



PORTLAND MARKET REPORT

AUGUST
IN VIEW

THE ABSENCE OF THE USUAL AUGUST HOLIDAY SEASON IS MASSIVELY IMPACTING JET FUEL DEMAND

Normally, at this time of the year, we put together a holiday-themed report that discusses how oil and energy are crucial even whilst on vacation. In 2017, we talked about how all the really critical holiday equipment (bucket and spades, sun-cream, wetsuits) were derived from oil and how Mr Whippy Ice Creams were only soft because of the petroleum gelatine they contained.

In the following year, our summer report reported on the potential Armageddon situation of a no-beer holiday, as a shortage of CO₂ (yes, you read that correctly!) was curtailing the sale of fizzy drinks. Then, last year, we stretched things a little too far by considering what it would take to holiday on the moon which was largely a load of nonsense, but still managed to point out that a trip to the moon (and back), would consume somewhere in the region of 7m litres of a kerosene, hydrogen and liquid oxygen mix.

NO INDUSTRY HAS REALLY EXPERIENCED MORE PAIN THAN AVIATION

So, for this year's holiday report...oh, hold-on, there hasn't really been a holiday season other than staycations. Or, possibly, the new international adventure vacation game known as "arrive in a foreign country and then pack your bags as quickly as possible before rushing back home in a mass exodus to try and beat quarantine rules". Ouch! And double-ouch if you happen to be in the aviation sector for, however much hotels, restaurants and the wider leisure sector have suffered due to the impact of Covid-19, the reality is that no industry has really experienced more pain than aviation.

As things stand, around 35% of the world's 25,000 aircraft are currently parked up, which is, at least, an improvement on

the situation in April, when 65% were out of action. The International Air Transport Association (IATA) has estimated that airline passenger revenues will drop by \$314bn in 2020 (a 55% decline compared to 2019), whilst flagship carriers, such as Lufthansa, have posted eye-watering losses in the billions (€2.12bn in Q1 alone for Lufthansa). Full-year passenger demand for the year is expected to be down 48% compared to 2019, whilst in Q2 that figure was more like 80% down versus Q2 2019. In the Asia-Pacific region figures are even more stark with passenger numbers in May 20 being over 90% lower than in the same month of the previous year.

The impact of all of this on jet fuel (kerosene) demand has been predictably traumatic. In the UK, official figures are only available for Q1 which, considering that January and February were largely normal operational months, still showed a 17% volume reduction versus Q4 of 2019. That alone was the second largest contraction in volume on record, only coming behind Q4 2001, which followed the September 11th terrorist attacks. At Heathrow airport, which supplies a staggering 55% of all UK jet fuel, Portland's man on the ground tells us that daily throughputs are way down and have sometimes been as low as 5m litres per day. That may still sound like a lot, but not if you consider that, in 2019, daily Heathrow throughput averaged an astounding 22.5m litres! This would indicate that the likely drop in jet fuel demand for the UK in Q2 of this year will easily be in excess of 50%. Finally, it is predicted that average jet fuel demand globally will decrease by 3m barrels per day (bpd) for the year, against a total figure for all grades (Inc. jet) of 6m bpd. This only highlights how much jet fuel demand has disproportionately suffered versus other grades of fuel.

For refinery schedulers and planners, this is the stuff of nightmares. Remember that refineries can't just stop producing one product (e.g. jet fuel) if they want to carry on producing another (e.g. diesel). Obviously, total throughputs are down across the board but catering for a reduction in demand for jet fuel that is twice that of other grades is nigh on

impossible. Despite units sometimes operating at 50% capacity, refineries are still producing too much kerosene and, without available storage options, the only real alternative available has been to downgrade the fuel (by blending it into lower value grades), or even hope that other refiners can take the product as feedstock (instead of crude). Inevitably though, in a world where demand has been so comprehensively walloped all round, these opportunities are limited, and jet fuel producers can do little more than count up their mounting losses.

FOR REFINERY SCHEDULERS AND PLANNERS, THIS IS THE STUFF OF NIGHTMARES

Of course, the impact of all of this on prices won't have gone unnoticed by most readers of Fuel Oil News, as the glut of aviation fuel has pushed wholesale prices of domestic kerosene down to unheard of levels. Less than 10pppl at the "height" of the Covid lockdown and, unlike jet fuel (where buyers are few and far between), at least domestic customers have had the good sense to fill up whilst prices are cheap. That might have knock-on demand effects for the autumn and, possibly, the early winter, but at least it has kept happy those fuel distributors, who have had to stay at home over the summer.

For more pricing
information,
see page 26

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