Kalibrate

REPORT

2023 Canadian fuel forecast

Reviewing a volatile year and looking ahead

Contents

2022 year in review

Before we preview 2023, we should investigate what happened to fuel markets in 2022. In 2022 consumers experienced new volatility that resulted from the loss of refining capacity in the previous two years. When compared to 2022, oil was trading at similar levels during 2014, yet fuel unleaded gasoline and diesel fuel were retailing at substantially lower levels.

In 2022 the impact of global events began to noticeably impact prices in the North American market including Canada. At the start of the year, there was the Ukrainian and Russian war, followed by continued Covid-19 shutdowns in China, then wildfires on the western US coast which all resulted in pressured prices beyond the standard impacts from seasonality and refinery scheduled maintenance this past year.

Ukraine – Russia War

Although the Russian and Ukrainian war has contributed minor loss of crude supply, there has been reluctant purchases of refined products and crude from Russia and an overall redistribution of the crude supply chain across the globe. Globally, crude prices are continuing to be higher than would be expected if Russian crude was able to continue pre-war trade lines. This has also increased the desire and cost-effectiveness for European countries to import products produced in North America.

2022 year in review

As a result, the North American market increased support for refined products by sending the European market volumes larger than previously recorded. In H1 2022, US exports to the EU were up 11 percent for all refined products with distillate products seeing a 19 percent rise in exports to the EU. With this the North American market began to lose their additional excess supply, minimizing the market tolerance to other market events.

Loss of Refining Capacity

The market has become increasingly volatile in North America progressively prone to reacting to global events as opposed to predominantly North American events. Globally there has been a total of over 4.5 million barrels of refining capacity lost over the last two years, excluding potential loses for the removal of Russian products from the market, with only 0.5 million being lost in North America. Canadians must adapt to being an increasingly large portion of the global market.

Global production of refined fuels is approximately 100 million barrels daily. Based on those numbers the global refining complex lost roughly four percent of its capacity over the last two years. With North America only losing two percent of our refining capacity, North Americans are relatively better supplied than any of our global counterparts. North Americans have to acknowledge their place in the global market as one of the haves who will have to support the have-nots in times of need.

2022 year in review

Refinery Strike in France

During the months of September to November of 2022 French refinery workers went on strike. This work action created a ripple in diesel pricing that was felt in North America. A small subsequent strike in the Netherlands at a single refinery in Rotterdam had a limited effect on global markets. These events highlight that North American retail prices can be impacted by events around the globe.

This strike action contributed to North American decoupling from gasoline prices and move independently from gasoline and oil markets. As gasoline prices declined in H2 2022, diesel prices rose and remained higher for the remainder of the year.

California Wildfires and Refinery Shutdowns

During the summer season refinery shutdowns for scheduled or unscheduled maintenance, in part due to the adjoining wildfire season in California, led to prices rising to new heights across all markets. Consequently, the West Coast of Canada and the U.S. experienced record high prices during the summer season. In the rest of North America as a result of lost refining capacity, increased exports and a return to demand, gasoline prices rose relative to the low to reasonable crude prices.

Along with the loss of spare capacity in the larger global refining complex and increased exports of refined products, particularly for diesel fuel, consumers saw dramatic rises in gasoline prices and sustained increases in diesel prices.

