PORTLAND MARKET REPORT

APRIL IN VIEW

A SOBERING LOOK AT WHAT LIES BEHIND THE HEADLINES

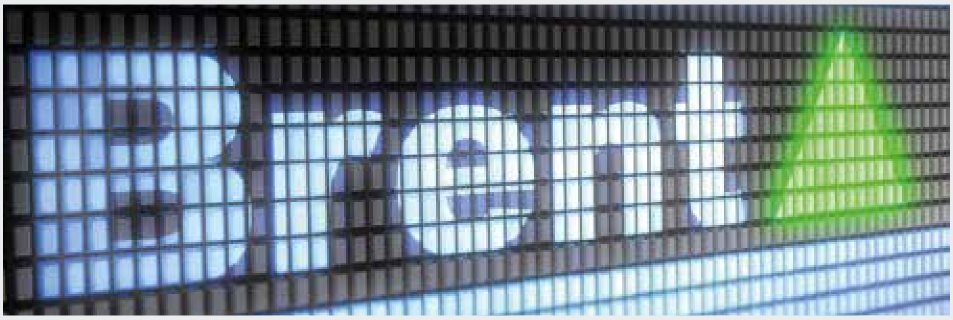
Nothing that is currently happening in the commercial world can ever be compared to the appalling events that continue to unfold in Ukraine. However, this report exists to observe the trials and tribulations of oil and energy markets and the pandemonium experienced since 1st March – across all commodity sectors – is, quite frankly, incomparable to anything that has gone before.

Operating in such a commercial environment is not for the faint-hearted. Providing fixed prices when markets are moving at breakneck speed has been (euphemism alert) “challenging”. Delivering diesel when every loading point in the country has either been on allocation (a form of supply rationing) or overrun by eco-protesters has required “patience”. And manufacturing AdBlue when over 40% of the required raw material (Automotive Urea) comes from Ukraine and Russia, has necessitated “new and inventive ways of working”.

“ONGOING SEISMIC MOVEMENTS IN THE OIL PRICE.”

Such is our world at the moment, but even in the light of these formidable day to day pressures, the real focus remains on the ongoing seismic movements in the oil price. Prior to the 1st March of this year, the biggest historical upward movement in the diesel price was 4.30 pence per litre (ppl) on 16th September 2019 (this after Saudi oil facilities were attacked by Iranian “sponsored” drones). Since the Ukrainian invasion, this hitherto record has now been broken 7 times(!) and the new biggest single day rise (8th March) sits at 8.87ppl!

Conversely, the biggest single diesel price drop in history was (minus) 5.39ppl on 26th November 2021. This coincided with the World Health Organisation announcing the discovery of the new Omicron COVID variant and was, actually, a good indicator as to just how febrile oil markets had become by the end of 2021 and prior to the Ukrainian invasion. Even so, since March 1st, this record historical drop has also been broken – twice – and the new record (10th



March) sits at minus 11.62ppl!

Even when not breaking records, “normal” daily price movements have still been wild, with price volatility (up and down) at unprecedented levels. The average daily movement in the diesel price over the last 5 years (up to 28th Feb 2022) was $7.44 per tonne or 0.46ppl. This means that from 2017 – 2022, prices moved (up or down) by around half a penny a litre per day – a level of volatility that most buyers and sellers got used to living with. Since March 1st of this year, the new average daily movement has been $57.04 per tonne or 3.59ppl – that’s a level of volatility that most market players (big or small) struggle to deal with.

Sadly, for UK consumers, the price volatility experienced on global markets is only part of the story as British buyers are also hit when product shortages affect the UK supply chain. For those readers who still prefer to maintain that fuel suppliers, petrol stations and witch doctors are all currently conspiring to profiteer from the Ukrainian situation, consider this stand-out fact. In the last week of February, the UK imported over 350m litres of diesel from Russia, which was around 25% of total UK diesel consumption. Two weeks later, the UK imported precisely zero litres from Russia and, whilst Britain’s fuel supply-chain is famously, and justifiably, quick to adjust to shortages, no level of flexibility and innovation can fill a 350ml hole in 2 weeks. So the UK is short of diesel, oil terminals are rationing availability and the price has risen accordingly.

Finally, we have AdBlue which is no longer an environmental ‘nice to have’, but an essential part of transmitting power in all Euro 6 diesel engines. In short, when a modern diesel engine has no AdBlue, it won’t run. This is now a fairly major concern when you consider how much Prilled Automotive Urea (the raw material that goes into making AdBlue) previously came from Russia and (you’ve guessed it) Ukraine. Furthermore, as a fertiliser bi-product – another industry dominated by Russian and Ukrainian production and now also facing dire shortages – prices have rocketed. 12 months ago, urea was trading at around $500 per tonne. Now it trades at $1,600 per tonne and bulk AdBlue prices have correspondingly soared from around 20ppl to over 60ppl.

“PRICE VOLATILITY AT UNPRECEDENTED LEVELS.”

These are the real-world examples that lie behind headlines predicting rampant inflation over the next 12 months and it is difficult to see how things will improve anytime soon. Even if the Ukrainian war was to end today, it seems highly unlikely that sanctions will be dropped, which means high prices, supply-chain delays and operational challenges are here for a while yet. Our fuel system is currently stretched to the limit and whilst the industry will find solutions – it always does – they will not be straightforward and nor will they be consumer friendly.

For more pricing information, see page 26

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