



Portland market report

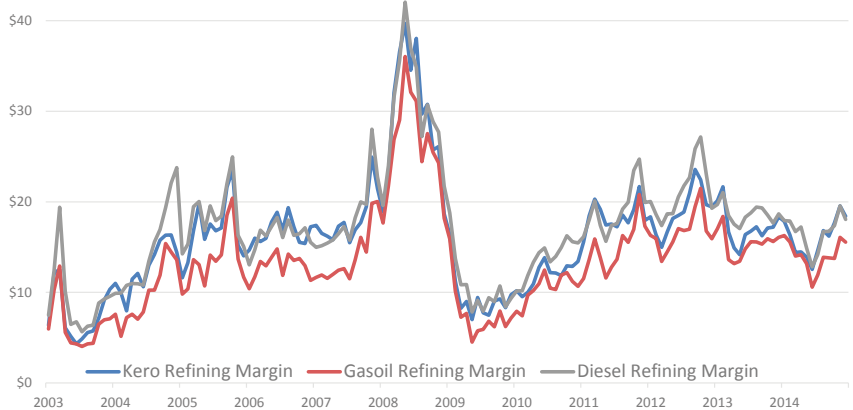
January update

Predictions, predictions, predictions! 2015 is here and the normal Portland report at this time of year focuses on where the oil markets will go for the next 12 months. But is anyone really interested?! Let's not forget that in November, Portland performed a spectacular Mea culpa by publicly acknowledging the worst industry prediction since Tony Hayward declared that "he was looking forward to getting his life back" post Deep Water Horizon. As we all know, we predicted a "fairly stable year for oil prices" in 2014, only to see them crash by circa 50% in the second half of the year!! Now of course, we could point out the previous 5 years, where we got things pretty well bang on. But as every punter knows, the tipster is only as good as his last prediction so if it's OK, we will probably give the whole forecast thing a bit of wide berth this year...

And yet the predictions from elsewhere keep coming – mainly because the public love to hear/read/ see them. At the beginning of November, BNP Paribas confidently predicted that oil prices would probably be back at the \$95 level by Christmas (they were below \$60). Also in November, the IEA indicated that oil production would increase in 2015, but then came back in December suggesting that actually it might decrease. And if you read the Barclays' oil market reports, then you'll know that they pretty well come up with a new 2015 price prediction every week. Crikey – you'd get an equally informed opinion from some of the regulars down the local! Quite frankly, Portland is yet to meet anyone who predicted a \$50 per barrel drop in prices, so why would we trust the experts now when they got it so wrong last year?

Of course we would have to be fair and say that there were many (including ourselves to a point – see our February 2014 report in Fuel Oil News) who said that the boom in North American shale oil must at some point put downward pressure on prices. But \$50?! In 5 months?! A halving of value (give or take) when demand for oil continued and continues to rise? No the truth is that the rout in oil prices had all the hallmarks of a speculator driven

Refinery margins on selected grades: 2003 – 2014



rush, whereby it became easier to make money through "shorting the market" (taking bets that pay out if the oil price falls), rather than spending time on any fundamental supply and demand analysis. A conspiracy theorist's dream then – the price drop though inevitable because of shale oil, was accelerated and accentuated by jettisoning rational analysis and joining the bandwagon and trading the market down. And yet funnily enough, Portland saw nothing in the social media or in the press declaring how evil the speculators were for forcing prices down!! That only happens when prices rise...

**FOR THE FIRST TIME
IN YEARS, EUROPEAN
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So what can we predict with confidence in 2015? Well two things actually. Firstly the collective heart-rate of Portland employees will return to normal by about April time and secondly, for the first time in years, European refiners may actually have a decent time of it. Have a look at the graph which shows Refinery Margins (sometimes referred to as the Refinery

"Crack") going back to 2003 (Refinery Gross Margins are defined as the difference between the sale price of refined products versus their crude source costs). As a basic rule of thumb, when Refinery Margins are below \$20 per barrel, refineries don't make money which basically means that in 8 of the last 11 years, refineries have been loss-making ventures – which is why so many have closed in the same period. But look at the "salad days" of 2008, when as we all know the world financial crisis hit and crude oil prices plummeted. Refinery Margins were superb at this point as raw materials were cheap but refined prices were slow to follow suit. So if there is to be one winner from the recent downward adjustment in the crude oil price, it will be the refiners and looking at the last 11 years, who could begrudge them a bit of new year happiness...



For more pricing information, see page 26

Portland Fuel Price Protection
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