2022 year in review

Rising Oil Prices

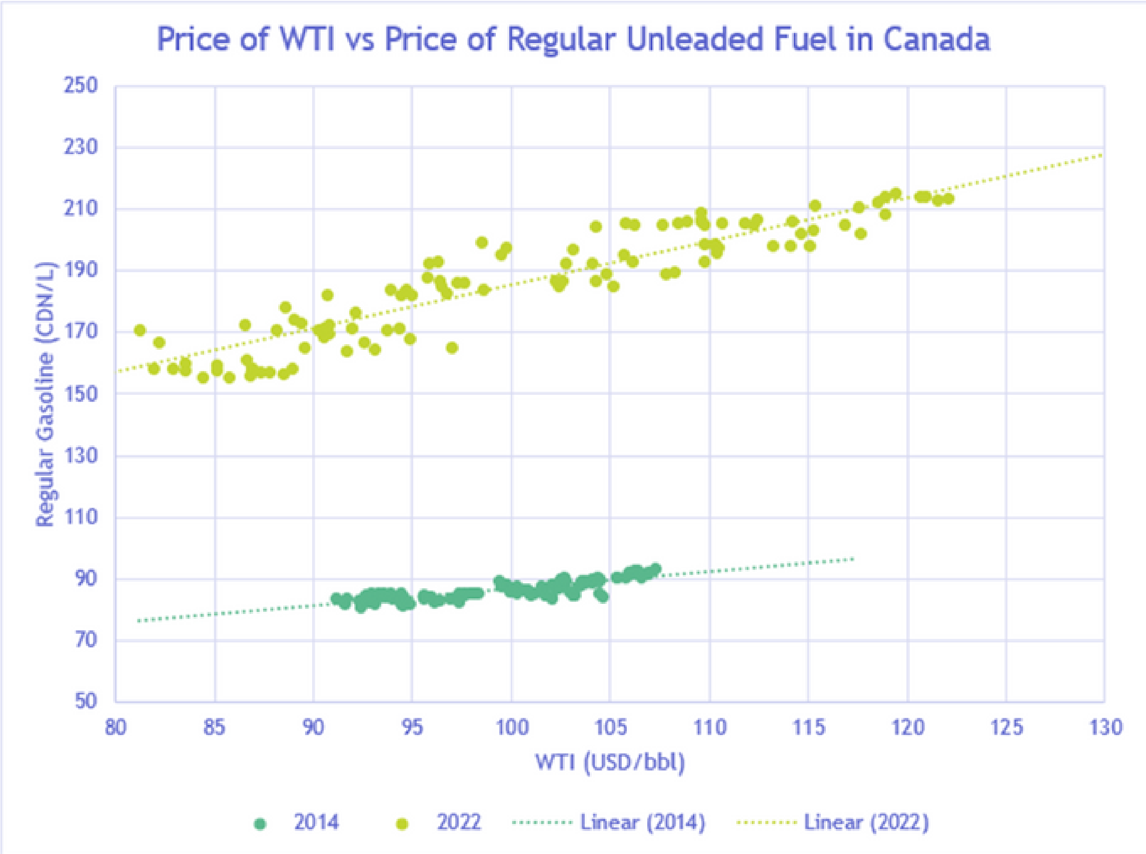

Figure 1 - WTI versus Retail fuel Prices in Canada

Figure 1 shows that in comparison to 2014, when crude prices for West Texas Intermediate (WTI) through the summer season were similar, 2022 retail prices have risen.

Not only have prices risen but they have become more volatile, causing for an increased spread from a straight-line trend through the data. The loss of refining capacity has pushed prices higher and made them more reactive to supply side stimulus. It is not expected that in 2023, supply will be added to the North American or global refining complexes.

2022 year in review

It should be expected that as we move forward in 2023 that this pattern of increased volatility and higher prices will continue. It is expected that in February 2023 the European Union and many of the G7 countries will discontinue direct imports of Russian refined products.

This refusal to purchase refined product from Russia could result in an additional half a million barrels a day being directly removed from the North American supply market. This loss of supply to the market will be equivalent to the worst supply outages during the 2022 when wildfire and refinery turnaround season pressured prices to records, and this is without the refinery shutdowns and turnaround or overall refining market upsets experienced in 2022.

Post-Pandemic Recovery

In an attempt to buoy global economies during the pandemic, many governments, particularly from Western countries, introduced stimulus packages. This injection of additional capital into global economies led to a dramatic rise in inflation in 2022. The spare capital allowed many citizens to increase their buying power before global supply chains had fully adjusted to the modern reality driving prices for many goods and services higher.

2022 year in review

In addition, during the pandemic many global economies also lowered interest rates to near record low levels to help their economies as they restarted in 2021. These low interest rates and additional capital available to companies and individuals did help restart many global economies by early 2022.

In an attempt to reign in inflation H2, 2022 marked a return to higher interest rates. Global economies have remained resilient and strong by many indicators, yet inflation is carrying forward despite the best efforts of central banks. This trend is expected to continue in a more muted fashion in 2023 until all economic metrics stabilize, though possibly leading to a recession in late 2023. Currently, crude markets are pricing in a 2023 recession; therefore, the arrival of a recession is not expected to have a dramatic negative impact on crude prices.

As we look at the impact of interest rates and inflation on the North American market, it is expected that a recession will be experienced in 2023. At this time, it is expected Americans to United States will continue to raise interest rates in H2 2023 and this could increase the impact of the recession of the North American economy. This will be a common theme around the globe; although it is not expected that the slowdown of global economies will exceed the impact of the re-emergence of China. As such any loss to global fuel supply is expected to have an upwards price force in all markets, including North America.

