PORTLAND MARKET REPORT

November update

British fuel consumers found themselves in a perfect storm when it came to oil prices in the month of October. First there was the news that OPEC were going to cut oil production and this caused markets to swerve strongly upwards. At the beginning of September, the price of oil was $45. By the end of that month, it had risen to $49 and at the point of writing this report, it had gone up again to the $52 mark. On its own that would have been enough to push fuel prices up by about 3 pence per litre (ppl), but the concurrent haemorrhaging in the value of the £ GDP meant that this was only half the story.

As this report has pointed out so many times in the past, the consumer fuel price is only partly affected by the price in $ per barrel. Yes oil prices have moved up since the summer, but they have only gone up by 15%, whereas the £ / $ exchange rate has moved by circa 25% over the same period. And because this currency shift has been at the expense of the £ GBP, this has pushed UK fuel prices up by a much greater factor than would ordinarily result from movements in the $ oil price alone. Take a look at the $ price of diesel at the mid-point of October and we can see it was trading at circa $480 / tonne (the oil markets are never straight-forward of-course, with crude being traded in barrels and refined products being traded in tonnes!). At a pre-Brexit exchange rate of 1.55, this would give a price of 101ppl (including duty and VAT). But use the actual 1.22 exchange rate that we are now experiencing post-Brexit and we now have a price of 109.50ppl. That's an incredible 8.50ppl uplift on the price of diesel due to the exchange rate, which when added to the 3ppl oil price movement, gives a total increase to the consumer of 12ppl.

Britain of course is not the only country to experience the pain of a rapidly falling exchange rate. Take a look at Canada and see how the "Loonie" (gotta love the official / unofficial name for the Canadian Dollar) tanked against the US dollar in the aftermath of the oil price crash of 2014. As a commodity economy, Canada has always been exposed to falling oil prices and at one point in 2015, the Loonie had fallen in value by more than 35% against the $ US when compared to its value in 2014. This meant the Loonie went from being worth 94% of the $ US (almost parity) to 68% (nothing like parity) and the effect on Canadian fuel prices was of an even greater magnitude than what we have recently seen in the UK. By 2015, Canadian refined fuel prices were on average 20 cents per litre (about 12ppl) higher than they would have been had the Loonie stayed at 2014 levels.

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But – and this is the key point – this large upward adjustment in Canadian fuel prices was completely disguised by the massive (70%) drops in the underlying oil price that were being experienced at the same time. So whilst we talk about a 20 cents per litre uplift in price due to currency movements, in reality Canada experienced an actual drop in fuel prices of circa 30 cents per litre. No matter that, that should actually have been a drop of 50 cents per litre if the exchange rate had stayed put – who cares when you are paying 30 cents per litre less for your fuel? An extra 20 cents per litre would seem almost greedy and how can you worry about a price "rise" which isn't a price rise at all, because you have more money in your pocket?!

Cross back over the North Atlantic and fast forward to October 2016 and we have a Britain that is definitely not in this position. The 2014 fall in oil price has been experienced and enjoyed thank you very much, but now the underlying oil price is creeping back up and worse, the £ GBP is slamming down. Which means the "artificial" price uplift that was experienced in Canada is not artificial at all in the UK and in fact, is a very real price rise for British consumers. Couple that with the fact that Britain imports the majority of its food… and white goods…and building materials… and clothes…and vehicles (etc, etc) and you have the perfect ingredients for the 2017 inflationary spike that is now so worrying the Bank of England.

Looking at the situation in the short-term, it is very difficult to see how the current trends will reverse. Until Article 50 is triggered by the Government and formal negotiations begin for the UK to leave the European Union, there seems no credible scenario where the £ GBP will recover some of its lost value. As we know, the date for Article 50 has been notionally set for the end of March, but with UK politicians grappling with the magnitude of Brexit, who would confidently bet against that date slipping back? And whilst we have short-term inaction, we will have a continued deterioration in the value of the £ GBP and with it, the related pence per litre increases in the price of fuel (and other consumables). And all of this, before we even take into account what our OPEC friends do or do not decide at their forthcoming November meeting.

For more pricing information, see page 26

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