude oil prices. However, in the spring and summer, holidaymakers take to the skies and demand for jet A1 increases. Consequently, jet A1 Rotterdam prices are about a penny higher than the middle distillate basket (ie, the merged price of diesel and gasoil). By the autumn, the trucks are now rolling out of the yards to deliver Christmas presents and yuletide treats, whilst the European public are settling down in the warmth of their houses. The difference in price has now flipped in favour of the distillates which are circa one penny higher than jet A1.

A final two factors exist, that overlay these figures and should be noted. One is that diesel prices have been pushed disproportionately upwards by the Libyan crisis and the lack of sweet crude availability. This is a supply driver and was covered in our October report. The second factor takes us back to demand and the obvious statement that it has not got very cold yet anywhere in Europe. Therefore,

gasoil demand has been kept in check and moderated the middle distillate price. With colder weather, the current distillate/jet A1 differential could be as high as two pence per litre.

So next time an “expert” tries to bamboozle you with complex economic theories and opaque pricing explanations, just sit back, relax and remind yourself that in the summer people go on holiday, in winter they like to keep warm and in December, they head for the shops. No need for Robert Peston it seems....



For more pricing information, see page 22

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