Fuel price outlook

Portland Pricing provides a range of online toolkits designed to monitor and reduce fuel spend. General manager Mike Johnson offers its predictions of fuel price movements as of late July 2022

Geopolitical instability across Europe caused the price of Brent crude, the primary crude oil benchmark for European markets, to skyrocket during the first half of 2022, as sanctions imposed against Russia following its invasion of Ukraine limit exports of oil and refined products, reducing the level of supply available to consumers across Europe.

At the start of February in the weeks leading up to the invasion, Brent was trading around $90 per barrel (bbl); four weeks later prices had peaked at $130/bbl on 8 March 2022. In terms of the impact this had on commercial fuel prices in the UK, the national average price of delivered-in diesel, that is the cost of a full 36,000-litre artic load delivered into site, rose from around 90 pence per litre (ppl) in January 2021, to circa 160ppl in March 2022.

Brent crude prices remained volatile throughout Q2, albeit not quite reaching March's highs, trading between $100 and $120/bbl. The cost of UK diesel continued to rise until late June, peaking at 165ppl. However, recent weeks have seen prices decline, with Brent crude falling below $110/bbl and UK diesel sitting around 145ppl, primarily because of concerns of global recession, combined with increasing COVID cases in China which may impact demand.

Looking ahead, there are two key factors likely to affect oil markets for the remainder of the year: the ongoing imbalance between worldwide supply and demand, and geopolitical instability.

Worldwide oil demand recovery following the easing of COVID lockdown measures has outpaced increasing oil production, leading to a supply deficit that has been affecting global markets since mid-2021 and continues to this day. OPEC+, the cartel of oil-producing nations which controls over 70% of total crude oil reserves and accounts for circa 30% of total crude oil production worldwide, has been consistently underproducing, as it struggles to return to pre-pandemic levels of production.

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To address this, OPEC+ introduced targets to increase production since August 2021. However, many OPEC+ members have already reached capacity, meaning they will be unable to increase output despite the revised targets, indicating the imbalance is set to continue.

Furthermore, the ongoing supply and demand imbalance has been compounded by a chronic undersupply of natural gas from Russia, which even before the invasion of Ukraine had restricted supply flows to the West by up to one third, causing a spike in natural gas prices. Gas-reliant industry responded to this by seeking cheaper sources of energy – that is, oil – driving up oil demand and exacerbating supply shortages. Provided that gas power remains more expensive than equivalent oil power, demand for crude oil will continue to rise.

It is clear geopolitical uncertainty will also remain key to market development over the coming months. Current global oil supply disruptions as a result of geopolitical conflict are estimated to be in the region of 5-6m barrels per day (circa 5-6% of total demand).

Markets will thus have to reorientate and find new suppliers from further afield to fill the gaps. Ramping up supply from the likes of North America and the Middle East increases the length of the supply chain and, in consequence, makes it more expensive to import product – these increased costs are inevitably reflected in price.

Finally, from a UK market perspective, the performance of GBP against USD will be key to the price that end-users pay for refined product in the UK. At the start of the year, GBP was trading around $1.35 – at the time of writing, this has declined to $1.20, a fall of 15 cents. Based on current wholesale diesel prices in USD/metric tonne, a 15-cent negative exchange rate movement equates to an increase of circa 10 ppl to UK buyers. TE

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