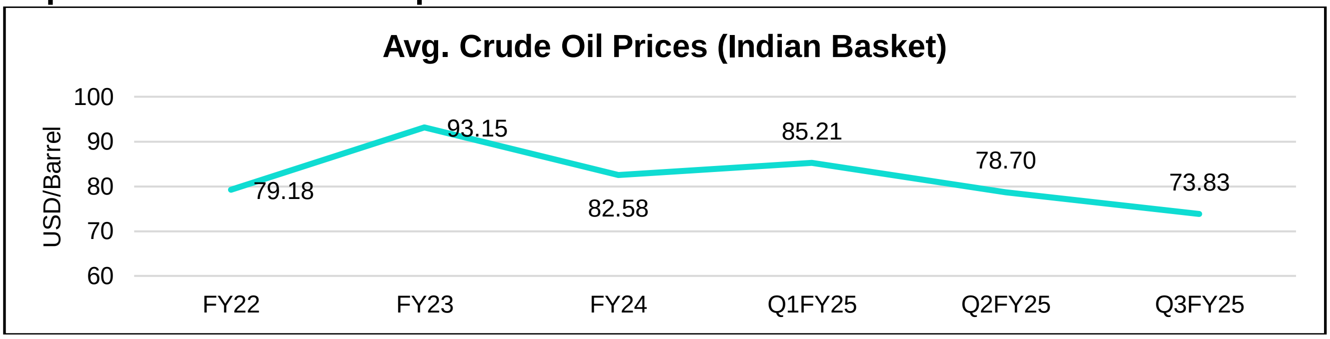
Brent crude oil prices to hover between $75-$80/bbl on an average during next 6 months

February 05, 2025 I Ratings

Synopsis

- Global crude oil prices had witnessed a sequential declining trend on a quarterly average basis post Q1FY25. Although, it went up sharply in January 2025, CareEdge Ratings expects Brent crude oil prices to hover in the range of $75-$80/bbl on an average during the next six months. This is envisaged to be primarily driven by the new US Government's stance of ramping-up its crude oil production, OPEC countries continuing to largely maintain their production levels and no major disruption in supply of Russian crude oil; while on the other hand demand growth is expected to be relatively subdued in the backdrop of a slowdown in major global economies.
- Indian Public Sector Oil Marketing Companies (OMCs) observed softening of their Gross Refining Margins (GRMs) during 9MFY25 to an average of $4.80/bbl compared to $11.75/bbl in FY24 and $17/bbl in FY23. This was mainly due to decline in discounts available on sourcing of Russian crude oil along-with reduction in product cracks especially diesel which had previously gone up sharply in the aftermath of the Russia-Ukraine war. Going forward, CareEdge Ratings expects GRMs of Indian PSU OMCs to remain in the range of $4-$6/bbl in the coming 6 months' time.
- Blended retail margins on petrol & diesel for fuel retailers have improved sharply in Q3FY25 to around Rs.9/litre on the back of decline in crude oil prices along-with moderation in GRMs of OMCs. Given our expectation that crude oil prices are unlikely to go up significantly and GRMs are also expected to remain range-bound during the next six months, we expect the blended retail margin to remain healthy in the range of Rs.7-9/litre, which provides some scope for rationalization of retail prices of petrol & diesel that have largely remained stagnant since long.

Sequential decline in crude oil prices

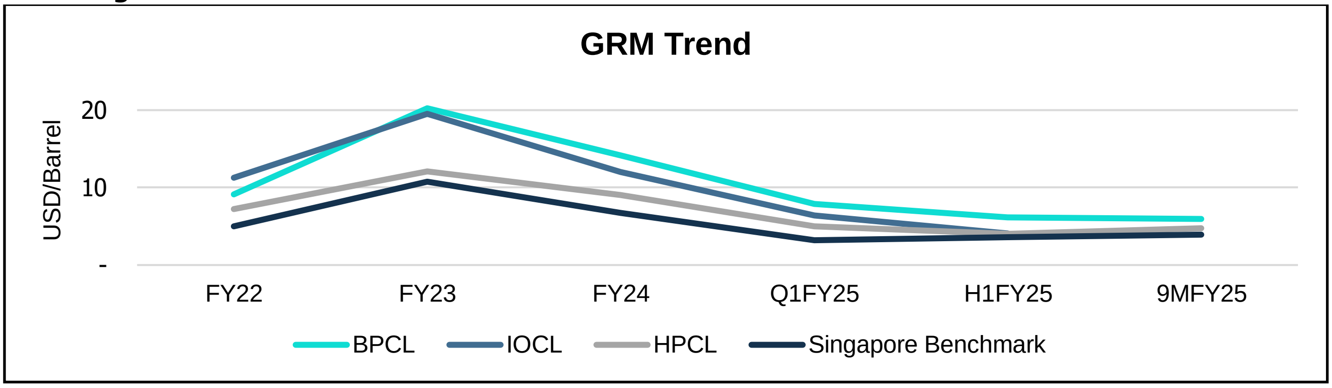


Source: PPAC

Upon the outbreak of Russia-Ukraine war from February 2022, average crude oil prices shot up in FY23. With some normalcy in its supply, the crude oil prices declined on an average in FY24; albeit it remained elevated due to a spike witnessed in its prices in the immediate aftermath of the Israel-Hamas conflict from October 2023. On the back of logistical challenges arising due to the Red sea crisis, crude oil prices again went up in Q1FY25. Thereafter, prices of crude oil have continued to witness a sequential decline in Q2FY25 and Q3FY25 on the back of slowdown in economic growth of major global economies while there was no production cut by OPEC countries. Going forward, Brent crude oil prices are expected to hover in the range of $75-$80/bbl on an average in the coming 6 months' period on the back of the new US Government's plan to ramp up its crude oil production, OPEC countries continuing to largely maintain their production levels, and no major disruption in supply of Russian crude oil – cumulatively leading to higher supplies. Concomitantly, in the backdrop of global economic slowdown and higher thrust towards

Electric Vehicles (EVs) and alternate fuels, demand for crude oil is unlikely to go up significantly which should also support our crude oil price range expectation.