2022 year in review

China

While global economies restarted, China instituted and strictly enforced their Covid-Zero policy that led to a stagnating economy in 2022. Refined product demand and travel remained at pandemic levels throughout the year. In December of 2022, China did begin to loosen their covid policies which did lead to increased demand. However, recovery has been muted to date in metrics but not optimism as China joins the post-pandemic world.

Strategic Petroleum Reserves

To combat OPEC+ production cuts designed to buoy market prices, the United States released large volumes of their crude and refined fuel reserves in an attempt to stay any price increases. As a result, fuel and crude inventories are at below average levels and will need to be replenished.

In late 2022 the first round of bids to refill strategic crude reserves were taken; however, an announcement in early 2023 stated that none of the offered prices were deemed acceptable.
These continued low levels will increase market volatility and limit opportunities for the United States government to match the levels of intervention offered in 2022.

2023 - the year ahead

In 2023, it is expected that several themes will dominate the market such as the continuing war in Russia and the economic steps being taken to impact that conflict, the impending recession, the recovery of the Chinese economy, limited capacity and continued supply tightness in crude markets.

All of these factors will continue to dominate the market. With the loss of refinery capacity in the North American market over the last several years it is expected that market volatility will continue to cause consumer concern and be a common theme in the news. Those governments involved in the retail sales of refined products should expect to receive continued and enhanced scrutiny over their actions.

2023 - the year ahead

China

China's impact on refined fuel prices could be very complex. It is expected that China will continue to purchase discounted crude from Russia as they restart their economy, leaving their impact on global demand as relatively negligible. In addition, it should be expected that as China restarts, the country will increase outputs from their refining complex and increase exports to Europe providing economic stimulus. This might offset some of the impact of the losses from Russia and could ultimately drive diesel prices downwards in the first half of 2023, even if we see crude prices rise marginally.

Chinese citizens are currently grappling with the realities of existing in a world where Covid exposure is a part of daily life with many immune systems having yet to adjust. This Covid impact will diminish overtimeand the economy will begin to be able to recover fully. As such it is expected that in 2023, China will return to a positive growth pattern. While growth will be more subdued than previous years. As the Chinese economy gains strength, China is expected to recover and return to a major consumer once again.

The recovery in China is expected to be a slow and gradual restart rather than bringing about dramatic growth. With record high infection rates and increased hospitalizations in China, the overall health of citizens will take some time to accommodate two the removal of the Covid zero policy by the government. It is expected that this impact will be relatively short-lived and begin to subside near the end of Q1 allowing for return to growth for the Chinese at projected rates beginning late Q1 early Q2 of 2023.

2023 - the year ahead

Russia

In early 2023, a common market theme is expected to be the need to replace and redistribute the loss of Russian refined products across the global market. The immediate loss of Russian supply to North American refined product markets with the additional requirements on demand in the market, to support the loss in European market, is expected to result in supply tightness that is expected to be equivalent to the impact on the market as the combined negative impacts from summer of 2022. It is the expectation of our team that late in Q2 of 2023, prices will rise to at least the equivalent of peak retail prices during summer in 2022. However, any network refining network outages could lead to record-breaking prices in the summer of 2023.

Recession

It is expected that in 2023 most economies across the globe will experience a recession, including Canada. Governments across the globe instituted financial supports in a reaction to the stimulus introduced by governments during the COVID-19 pandemic. These financial supports have resulted in inflation as economies recovered.

By mid-2023, Canada is expected to be in a recession. It is quite possible that during this recessionary period that fuel prices will continue to inflate to levels that exceed those records set in the summer of 2022.

2023 - the year ahead

In mid to late 2023, diesel markets should see declining domestic demand; however, this decline in domestic demand is expected to be offset by increased European demand as part of the redistribution of the loss of Russian supply. It is not expected in 2023 there will be provided any macro market support for a substantial decrease in the price of diesel compared to the end of 2022. Diesel inventories should see a marginal build over the spring and summer seasons but going into Q4 of 2023 there is the potential of increased cold and strengthening economic outlook as the world moves out of its recession that will provide price supports which could drive diesel to record highs.

Q4 2023 should be expected to bring forth consumer concern amid the rising price of fuel and its impact on the daily lives of the public. With gasoline and diesel prices rising faster than rising crude prices, the scrutiny on retailers and refiners will likely amplify.

