Portland Energy Market Report: January 2025

It's the start of another year and as is now tradition, this report will focus on the last 12 months and how oil markets have progressed in that period. We will also take a look at how accurate our predictions were at this time last year and of course, how our "rivals" (ha-ha) in the banking world fared with their own forecasts for 2024 oil prices.

Our headline prediction in Jan '24 was for oil prices to "trend sideways and stay in the $70-$80 per barrel mark". Arguably this was a bold forecast, considering the geo-political "premium" at the time, with both the Ukraine and Gazan wars showing little (if any) sign of abatement. But as our recent report on China highlighted, such was the ongoing weakness of Chinese oil demand, that prices were not under pressure and in fact, the oil market was increasingly heading towards over-supply.

And so it came to pass! The price on 2nd Jan 2024 (ie, the first working day of the year) was $75.89 per barrel and on the last working day of the year (31st Dec 2024), the price had fallen by only around $1 to $74.64! Of course as 2024 progressed, there was some movements beyond this tiny range, with the Q2 average hitting $85.05, before heading south again to an average of $78.67 in Q3 and $74.01 in Q4. Overall the average for the year was $79.84 per barrel and most notable of all was the fact that the trading range of crude oil (ie, the price high to the price low) stayed within its narrowest band in over 20 years.

Our prediction then, whilst not quite as accurate as we have been in previous years, was nonetheless broadly correct (for the 10th year in a row and the 14th time in the last 15 years). If we don't pat ourselves too strongly on the back (a solid 7 out of 10 maybe?), we can still console ourselves with the fact that as usual, we fared much better than the "experts" in the banking world. 12 months ago, Barclays predicted that oil prices for the first quarter would average $91 per barrel and would end the year at a Q4 average of $94 per barrel. Deutsche Bank had the Q4 average at $88, whilst JP Morgan and Morgan Stanley plumbed for $85. Other than Portland, the only other banking forecast that we know of, which seemed to call things correctly was from the Australian bank Macquarie, who predicted a year-end price of $74 and an overall average of $78.

Turning our attention to 2025, it's fair to say that the markets have started the year red-hot, going up by $6 per barrel (to $81) in the first week of January! In Britain, this has been exacerbated by the tumbling value of the pound, which has resulted in the pence per litre (ppl) price going up by almost 5.50ppl in the same period. Excluding duty, VAT and retail margin, that's not far off a 12% rise in the raw price of diesel in the space of a week! The main reason behind this sudden price rise was the tightening of US sanctions on Russian oil, specifically focussing on the Russian "Dark Fleet" (we reported on this subject back in July 2023; https://portland-fuel.com/en/market-reports/oil-market-report-07-23/). This resulted in the immediate mid-sea anchoring (ie, stopping before arriving at the port of discharge) of around 65 crude oil tankers around the world, which roughly speaking equates to a supply interruption of around 10m barrels of oil. This is easily enough to temporarily send prices northwards, but is not what you would call a "fundamental" factor (affecting oil prices) and as such, Portland expects this jump in prices to be short-lived.

In both 2023 and 2024, most major financial institutions got their predictions wrong because the narrative of continuous growth (where banks and investors tend to do better) lends itself to bullish markets (ie, oil prices going up). But the truth in 2023 and 2024 was that a broadly weakening global economy and lower prices were fairly predictable based on the available data. Looking forward into 2025, not too much seems to have changed. With the exception of President Trump supporters, there are few people in the world going into this year with fulsome confidence in the economy. The main driver of global economic growth is still China and on the back of a troublesome 2024, the country's economic outlook for 2025 is probably even worse with the prospect of US tariffs on Chinese goods.

Whether these tariffs end up helping or hindering the US economy is currently a fierce academic debate, but there seems little doubt that they will be detrimental to international trade. And at the same time that the global economy weakens, the flood-gates for US oil and gas production will be opened, further compounding the over-supply situation. On that basis, it seems likely that once again we will have a flat-lining or a lowering of the oil price in 2025. One word of warning however and that is that supply and demand economics play-out in "slow-time", whereas crises in oil producing regions tend to have immediate impacts. Therefore, whilst the general direction of travel for prices might be downwards this year, any number of geo-political flare-ups (Ukraine, Iran, Syria, Taiwan) have the potential to generate short-term spikes in the oil price.