

## Box 5

**RECENT DEVELOPMENTS IN OIL AND PETROL PRICES**

Since mid-August crude oil prices have declined significantly, with the price of Brent crude oil falling from above USD 78 to below USD 60 per barrel by the end of October. This decline has been accompanied by a fall in oil-related energy prices at the consumer level. However, although crude oil prices are a major factor driving consumer oil-energy prices, it appears that

falls in the refining margin have also had a significant impact in recent months. This box provides further background to these developments.<sup>1</sup>

Crude oil prices have retreated significantly in recent months from the all-time high reached in early August and are now approximately 25% lower than the August peak (see Chart A). The decline in petrol prices has been even stronger, decreasing by approximately 35% over the same period. As a result, the difference between the price of Brent crude oil and that of petrol (the refining margin) declined significantly from a level of around USD 20 per barrel in early-August to close to zero in mid-October (see Chart B). The narrowing of the spread reflects primarily an easing of recent petrol market tightness in the United States, which has allowed petrol prices to fall more rapidly than crude prices. As indicated in the box last year (see footnote 1), significant developments in the US market can impact on global prices. Some key factors behind the recent decline in petrol prices were a relatively benign tropical storm season in the Gulf of Mexico and a smooth transition to new product specifications (e.g. ethanol-blended products) in the United States, which enabled the US driving season – a period of traditionally strong demand for petrol – to end without major refining disruptions. Moreover, unusually high petrol inventories for this time of the year in the United States contributed to additional downward pressure on petrol prices. The decline in the refining margin contrasts particularly with the situation that prevailed in August and September 2005, when damages to the energy infrastructure in the Gulf of Mexico following hurricanes Katrina and Rita pushed up refined petrol prices and led to a strong increase in the difference between crude oil and petrol prices.

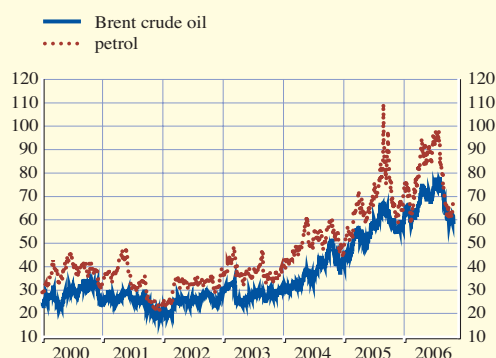
On average over the period 2004-06, fluctuations in the refining margin have been generally more volatile than in the earlier period since 1990. As a result, movements in the refining margin have had an important bearing on developments in oil-related energy prices<sup>2</sup> at the consumer level in the euro area (see Chart C). This may be seen most clearly in September

1 For a previous discussion of the relationship between the prices of crude oil and petrol, see the box entitled “Recent oil and petrol price developments” in the October 2005 issue of the Monthly Bulletin.

2 Oil-related energy prices refer to HICP liquid fuels and fuels and lubricants for personal transport equipment.

**Chart A Oil prices**

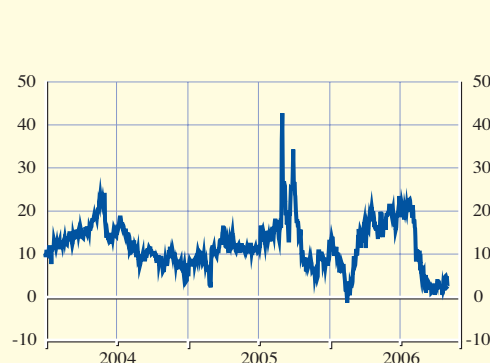
(USD/barrel; daily data)



Source: Bloomberg.  
 Note: The figure shows the price of Brent crude oil traded at the Intercontinental Exchange and unleaded petrol traded at the New York Mercantile Exchange, delivered free on board in New York Harbour. The latest value refers to 31 October 2006.

**Chart B Spread between petrol and Brent crude oil prices**

(USD/barrel; daily data)



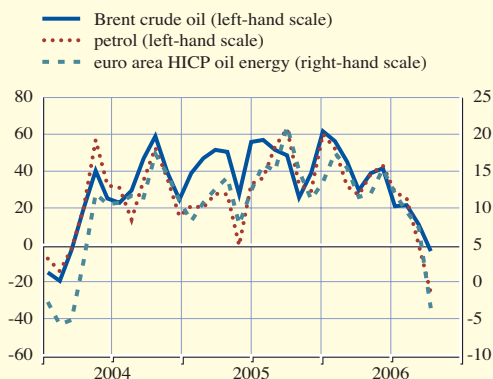
Source: Bloomberg.  
 Note: The figure shows the spread between the price of Brent crude oil traded at the Intercontinental Exchange and unleaded petrol traded at the New York Mercantile Exchange, delivered free on board in New York Harbour. The latest value refers to 31 October 2006.

2005, when the annual rate of change in crude oil prices declined, whereas the annual rates of change in petrol and HICP oil energy rose. Similarly, in September 2006, the annual rates of change in petrol and HICP oil energy declined more sharply than that of crude oil.

Considering the forward-looking implications, it should be noted that, when viewed over a longer time perspective, the current gap between petrol and crude oil prices appears relatively low. Since 1990 the average difference between petrol and crude oil prices has been USD 7.7. Considering only the period since the beginning of 2004, the average difference has been higher, at USD 12.2. Since it cannot be ruled out that the level of this margin, which is currently low, may increase, this would imply a risk of possible upward pressure on oil-related energy prices at the consumer level.

Chart C Oil and consumer oil energy prices

(annual percentage changes; monthly data)



Sources: Bloomberg, Eurostat and ECB calculations.  
Note: The figure shows the price of Brent crude oil traded at the Intercontinental Exchange and unleaded petrol traded at the New York Mercantile Exchange, delivered free on board in New York Harbour; both in euro terms. Euro area HICP oil energy refers to HICP liquid fuels and fuels and lubricants for personal transport equipment.