

Price of petrol decreased again. When will it be seen at petrol stations?

During the past three weeks the wholesale price of unleaded petrol depreciated by approximately 0.40 PLN per litre. When will these changes be reflected in retail prices of this fuel? It will mainly depend on the competitiveness between petrol stations. A comment from Marcin Lipka, Cinkciarz.pl currency analyst.

There was a unique commotion on the market of oil and its products in the past months. The reasons for depreciation in the prices of this raw material, are most of all a result of a struggle for holding the market between the OPEC countries, and other producers. The United States are also among the latter. Thanks to the slate revolution, this country increased extraction by 50 percent during the past three years.

Despite a strong decrease in the price of Brent oil, the global cost of petrol itself has decreased relatively slowly. It is mostly the result of a higher than expected demand for petrol in the USA. Additionally, breaks at some oil refineries were longer than planned. As a result, relatively high demand and limited demand, caused the margins on fuels to be unnaturally high in the past months.

In the case of the national market, quotations are also disturbed by changes on currencies. The wear off of the zloty has caused petrol to be more expensive for the Polish consumer than it would have been from the nominal changes in prices. It is because of this that Poland takes less advantage of the depreciations on the global market.

However, this analysis emphasizes the dependency between the price of fuel on the European market ARA 95 spot (Amsterdam/ Rotterdam/ Antwerp, basic indicator of the price of PB 95 in Europe) and the costs of PB 95 in the national wholesale, along with excise and fuel surcharge. Data is based on information published by the Lotos company. Polish retail prices come from weekly reports made by the European Commission.

Petrol and oil prices over the last 10 years on the Polish zloty



The bottom chart presents the price for barrel of the Brent oil (purple line) in PLN. The price of ARA 95 spot petrol in PLN per tone (yellow line). The wholesale price of the petrol with after taxes and duty fee according to Lotos for 1000 litres (white line). A average price of the unleaded petrol on the retail market for 1000 litres according to the European Commission in PLN (green line)

Source: Bloomberg, Lotos, European Commission. Own calculations.

However, it is much easier to analyse this data when normalized to the value of 100, instead of in particular units. It allows for easier observation of percentage changes. Thus, we select the beginning of 2014, when every component was relatively stable. It will be easier to notice, how the prices of fuel behaved in relation to the changes on the market of Brent oil, ARA fuels and national wholesale.

Normalized chart of the oil price and its derivative products until January 1, 2014.



Normalized chart of the Brent oil price in PLN (purple line). The 95 ARA spot petrol in PLN (yellow line), the wholesale price of the unleaded petrol according to the data of the European Commission in PLN. The European Commission didn't update the data during Christmas and around the New Year's Eve. The latest update was on December 15.

Source: Bloomber, Lotos, European Commission. Own calculations.

From the beginning of 2014 until January 13th 2015, the price of Brent oil decreased by 48.5%. ARA 95, also expressed in the Polish currency, decreased by 43%. This is a result of the above mentioned refinery margins.

Also, when looking at the national market and ARA, changes in the first mentioned are significantly milder. It is due to the fact that the tax included in the wholesale price makes 50% of its value. However, even this does not explain the slow depreciation of fuel's value in the breakthrough of December 2014 and January 2015. The depreciation of ARA by more than 15% converted only to a 3% decrease in price of the national wholesale. However, it is worth noting that later increases were much less sudden.

What is also worth noting, is that the Lotos company practically did not react to a strong increase in price of ARA 95 in July. Thus, it did not convert to the wholesale market, and the drivers did not feel this change. However, it was probably a result of the short term disturbance in demand in Europe, because the price of petrol in the world was practically unchanged in this period.

But the drivers are most interested in retail prices. By the end of 2014, the consumers were right, thinking that the price of petrol is unnaturally high. Since October 10th until December 15th, the price of ARA 95 petrol expressed in PLN, decreased by 37%. In the same period, the wholesale price of PB 95 decreased by 20%.

On the other hand, according to the data of the European Commission, the average price of petrol decreased by only 7%. However, considering the previous dependencies it should depreciate by at least 15%. The later increase in retail price was on the other hand significantly slower than an increase in the wholesale price.

It is clearly visible in the period from mid January to mid March. It is also worth noting that at the end of the first quarter, the wholesale market did not react to the clear decrease in ARA. It was definitely more focused on quotations of Brent oil, which was on a stable level.

Very good prognoses for drivers

On 27th of August the wholesale price of 95 petrol was 3.39 PLN per litre. It included 1.54 PLN of excise, and 0.129 PLN of fuel surcharge. When adding a standard retail margin worth 0.20 PLN and VAT to the wholesale price, the result is 4.42 PLN. It is approximately 0.40 PLN more than the current average price of unleaded petrol. Considering that the price of Brent expressed in PLN is below the minimums from January, and the fact that ARA has also been at its minimums since the beginning of the year, it is possible to see a decrease by 0.10 PLN already in the following days.

As a result, the target decrease is likely to amount to 0.50 PLN per litre in comparison to the current average retail price. Thus, it is interesting how quickly this difference will convert to the drivers' expenses. Probably in a perspective of a week or two, positive changes can be felt by the customers of petrol stations by the supermarkets, and in places of strong price competition. However, in many cases it will be necessary to pay much more for a longer time. This means that a loss on buying 50 litres of petrol, can even be 25 PLN.

High prices at some petrol stations are not only a Polish problem. A wide discussion regarding this topic took place in the United Kingdom. It was at the beginning of the year, when lower wholesale prices were not converting to the lower cost of fuel. As a result, it was necessary for the prime minister and secretary of the treasury to intervene. Quoted by The Telegraph, the British Prime Minister David Cameron said that the prices of petrol should decrease faster. Secretary of the Treasury George Osborne, said that “certain actions” regarding the petrol companies will be undertaken.

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The company is also amongst Bloomberg data and analysis suppliers. Cinkciarz.pl EUR/PLN forecasts have been awarded first place in the world for four consecutive quarters in Bloomberg's rank Best EMEA Currency Forecasters Q3 2013 and the first place for the CZK/EUR and ZAR/USD forecasts for the first three quarters of 2014. The forecasts of Cinkciarz.pl's analysts for the currency pair CZK/EUR have also been awarded the first place in the world for 2015 Q1.

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