June update

Exactly 12 months ago, Portland wrote in the May issue of FON that those wishing for lower fuel prices should be careful what they wished for. The article considered that the only likely way that prices would fall was the arrival of another financial crisis and associated recession. One month after that, Portland wrote that the EU's treatment of Greece was akin to pinning your elder brother to the floor against his will. You know that everything will go horribly wrong when you let your brother go, so you keep him pinned down and let the problem get worse and worse.

Well prices throughout May truly plummeted and any optimists left out there who believe we are not back in recession and facing a new financial crisis are in denial. Where there is no denial however, is that the problem once again starts (and ends?) with Greece.

Prices – down, down, down

First let's look at what happened to prices in May. Down, down, down! Down 0.78ppl on 2nd May, down 1.75ppl on 4th May, down 0.58ppl on 8th May and another big drop (0.57ppl) on 17th May. On the other days of the month, prices still dropped – just not by such big amounts. In fact in the first 13 working days of the month, prices dropped on 9 of those days. In percentage terms that's almost 70 % of those days experiencing price falls and to put that into perspective, in October 2008 (post Lehman's collapse and when the financial storm really hit home), the comparative figure was only 61 %. Gulp!

> *whilst falling oil prices might be good news for the consumer... the backdrop is a deeply worrying one*

When the economic outlook is bleak, oil prices will fall and the outlook is dominated by the ongoing and diabolical problems facing Greece. In June last year, Portland wrote "that Greece WILL default on its debts" and sadly this remains as true today as it was last year. Furthermore, the indecisive elections in Greece have shown that an ever-increasing number of voters are rejecting austerity and perhaps worse, the idea that Greece has to pay its debts. Non-payment of Greek debt (and subsequent exit from the euro) would destroy several European banks (the lenders), notably in France, Spain and possibly even Germany. Further bank bail-outs will be required to prop them up and the question must now be whether such funds are actually available. On the other hand, keeping Greece in the euro and pumping bail-out after bail-out into a broken system, with no means or hope of repayment (think, giving a 6th credit card to a consumer who has maxed out their limit on the previous 5) could bleed the EU dry anyway.

So whilst falling oil prices might be good news for the consumer and may even take some heat off the politicians, the backdrop is a deeply worrying one. Lower fuel bills are meaningless if businesses can no longer make and transport their products. Families might have more money to spend if petrol prices drop, but driving might not be much of an option if 15 % of Europe is unemployed. All of this sums up the paradox of oil prices and the economy. We all want oil prices to fall, but we certainly do not wish for the economic stagnation that causes such falls. At the same time, we all desperately want economic growth, without fully grasping the implications that such growth will have on oil demand and prices in an over-populated and under (oil)-supplied world.

For more pricing information, see page 30

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