PORTLAND MARKET REPORT

August update

It's fair to say that for a country that relies heavily on people taking summer holidays, Greece seemed on the brink of ruining a lot of those holidays as June and July progressed. The whole of the Eurozone was balanced on a knife-edge, as the prospect of a full sovereign default of debt and Greece's exit from the Euro ("Grexit") seemed ever more likely. Fears of economic contagion soon struck other weaker European states and financial markets got the jitters as the recently returned (but still very fragile) confidence in European economic recovery melted away in the hot summer sun…

No surprise either that amid all of this uncertainty and coupled with jaw-dropping drops in the Chinese Stock Market, plus the likely return of Iranian oil onto world markets, oil prices also took a nose-dive. At the end of June Brent crude was trading at the $61 per barrel mark, but by July 5th, this had dropped to $55 with drops as high as $3 per barrel in the days in between. Such sudden volatility – whilst probably predictable – did come on the back of a generally stable period for oil prices and therefore caught a number of buyers and sellers unawares. After all, having hovered around the $65 level for most of April, May and June, a 10% drop in 5 working days is a reasonable movement in price.

IN OIL TERMS, GREECE IS AN ABSOLUTE MINNOW

So here we have Greece once again disproportionately affecting markets around the world. In oil terms, the country is an absolute minnow, with consumption making up only 1.5% of Europe's total oil usage. In volumetric terms, Greece's daily consumption is roughly the same as Exxon's daily UK production (300,000 barrels) at its Fawley refinery near Southampton. And with only four small refineries on the fringe of Europe themselves, Greece plays no part in the European oil supply chain, unlike a similar sized country such as Belgium, that is situated at the gateway to the whole of the European market. But as ever the problem lies in confidence (or a lack of confidence) in what Europe would look like, post-economic meltdown in Greece. Sure the disappearance of Greek fuel consumption would have few eyelids batting, but a crisis that could potentially suck in Italy, Spain, Portugal and perhaps some of the northern European states (Ireland, the smaller Baltic countries)? Well that certainly would be a big deal and would definitely result in a drastic reduction in oil consumption. And all of this on the back of three years of anaemic/zero consumption growth in most of Europe.

WITH NO ACCESS TO $ OR €, THE OIL WOULD STOP FLOWING WITHIN A WEEK

As for the internal situation in Greece, this really would be dire in a post-Grexit environment. The return of the drachma might bring in tourists for cheap holidays, but it would mean armageddon in oil terms. Indigenous crude production in Greece is circa 2,000 barrels per day (bpd), meaning that Greece is over 99% reliant on oil imports for its 300,000 bpd consumption. Can you imagine post-Grexit, how many drachma would be required to buy the required cargoes of oil to keep Greece moving, heated and powered? The answer is none because oil sellers would not accept payment in drachma. So with no access to $ or €, the oil would stop flowing and within a week, there would be no food in the shops even if it existed in the fields – because there would be no transport. Or ambulances, or police cars or simply workers who rely on transportation to get to work. Not to mention electricity – 20% of which comes from oil-powered generation, with a further 60% coming from gas – all of which is also imported.

So this might explain the sudden volte-face performed by the Greek government, as they accepted an EU deal that only 5 days earlier, they had seemingly rejected in the snap referendum. For two months, Alex Tsipras and his Syriza party colleagues played hardball with the European Union, IMF and World Bank – often playing the three organisations off against each other to perfection. The referendum seemed to be the culminating master stroke of this strategy, simultaneously wrong footing Greek's creditors whilst also winning significant political support back home. And yet less than a week after the resounding referendum success, Mr Tsipras agreed to pretty well everything that the EU had proposed a month earlier! Most observers would probably suggest that common-sense finally prevailed – the Greeks realised that economic and societal break-down really was around the corner, whilst the creditors decided that a few softening tweaks to the debt repayments would paint them in a more positive light.

But Portland has a slightly different view, on the basis that as we stand, this crisis seems far from over and if anything is merely a time-out. Instead the (only slightly tongue in cheek) conclusion is that it was all to do with holidays! In a country and continent where vacations are taken seriously, the respective players seemingly decided that it was time to get to the beach before the blasted negotiations ruined August in addition to June and July. Economics, finances and energy are all important, but surely nothing should trump a holiday…!

For more pricing information, see page 22

Portland Fuel Price Protection
www.portland-fuel-price-protection.com