Oil Market Report – April 2011

The oil market stabilised somewhat in April – not difficult after the dizzy heights of March. Excluding duty and vat, diesel started the month at 54.05 pence per litre (ppl). It then rose to a high for the month of 55.26 ppl on the 11th April and then fell back, so that by the end of the month it was 54.02 ppl; exactly 0.03ppl lower than on the 1st April. This small retraction in prices may herald further drops in May (as the recent mini price bubble bursts), but such a small movement downwards was hardly what the world was hoping for. One reason for this was the aftermath of Japan's horrific earthquake and tsunami.

At the time of the event, most market commentary was focused around the soaring value of the Japanese Yen. Japanese insurance companies rapidly sought to cover their expected insurance claims in the aftermath of the earthquake and bought up huge amounts of their own currency. Such massive demand (outstripping demand for other currencies many times over) forced the Yen up to record levels, which at a time when Japan could little afford it, damaged exports significantly, as the cost of buying Japanese goods rocketed.

From an energy perspective, the markets were initially unmoved by the impact of the natural disaster. Analysts pointed to an inevitable slowing of the Japanese economy and a wider delayed impact on the world economy as Japan's "just in time" manufacturing model was badly damaged. However by April, oil market observers were adjusting their forecasts, as the scale of Japan's rebuilding work became clear. Energy requirements would indeed soar over the next 3 – 5 years. In fact they would be significantly higher than in the last 10 years, when Japan had been suffering from a long-term recessionary position. Indeed, the short-term prognosis for oil demand in Japan is now most aggressive. With 25% of their electrical capacity knocked-out by the earthquake, the very core of Japanese energy needs (power, electricity and heat) will be met by oil and other related power generating grades, eg, Natural Gas and Liquid Petroleum Gas. This has major implications for world oil demand because Japan, like Germany (her sister manufacturing powerhouse in Europe), produces no oil whatsoever and is 100% reliant on imports. And to cap it all, the soaring power of the Yen has allowed the big Japanese oil importers to dominate the markets and get hold of oil cargoes at relative (to them) low prices.

So all in all, a confused month. Initial fears of economic downturn as a result of the earthquake, were quickly scotched by realisations that the world's 3rd biggest economy was actually going to significantly increase economic activity. In addition, a prolonged status quo in Libya looks increasingly likely and the rest of the Middle East hardly looks settled. However, those whose desire above all else is lower fuel prices, should take some comfort from Europe's continuing economic woes. Portugal's flamboyant Jose Socrates was forced to stand down as Prime Minister, following his Parliament's refusal to ratify proposed austerity measures. The result was a third European country (after Greece and Ireland) going to the EU stability fund and IMF for a bail out. As each domino falls, the spectre of structural economic breakdown in the EU grows ever bigger. The debt "can" is being booted further and further down the street with each bail-out, but the can is not being picked up and disposed of properly. Instead, the solution to existing debt is the creation of greater debt and that poses a big threat to the EU's (and UK's) economic recovery.