Declining GRMs

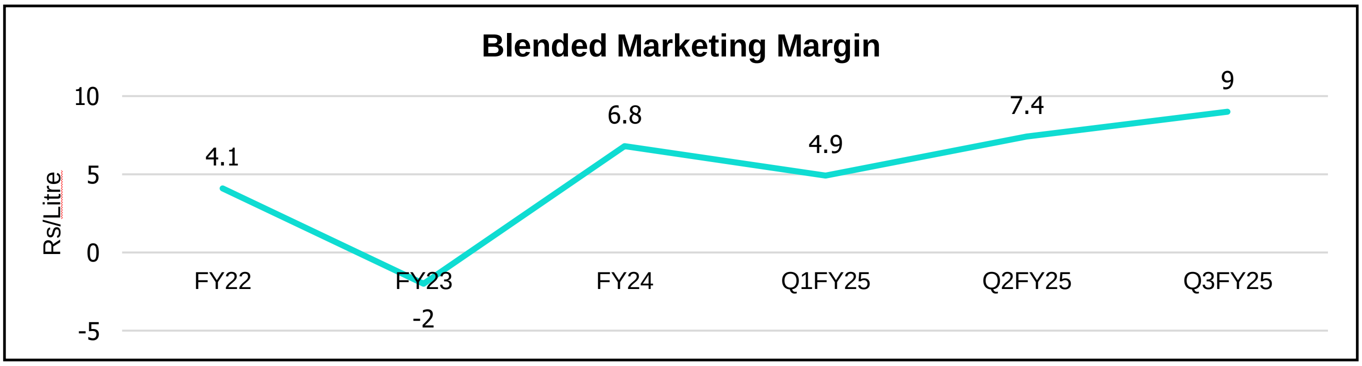


Source: Company Annual Reports, Quarterly results and CareEdge Ratings

GRMs of Indian crude oil refiners had gone up significantly in FY23 mainly due to two reasons. Firstly, share of Russian crude oil in India's total crude oil sourcing basket jumped from less than 2% in FY22 to nearly 25% in FY23 wherein there was heavy discount of around $13/bbl leading to lower cost of crude oil procurement for Indian refiners. Secondly, due to the outbreak of Russia-Ukraine war and resultant sanctions imposed on Russia, gas supply from Russia to Europe was disrupted, leading to significant increase in demand for diesel as an alternate fuel by major European countries resulting in very high diesel cracks.

GRMs of Indian refiners, however, moderated in FY24 due to decline in level of discount available on Russian crude oil from around $13/bbl in FY23 to $9/bbl in FY24 leading to higher overall cost of crude oil sourcing for Indian refiners despite the share of Russian crude oil in India's total crude sourcing increasing further to ~38% in FY24. This apart, the very high diesel cracks witnessed earlier also normalised to an extent in FY24 with gradual realignment of global energy supply chains. GRMs continued to decline through 9MFY25 due to further reduction in discounts on Russian crude oil to ~$3/bbl and reduced product cracks due to economic slowdown; albeit it witnessed a marginal uptick in Q3FY25 due to seasonal improvement in demand for certain products during winter. Going forward, with shrinking discount on Russian crude oil and modest product cracks, GRMs of Indian OMCs are expected to remain in the range of $4-$6/bbl in coming 6 months period.

Healthy retail/marketing margins on petrol & diesel



Source: CareEdge Ratings

Amidst very high GRMs in FY23, the PSU OMCs incurred losses in their retailing operations in FY23 because retail prices of petrol & diesel remained largely unchanged despite significant increase in their sourcing cost from refineries (wherein refinery gate price was high due to crude prices & high GRMs). Retailing margins of OMCs, however, improved significantly in FY24 mainly because retail prices were kept constant whereas cost of petrol and diesel declined for them due to reduction in crude oil prices and lower GRMs for refiners leading to lower refinery transfer pricing for fuel retail operations. Retailing margins, however, declined in Q1FY25 mainly due to reduction in retail prices of petrol & diesel by Rs.2/litre from March 2024, full impact of which was observed in Q1FY25. With decline in crude oil prices and reduced GRMs, profitability of retailing business significantly improved in Q2FY25 and Q3FY25 on the back of constant retail prices. Accordingly, from January 2025, some fuel retailers have started to provide discounts on retail prices for online payments or fueling during non-peak hours. Given CareEdge Ratings' expectations of stable crude oil prices and lower GRMs, retail margins of OMCs are expected to remain healthy in the range of Rs.7-9/litre if there is no cut in retail prices.

CareEdge Ratings' View

"Crude oil prices are expected to remain range bound at an average of $75-$80/bbl in coming 6 months' time essentially on the back of higher overall global crude oil production aided by increase in crude oil production by the US while there are no production cuts by OPEC and no disruption in supply of Russian crude oil. Improved retail margins of OMCs are expected to offset the impact of reduced GRMs whereby integrated players having presence in both refining & fuel retailing businesses are expected to be better-off compared to standalone refiners. Also, good retail margins in domestic market has resulted in Indian players focusing more on expanding their retail network rather than focusing on exports which was more lucrative especially during FY23," said Hardik Shah, Director at CareEdge Ratings.

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