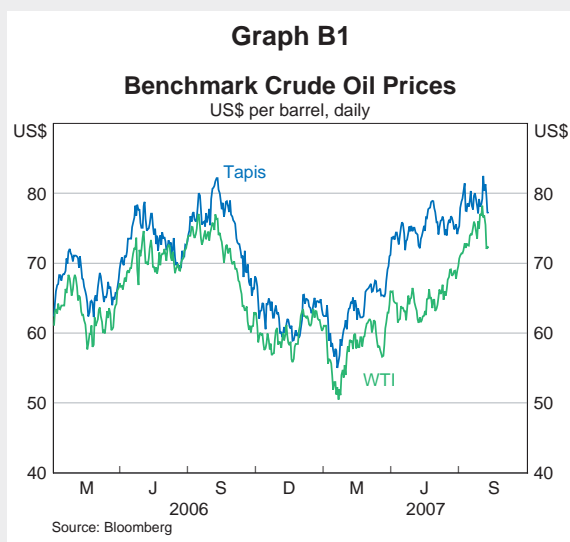


Box B: Recent Developments in Oil Prices

There are more than 160 types of crude oil traded globally, the prices of which are determined relative to various benchmark types, adjusted for differences in quality. The most widely cited benchmark is West Texas Intermediate (WTI) crude, although WTI accounts for less than 1 per cent of global oil production. The other major regional crude oil benchmarks are Brent (in Europe), Dubai (in the Middle East) and Tapis (in Asia). Pricing is based largely on the crude's chemical properties, particularly its sweetness (sulphur content) and weight (API gravity). A 'sweet and light' crude generally trades at a premium to a 'heavy and sour' crude, as the former is cheaper to process into high-value products, such as petrol. Historically, WTI, which is a sweet and light crude, has tended to trade at a premium to Brent and Dubai and at rough parity with Tapis, which is also a sweet and light crude.¹

While the various benchmark crude prices typically move closely together, for much of this year there has been an unusually large gap between the price of WTI and that of other benchmark crudes, including Malaysian Tapis (Graph B1). Tapis is the most relevant measure for Australian petrol prices because the price of petrol in Australia tends to be based on the ex-refinery price of petrol in Singapore, which is refined from Tapis crude oil. From January to May, the price of Tapis increased by nearly 30 per cent, while the price of WTI increased by only half that rate. This saw the price differential between WTI and Tapis widen to unprecedented levels.



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The price divergence seen this year appears to have been driven by special factors that have contained the price of WTI crude below that in other oil markets. In particular, unexpected outages and prolonged maintenance at US petroleum refineries temporarily reduced demand for WTI oil, and

the consequent high level of US crude oil stocks and limited physical opportunities for export of WTI to other markets placed downward pressure on the WTI price (Graph B2). In contrast, conditions in other world oil markets have generally tightened since the beginning of the year,

¹ Tapis is a Malaysian oilfield and is the lightest and sweetest of the main types of crude oil, with an API gravity of 45.5 degrees and sulphur content of 0.1 per cent. By comparison, WTI has an API gravity of 39.6 degrees and sulphur content of 0.2 per cent, making it sweeter and lighter than Brent, which has an API gravity of 38.3 degrees and a sulphur content of 0.4 per cent.

as a strong increase in oil demand (in part driven by increased US imports of petrol to cover the shortage in domestic refined petroleum) has coincided with broadly unchanged global supply. The latter has reflected announced cuts to OPEC production and further disruptions to Nigerian oil output that have largely offset supply increases from the Commonwealth of Independent States.

However, through June and July, the WTI crude price rose towards that of other crudes as US refinery utilisation returned to more normal levels, with the result that the price gap has now significantly narrowed.

Nevertheless, this episode highlights that it is important to look at a range of measures to gauge developments in the world oil market as individual crude oil prices can periodically be affected by local factors. ❧

