Portland Analytics

Excerpt from Bespoke Fuel Market Report
April 2022

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The following text is an excerpt from a report produced in April 2022 by Portland Analytics Ltd, on behalf of an advisory client to help shape budgetary and procurement strategy. The brief was to provide context behind price volatility following the outbreak of conflict in Ukraine in February 2022, and the subsequent state of the fuel supply landscape in the UK. Section one of the report (below) provides an overview of factors affecting global oil markets and the impact on UK commercial fuel prices.

Further sections of the report, not included below, covered prevailing trends in the UK market, specifically disruptions to supply chain due to the conflict in Ukraine and the impact this had on both product availability and price (including dislocation between contract/spot markets and changes to industry price mechanisms). The report also considered the longer term impacts of UK fuel legislation, encompassing both the progression of carbon reduction legislation and changes to fuel excise duty.

Portland Analytics Ltd is a specialist fuel and energy consultancy that provides a range of technical and specialist advisory services to businesses and government organisations across the UK, Europe and the Americas. Our work includes; extensive reviews of contract documentation, development of fuel procurement strategies, producing fuel supply chain/market reports, formula price assessments, fully managed tender processes and carbon reduction assessments.

For further information on Portland Analytics and the services we offer, please visit https://portlandanalytics.co.uk/ or contact us at:

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1. Market Commentary

1.1. Overview

Recent geopolitical instability across Europe has caused the price of Brent crude, the primary crude oil benchmark for European markets, to skyrocket, 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.

To demonstrate the effect this has had on price, at the start of February in the weeks leading up to the invasion, Brent crude was trading around $90/bbl – four weeks later prices had peaked at $130/bbl on 8th March 2022. However, other factors have been causing a steady increase in oil prices longer-term, since the effects of COVID-19 began to wane.

1.2. Supply vs Demand

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

To address this, OPEC+ introduced targets to increase production by 400,000 barrels per day (bpd) each month since August 2021, although compliance with these targets has generally been poor. Following pressure from major consumptive nations, led by the United States, to release more supply, the monthly increase will rise modestly to 432,000 bpd from May 2022. However, the International Energy Agency (IEA) now estimates the supply deficit to be greater than 1.5m bpd, 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 1/3, causing a spike in natural gas prices. Gas reliant industry responded to this by seeking cheaper sources of energy, i.e. oil, driving up oil demand and exacerbating supply shortages. Providing gas power remains more expensive than equivalent oil power, demand for crude oil will continue to rise.

1.3. Geopolitical Factors

It is clear geopolitical uncertainty will remain the crux of 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 bpd (c. 5-6% of total demand), whilst Russian sanctions have placed the European fuel market at an historic crossroads, particularly as it seeks to wean itself from what has been a dominant source for oil and natural gas.

Markets will thus have to reorientate and find new suppliers from further afield to fill the gaps. By increasing supply from the likes of North America and the Middle East, it 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. Changes in supply chain will also cause prolonged market instability, increasing the likelihood of sustained volatility.

1.4. Impact on UK Price

In terms of the impact of this has had on commercial fuel prices in the UK, the national average price of delivered-in diesel i.e. the cost of a full 36,000 litre artic load delivered into site, has risen from around 90 pence per litre (ppl) in January 2021, to a high of c. 160 ppl in March 2022. Despite a slight drop off in oil prices in early April 2022, the cost of diesel has remained relatively high due to a weaker GBP/USD exchange rate as a result of high inflation – as oil and refined products are traded in USD, a weaker GBP results in higher prices for the UK market.

The following graph shows the movement in both Brent crude (left axis) and UK delivered-in diesel (right axis), since January 2021.

End of excerpt.