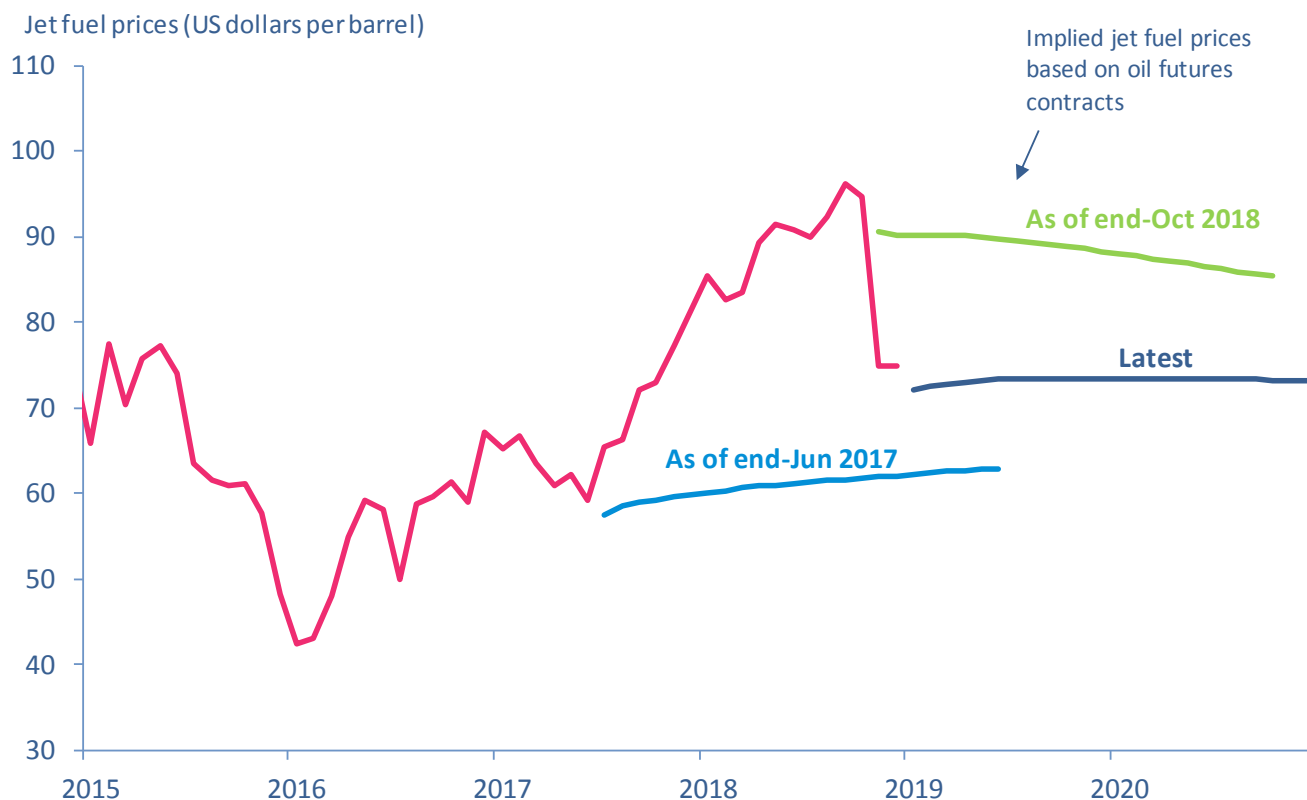




IATA ECONOMICS' CHART OF THE WEEK

7 DECEMBER 2018

WHAT TO MAKE OF RECENT OIL AND JET FUEL PRICE MOVEMENTS?



Sources: Platts, Thomson Reuters Datastream

- Oil and jet fuel prices have trended upwards in recent years, as rising tight-oil output in the US has been more than offset by supply cuts elsewhere. The latter reflects both deliberate cuts on the part of Opec and Russia, as well as an unexpected drop-off in supply from Venezuela. Having bottomed out at around US\$42/bbl in early-2016, jet fuel prices more than doubled to a 4-year high above \$96 in September 2018.
- More recently, however, the oil market has been shaken out of its seemingly one-way trend. A combination of heightened uncertainty about the demand outlook – reflecting signs of a moderate softening in the global economic backdrop – as well as a higher supply from Saudi Arabia and Russia in response to pressure from the US, have seen concerns shift towards *oversupply* in the market. The oil price has fallen by more than 30% since early-October.
- Looking ahead, there are competing pressures on the outlook for oil prices. Opec today agreed to cut oil production by 1.2 million barrels per day to help to restore balance in the market, which has seen oil prices jump by 5% this afternoon. But any cuts should be seen alongside ongoing changes in market dynamics: indeed, in an illustration of this, the US became a net *exporter* of oil last week for the first time on record.
- While the futures market can be an unreliable predictor of price developments, it is currently pointing to oil prices remaining broadly flat over the next two years or so and well below where it was just a few months ago. If proven correct, this would result in the 2019 fuel bill for the air transport industry being around US\$12-15 billion lower than was looking likely at the end of October. Our full view of the industry outlook including an updated financial forecast will be released next week.

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