PORTLAND MARKET REPORT

February update

Nobody likes a smart-a*se (which is perhaps why Portland has had so few party invitations over the last 20 years), but a quick review of our January 2013 Fuel Oil News report is nonetheless in order. Twelve months ago, we foresaw a year of market stability and stated that there was "little chance of oil prices dropping" but at the same time, "few clear reasons why prices should become any higher".

Well the price of Brent Crude in December 2012 (when the January 2013 report was written) was $109.39 and the average price of Brent Crude in December 2013 was… ahem…$110.85. Not bad! The highest price of 2013 was $119.07 and the lowest price was $96.88, giving a price range for the year of approximately $22 per barrel. On the surface, that kind of price spread (between the highest and lowest price) does not seem to represent price stability, but compare it to 2012 where the price range was circa $40 (high = $128 / low = $88) and then the difference is clear. So there we are ladies & gentlemen, I thank you… (takes a bow and exits to rapturous applause… then wakes up).

EVEN WITH THE US OIL GLUT AND POSSIBLE INCREASED SUPPLIES FROM IRAN, WORLD OIL AVAILABILITY IS STILL DIMINISHING

So what of 2014 and what will it bring? As the last (serious) article of 2013 highlighted, the easing of sanctions on Iran will undoubtedly boost world oil supplies and this in turn should have a downward effect on prices. However, there is also a need to reiterate the fact that much Iranian oil is already on the market (via sanction free sales to China and India) and so an oil glut from this part of the Middle East can be ruled out.

Of more consequence is the continuing shale oil bonanza in the USA, which continues to have profound consequences on world oil balances and is significantly diminishing oil imports into the States. This is particularly affecting oil flows from South America and West Africa, with these regions now having to find new buyers for their oil elsewhere around the globe. This most definitely is putting downward pressure on the price of oil, particularly when it comes to light and sweet crudes, as it is this type of oil that the US shale formations are producing. Equally interesting is the knock-on effect on the price of heavy and sour crudes, which are having to compete in the market place with the increasingly voluminous lighter crudes (the refiner's choice). Portland expects the differential between sweet (eg, Brent) and sour (eg, Arab Heavy) crude to extend as the year progresses and this could be the first piece of good news that refiners have had for a while – particularly those who have invested heavily in kit that can process sour crudes. On the flip-side, any fall in sour crude prices is certainly not good news for Russia, a country already in a grand funk over the decoupling of European gas contracts from oil prices, but now likely to see reduced income for their (declining) oil production, the bulk of which (eg, Urals Heavy) is sour crude.

All of the above constitute bearish elements in the market place (ie, circumstances that push prices downwards), but no-one should get carried away here, as there are still some pretty major bullish factors out there! Firstly, the fact remains that every year the world loses 6m barrels per day of conventional oil production and in its place, only about 3m barrels per day of non-conventional oil (including shale oil) comes on stream. So even with the US oil glut and possible increased supplies from Iran, world oil availability is still diminishing. In addition and as stated last year, we still have the spectre of sanctions being reapplied to Iran should that country reactivate its nuclear enrichment programme. Not to mention the possible impacts of an escalation in the Syrian conflict, the resurgence of Al Qaeda in Iraq, war between Sudan and South Sudan, revolution (again) in North Africa and continued Islamic/Christian tension in Nigeria…

And irrespective of what happens to oil supplies, world oil demand will continue to grow. Don't be fooled by headlines around China's slowing economy – after all, moving from 8% to 6% growth is still growth and means an economy the size of Greece is still being created every 6 months. Not far behind, we have the other "slowing economies" of Brazil and India (who will only grow at 4%), whilst parts of sub-Saharan Africa and South East Asia will actually outstrip China, with GDP growth in excess of 10%. All of this points to increased consumption of all forms of energy and arguably this is something that we should not be too gloomy about. After all, if the above countries are buying more energy, you can bet they are also buying a lot more of everything else, which tends to benefit the developed world. So expect the West to be in full economic recovery mode by the middle of the year and this too will put upward pressure on oil prices. Oh and expect the bankers to get big bonuses for helping us all through the recent turmoil…

To conclude then, 2014 will experience a continuation of the market conditions that shaped 2013. Supply side tensions should ease as new and old oil finds its way (back) onto world markets, but there will remain many pressures keeping oil prices buoyant. In short, more supply but also more demand and a supply chain that remains fragile at best. Who wants to bet against the oil price again ending the year at $110 barrel…?

For more pricing information, see page 26

Portland Fuel Price Protection
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