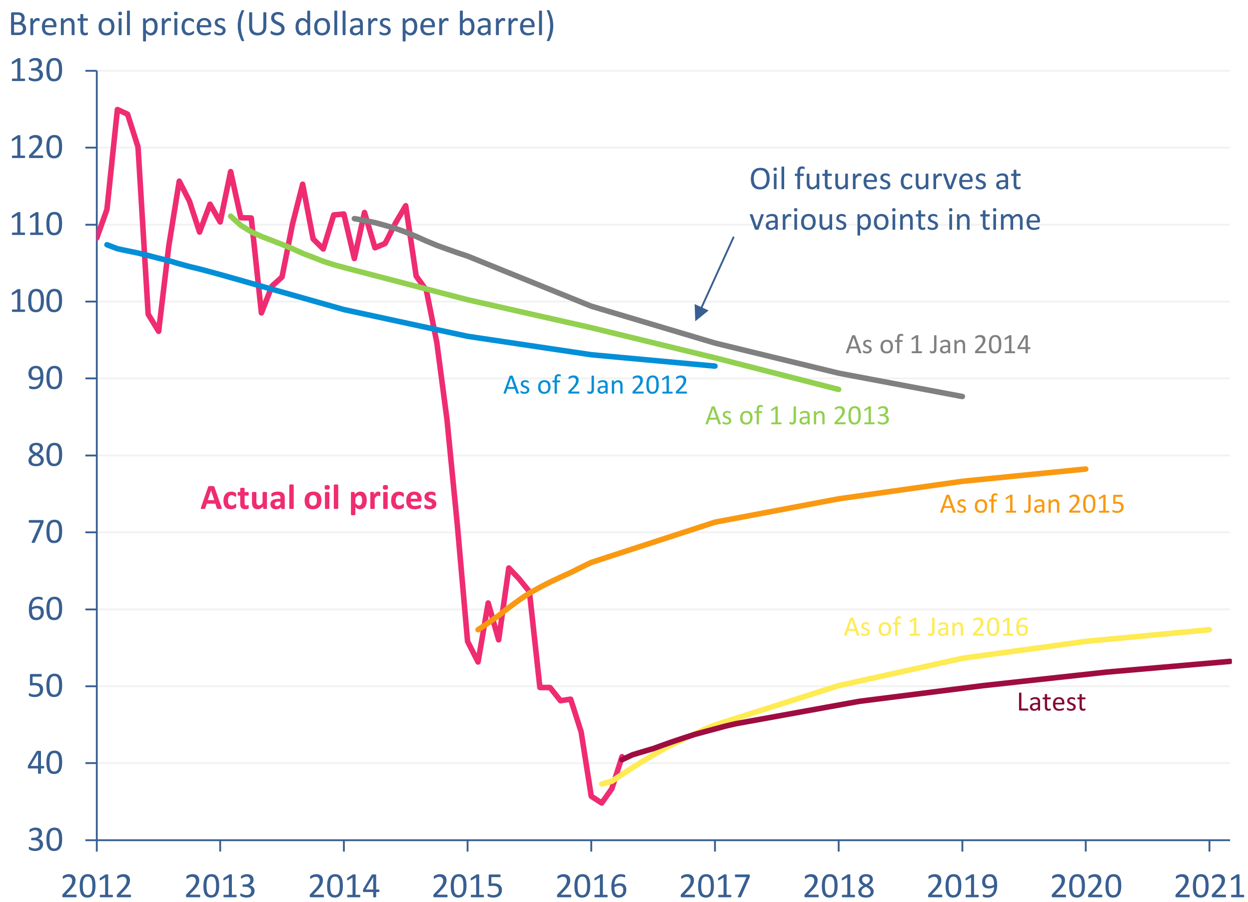
IATA ECONOMICS' CHART OF THE WEEK

24 MARCH 2016

OIL PRICES LOWER FOR LONGER, BUT IT'S NOT ALL GOOD NEWS FOR AIRLINES



Sources: IATA Economics, Thomson Reuters Datastream

- The future price of oil is, of course, highly uncertain. As this week's chart shows, market expectations (as measured by the forward curve) are influenced heavily by the *current* oil price, and can change significantly over time. Indeed, even though oil prices have rallied in recent weeks, the latest market expectations are for oil to remain below $50/bbl until early 2019 – a downgrade of one-third relative to what the market was expecting at the start of last year.
- Given that fuel is such a large cost for airlines, low oil prices are generally considered a boon for industry profitability. Indeed, while hedging practices differ between airlines, lower fuel prices eventually feed through into lower unit costs.
- However, the reality is not unequivocal, particularly as intense competition in the industry means that cost savings tend to be fully passed on to consumers in the form of lower fares over time. Moreover, as we have highlighted in a previous *Chart of the Week*, the knock-on impacts of low oil and commodity prices on energy-exporting countries can pose other significant risks to airlines too. These include trouble repatriating blocked funds as well as by causing governments to further increase taxes on aviation to plug revenue shortfalls.

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