

Oil Market Report: March 2018

It's fair to say that most winters in Britain are not long enough or cold enough to generate true happiness within the heating oil fraternity. Every now and then however, you get a winter that just keeps giving! It starts early, is properly cold and goes on...and on. 2017 / 18 has been one such winter.

Prior to this year, the last really cold winter that the UK experienced was 2011 / 12. Since then, heating oil suppliers have been crying into their Kerosene over the mild winters that have followed. If we look at Sheffield (being as it is, very roughly in the middle of the UK), the average temperature between November 2011 and March 2012 was 3.98 deg C. For the next 4 years, average temperatures for the same period were almost 3 degrees higher, with 2015 / 16 recording not one single month where the temperature fell below zero - a kind of heating oil nadir! Which is why 2017 / 18, with an average Nov - Mar (to date) temperature of 4.2 deg C has had the heating oil gang hauling their hoses with joy. Forget snow-induced traffic chaos and irate customers - just think of the volumes!

And this winter has not just been a boon for the UK. This has been a cold winter across the Northern Hemisphere and of course by comparison, the heating oil markets of mainland Europe and North America dwarf the UK's tiny sector. Over 20m houses in mainland Europe are reliant on heating oil, consuming in excess of 30bn litres per annum and supplied by over 12,000 fuel distributors. In countries such as Belgium (33%), Germany (28%) and Austria (25%), significant portions of the housing stock are reliant on heating oil as their primary source of heat. "Across the pond", the figures are smaller but still fairly huge. In the New England area, 20% of households rely on heating oil and annual consumption is around 12bn litres. This compared to the UK's 3bn litres per annum.

Accurate final consumption figures for the winter of 2017 / 18 are not yet published, but most estimates put the global uplift in heating oil volumes at around the 5% mark. This increase has not only played a significant part in keeping oil prices buoyant, but also directly affects consumers - whether or not they use heating oil. From a refining perspective, the global heating oil grade is Gasoil (in the UK and Japan it is Kerosene), which is effectively the same grade as Road Diesel but is cheaper to manufacture. Therefore an uplift in heating oil demand squeezes diesel production and / or pushes diesel prices higher, which of course directly impacts those driving diesel cars, but also everyone else who rely on food and consumer goods delivered by diesel powered trucks.

The fact that this year's cold weather has been so kind to the heating oilers around the world will no doubt buoy the mood as they head for their annual shindigs at the end of the heating season (see last year's [April 2017](#) report). But the more thoughtful amongst them will no doubt be aware of the storm clouds that are gathering around the industry, both locally and globally. In America, although 5.7m homes are still heated by oil, that's still 3m less than it was 10 years ago. In Europe, heating oil bans have been implemented in Nordic Countries, whilst under the EU Eco Design and Energy Regulations, non-condensing oil boilers have been banned from sale since 2015. This of course is a sensible environmental measure, but one that nonetheless dramatically reduces oil consumption per household, as new efficient boilers consume far less fuel for the same amount of generated heat. The UK is not immune to this shifting landscape either. Alongside the continued encroachment of heating oil territory by the Natural Gas Grid, the newly produced Government Code for Sustainable Homes means that few (if any?) new houses will be fitted with oil fired boilers. Furthermore, the current long-term thinking from the Government on heating oil - as articulated in its Clean Growth Strategy - makes for dismal reading for those in the business. At best, the policies currently being discussed seem to envisage heating oil existing only as a back-up for newly installed renewable energy generation.

So pretty well across the board, the world of heating oil is under pressure. And unlike other grades of fuel (eg, Gasoline) which have experienced declining consumption in the West, only to be rescued by increased consumption in the booming East, this is almost certainly not going to happen with heating oil. Japan it is true, still consumes a healthy 14bn litres per annum, but the modernising of building stock and boiler efficiency - as elsewhere - has ensured that this figure is 50% less than it was 10 years ago. And whereas China has been the saviour of many a commodity over recent times, the Government there has indicated their preference to transition households - the vast majority of which are coal heated - directly to gas or electric heating and skipping oil in its entirety.

More doom and gloom for the oilers then? Probably not. This is a sector that has evolved over the years from delivering coal in sacks, to oil in road tankers (via telemetry ordering systems to boot). It has adapted to market conditions in the past and will no doubt continue to do so. And if circa 70bn litres of global heating oil per annum (that's about 3m road tanker loads BTW) is in decline, it's still easily a big enough volume to shape the direction of oil markets for many years to come. Plus of course, there's this winter to consider..."Waiter...Champagne please....!"