

# Oil Market Report – May 2010

Oil prices began to take a real hammering at the start of May and by the middle of the month, Diesel and Gasoil had fallen by over 3ppl in the space of 8 working days. The flight from the oil market really showed the deep concerns that analysts, traders and investors have with regard to the state of the EU economy. Greece provided the catalyst for some serious soul-searching and the fear is that the perilous economic state of southern Europe, represents the “thin end of the wedge”.

So while Asian demand may continue unabated and US demand slowly picks up, there is no getting away from the size and power of the European economy. If this stutters, so will oil demand. For the moment, Greek finances have been shored up by the €90bn loan (and €500bn guarantee) agreed with EU Finance Ministers. But wary analysts are pointing to the fact that this is a temporary fix and that the Greek (and EU debt crisis) has not actually gone away. In fact, Greece has simply taken on greater debt. The first chunks of the debt will need to be repaid in 2013 and in terms of the structural overhaul required within the Greek economy, 3 years is not a great deal of time.

The outcome of this Euro turmoil has been a significant drop in oil prices and an equally dramatic fall in the value of the Euro. This has taken the £ down with it, despite the £'s supposed “safe-haven” status. It seems we are closer to Europe than we would sometimes like to think! So with the £ now trading at around \$1.45, drops in oil price have not been as dramatic in pence per litre as they might have been. We even have the potentially crazy situation of oil prices falling in \$, but the pence per litre rising, because the exchange rate is falling at a quicker pace!

Finally Evjafjallajokull, the Icelandic volcano, continues to periodically ground aviation fleets. With it, the flow of aviation fuel is interrupted and this continues to cause havoc on European refinery schedules, which are now in full jet fuel production mode. A summer of regular aviation groundings would indeed suppress prices, as refinery capacity at this time of the year has no other significant outlet for their fuel.

