



THE CURRENT STATE OF THE FUELS SECTOR

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In the latest in our series of trade articles, Kieron Franks, Assistant Head of Risk Underwriting, examines the current state of the fuels sector.

At the close of 2021, the oil market appeared to be on stronger footing than it had for some time. Despite global energy transitions, the impact of Covid-19, and weaker transport fuel requirements, supply and demand of the world's oil supplies are expected to experience a rise to recovery.

With a worldwide surge of Omicron variant cases particularly affecting air travel and jet fuel, the recovery that global oil demand experienced in the early months of 2021, has reduced in speed. On average, oil demand has been revised down by 110kb/d for 2021 and 2022. The [global demand for oil](#) is now expected to rise by 5.4mb/d in 2021 and by 3.3 mb/d in 2022, when it should hopefully return to pre-pandemic levels at 99.5 mb/d.

The emergency of the Omicron variant in November sparked a steep sell-off in oil, but pessimism soon gave way to a more measured response. Recovery is underway, with increased demand for road transport fuels and petrochemical feedstocks to continue into 2022, though restrictions on international travel have impacted jet fuel use.

What are the sector challenges?

Areas of the sector facing challenges in 2022 include:

- Aviation: Jet fuel demand significantly reduced due to pandemic restrictions and uncertainty for travellers
- A weaker demand for transport fuel as a result of vehicle efficiency measures
- Companies looking to balance their investments versus plans to cut emissions
- Lower demand from other end markets such as marine and industrial construction are resulting in longer recovery times and levels of activity
- Less traffic and HGV driver shortages are affecting sales for retailers such as petrol stations
- Pricing will continue to be an issue following global pricing volatility and a stronger US dollar
- Global GDP is expected to remain strong in 2022, but the recovery process is likely to be partial and uneven

Fuel retail challenges

Less traffic on the roads from the end of 2021, could see a dramatic fall in fuel sales, similar to the 40% drop in the early half of 2021. This led to intense supermarket competition on pricing, which may continue in 2022. Government initiatives to bring forward a ban on new petrol and diesel vehicles from 2035 to 2040 is expected to further impact the global fuel economy further down the line. Operators are trying to adapt with expansion of convenience stores options, and diversifying business with alternative streams from biodiesel and hydrogen.

But despite obstacles, a gradual incline to recovery is still a positive sign that 2022 onwards should eventually see the sector reach pre-pandemic levels.

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