

## Box: Oil and petrol market scenario

Icelandic oil companies tend to review their petrol and oil prices at the end of each month. Changes in the exchange rate and prices on the world market are therefore transmitted relatively quickly into domestic retail prices. Recently, petrol prices have risen considerably, approximately 30% since mid-March. Crude oil prices have gone up by much less over the same period, or 15%. As a rule, crude oil prices have led those for petrol. Changes in production volume by the OPEC countries are therefore a major determinant of petrol price changes. Recently, however, petrol prices appear to have led those for crude oil, suggesting that change in demand is the source of the fluctuations. The seasonal increase in petrol sales during summer probably plays some part, while production problems at refineries can also be expected to have an impact on prices. The difference between prices of crude oil and refined fuels has also risen in recent months; refineries appear to have been increasing their margins. Recent price increases seem to have been prompted by mostly short-term factors. If so their impact is likely to be levelled out in the second half of the year.

At the end of April petrol prices were 10% higher than a year ago, shortly before they rose by one-third until the end of June 2000. The average price during the first four months of the year, however, was virtually unchanged from a year ago. If petrol prices begin their seasonal climb in spring, further rises can be expected in the weeks to come. It should be borne in mind, how-

ever, that the seasonal upswing began unusually early this year, and correspondingly may end earlier too. Since strong demand for petrol is pushing up crude oil prices, OPEC is just as likely not to recommend the production cuts which had been expected in June. An IEA Agency forecast from April assumes that petrol prices this summer will be little changed from a year ago. Furthermore, prices are expected to rise at the start of the summer, then fall for the rest of the year.

Based on forward prices, petrol prices in Q3 and Q4 will be about one-quarter lower than the April spot price. In recent weeks, forward prices have risen much more slowly than spot prices, by 6% and 30% respectively. The market therefore seems to view the current rises as temporary.