Refinery Capacity

Single refinery outages are now a news event worthy of analyst input. This is the new market in which retail fuel sales occur in. Supply and demand are so closely balanced that a minor upset in the entire chain causes ripples throughout North American markets. Extending so far that Canadians are feeling refinery outages in France from strikes last year. The reality of the global supply chain being paired with both refinery shutdowns and the impact of the Ukrainian and Russian war is that we can no longer ignore global events, particularly North American events, when we look at Canadian fuel prices.

2023 - the year ahead

The increased volatility and higher prices witnessed by consumers is a direct result of an increase in demand while the supply of refined fuel available is equivalent to what was available in 2014. Many refineries were shut down as a result of age and loss of economic viability in the previous two years. And exiting a recession fuel demand is expected to hit record highs.

It is not expected that anytime in the foreseeable future that capacity provided by refiners will return to the market or expand. The loss of this supply however has created a market that is increasingly reactive to any disruption in the North American supply chain. Regions immediately adjacent to those that are experiencing outages and temporary loss of capacity experience far greater and at far more dramatic price levels than historically occurred.

Incoming Legislative Changes

Canada is introducing new Clean Fuel Initiatives that will require fuel sold in Canada to abide by the Canadian regulations as of July 1, 2023. The 2023 changes are part of progressive changes to reduce the greenhouse gas emissions from fuels by 2030.

Canadian fuel prices will be increasingly impacted by agricultural events that impact overall crop yields including droughts, pests (both insect and biological), weather and global crop price due to the expectation that the majority of the additional greenhouse gas efficiency will come from blending bio-fuels.

2023 - the year ahead

Interest Rates in 2023

Even as global economies move into a recession it is not expected that interest rates will be substantially lowered to aid in any recovery efforts. The recession will likely follow its natural cycle with interest rates remaining at or near current levels.

This will result in a slower recovery out of this recession and should help reign in consumer prices and inflation as the recession is exited.

2023 - the year ahead

Pricing Expectations

It is expected that in 2023 Canadians will see a slow start to rising prices. Recession expectations and displacement of Russian supply with Chinese supply will stall markets leading into the summer. As the Chinese economy regains their footing and global economies look towards moving out of the current recession, it is expected that crude prices will rise.

Diesel markets will be the likely first mover on the refined fuels starting to rise in mid to late Q3 2023. With a forecasted rise in economic activity expected at around this time, shipping of goods will increase leading to a rise in diesel prices. Additionally the outlook for the winter could have an impact in Q4 on current prices. Being closely linked to heating oil demand the price of diesel could receive an extra boost from a colder than average outlook across North America with particular focus to the Northeastern portion where heating oils are most commonly used.

Crude prices should rise on a similar outlook increasing the price movements of diesel.

Gasoline price increases will be delayed but is also expected to rise following crude prices by approximately one month. Following the rise in diesel prices gasoline will follow a similar trend. The high prices from the summer may not pull back to the same extent that they have historically as demand begins to pick up and clean fuel restrictions keep more expensive blends of fuel being more prevalent in the overall market.

2023 - the year ahead

The West Coast is expected to continue to see the most dramatic swings, but possibly with some relief to come from the startup of the Transmountain pipeline which can deliver additional crude and refined products to the British Columbia. But relief for this high demand portion of North America is not expected to outweigh the current levels of taxation and demand in the regions. Even with additional capacity, prices will remain the highest in Canada.

Alberta, Saskatchewan and Manitoba will continue to benefit from their proximity to crude production and refinery capacity keeping prices in these regions the lowest in Canada.

Ontario and Quebec will continue at or near the Canadian average price and benefit from some close refinery capacity to a strong portion of the American refining market. Quebec prices could experience more volatility than Ontario given their reliance on international crude and shipping rates.

The Maritime provinces will be closely related to prices in PADD 1 out of the US and will be among the highest prices in Canada.
It is expected that this summer could see record high prices set in August, again with less seasonal relief to come as we move into 2024 than consumers typically see moving towards the Christmas season leaving the summer.

2023 - the year ahead

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Want to find out more?

Contact Kalibrate today to discuss your needs with our team of fuel industry experts. From fuel pricing, to location and network planning, our team are available to discuss your unique requirements and find the right solution, combining our best in class software, with our people and expertise.

Contact Kalibrate

About Kalibrate
Kalibrate's decision-making software empowers fuel and convenience retailers across the globe with the market intelligence, micro-local data, and precision pricing and planning tools they need to gain real competitive advantage. For over 25 years, Kalibrate has been the chosen decision-making partner of 300+ fuel and convenience retailers in over 70 countries. The firm is headquartered in Manchester UK, with local offices in the USA, Canada, India, China, Australia, and Japan.

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