Opec impact: Pump prices may go up if global rates rise

SUBHAYAN CHAKRABORTY
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A day after the Organization of the Petroleum Exporting Countries (Opec) and its partners, such as Russia, announced a cut in Opec+ crude oil output by 2 million barrels per day (bpd), analysts said they expect pump prices for fuel to go up soon in India.

The production cut will lead to 2 per cent of global oil supply going offline starting November. As a result, oil prices are headed for choppy waters ahead, analysts feel.

"The government had not raised retail prices of fuel for some time now, especially when retail prices in India were lower by 12-14 per litre as compared to international prices. As a result, most oil marketing companies (OMCs) posted a revenue loss in Q1 FY23. The OMCs will remove their losses before reducing prices further," Prashant Vasisht, vice-president and co-group head (corporate ratings) at rating agency ICRA, said.

He said the adverse base effect to inflation which began since August might also allow the government to raise the pump prices. This view was supported by others.

"The government, including Petroleum and Natural Gas Minister Hardeep Singh Puri, has repeatedly stressed that OMC's need more time to recover from the losses they made earlier when global prices were high. We get a sense that pump prices are primed to go up," a senior economist from ratings agency Ind-Ra said.

Last month, Puri had said that most developed nations had witnessed significant rise in gasoline prices by almost 40 per cent in the year to August 2022. Meanwhile, India saw a 2 per cent decline due to government support. He had, however, added that a continuous rise in global prices would also force the government's hand.

However, others argued that while higher prices might ultimately lead to higher pump prices, the government would take its time before implementing the same. There is usually a three-month lag between OPEC production changes and the time when the impact of such becomes evident for the OMCs, Deepak Mahurkar, a director and leader (oil & gas industry practice) at PwC, said.

He said government intervention into the pricing mechanism continued and the Centre might take into account a series of other events, including state elections before raising prices.

OIL MAY SOON HIT $100 ON OPEC+ OUTPUT CUT: EXPERTS TSI 3

Brent going up

Economists have called Opec, an intergovernmental organisation of 13 major oil-producing nations, a 'cartel'. Member countries accounted for an estimated 44 per cent of global oil production and 81.5 per cent of the world's 'proven' oil reserves as of 2018.

In September, the grouping had decided to cut crude oil production by 100,000 barrels per day (bpd) from October onwards. However, the latest increase in production cuts are expected to result in heightened global crude oil prices for the time being, analysts said.

Brent crude oil prices jumped to $94.74 per barrel as of the time of writing this report. Brent oil prices have surged over 12 per cent from their recent low of $82 per barrel around September 26 to over $93 a barrel now. "While they may not probably reach $120 per barrel similar to earlier this year, it is expected to remain between $90-$100 per barrel," Vashisht said.

For India, every $1 per barrel increase in crude oil prices will have an impact on its current account deficit by around $1 billion.

India is the third-largest oil consumer in the world, and the country meets 85.5 percent of its crude oil demand from imports as of FY22 (FY22).

The crude oil import bill swelled to $119.2 billion in FY22, much higher than the $62.2 billion in 2020-21 (FY21), and even the $101.4 billion worth of imports in pre-pandemic 2019-20 (FY20), according to the data from the oil ministry's Petroleum Planning & Analysis Cell.

Higher oil prices have been the primary reason as volumes remained lower than they were before the pandemic. India imported 212.2 million tonnes (mt) of crude oil in FY22, up from 196.5 mt in FY21. This was, however, lower than the pre-pandemic imports of 227 mt in FY20.