Oil Market Report – July 2010

As June sizzled into July and England flopped in South Africa, the oil price slide continued. On 17th June, Rotterdam diesel prices hit a mini-peak of 97.47ppl (including duty) and then promptly fell away, so that by mid-July, diesel was touching the 93.50ppl mark. The price drops in the UK were accelerated by the continuing strengthening of the pound and in some cases, $ rises in oil prices still generated drops in the ppl price. For example, petrol prices on the 15th July modestly increased by $1 per tonne, but with the exchange rate significantly up on the same day (0.0096 points to 1.5266), UK petrol prices went down by 0.17ppl. Once again, it looks like we are set to get more oil for our £.

So why the increases in the pound's value (up to £1.57 / $ by the end of July)? Portland does not make political observations, but so far the planned austerity measures of the new Coalition Government have been well-received by the international markets. The ability to implement austerity measures and a track record of implementing them in the past, count heavily in the UK's favour. In addition, banks and monetary organisations (eg, International Monetary Fund, World Bank) view the UK's ability to effectively collect public revenue (taxes) in a positive light. So for example, the planned UK VAT increase in January 2011 will generate virtually 100% of the expected extra revenue. This compares favourably to previous VAT rises in certain EU countries, where as little as 60% of expected revenues have been collected. This is because rather than pay the new VAT rates, local businesses and trade have quickly slipped into the black market arena, where there are no taxes to pay and no way for the national government to collect the extra money.

So for the moment, there is a cautious welcome to the UK's planned economic measures. However, the sentiment will quickly evaporate if the proposed programme hampers the fledgling recovery of the economy. Most analysts see this as the UK and Europe's biggest threat. No serious commentator believes that private companies can fill the gap of the public sector and with up to 60% of the workforce reliant on public money in parts of the UK and Europe, there is much to be economically pessimistic about. Spending cuts will not just affect directly employed public workers, but also the thousands of private companies working on public sector contracts in IT, Health-Care, Construction, PR, Transport, Waste etc. So this is now the next favourite topic for analysts – will the cuts bring on a "double-dip" recession? As long as that argument rages, Portland sees oil prices staying uncertain, perhaps ticking slowly up, but nothing too dramatic. Until signs of strong and sustained growth are clearly visible, then consumers should be protected from big fuel price rises. But their businesses may continue to suffer in the meantime.