Call for fuel price cut gets shriller as global crude dips below $80/bbl

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The demand to slash retail prices of petrol and diesel has gained momentum as international crude oil prices dipped below $80 per barrel last week, stabilising in the $76-77 range. The clamour for a cut in prices has become stronger given the impressive performance of oil marketing companies (OMCs) from April to September 2023 and with retail inflation in November 2023 staying within the RBI's comfort zone.

A senior government official said a price cut could take place by January 2024.

"There was discussion on fuel price revision during the Budget (vote on account) consultation process of Ministries, but at that point, oil prices were volatile at round $81-82 per barrel. Now, they have fallen to below $80, which is within the OMCs' comfort level. The price cut could be more for petrol as the margin gain is higher, and can be utilised to partially compensate for losses on diesel," the official said.

It is not immediately clear whether there will be a cut in excise duty like in November 2021 and May 2022, or the

government will resume the daily fuel price revision exercise, which has been suspended since April 6, 2022.

'MARKET STILL VOLATILE'

"There is a case for price cut considering inflation is down, global prices are in the $76-77 range and OMCs are in a more comfortable position financially than in H1 FY23. However, there is considerable volatility in the market due to uncertainty over global demand. If prices sustain even at $80 into the new year, it will further support the price cut narrative," the official explained.

Marketing margins of OMCs would be impacted if Brent sustains at $85 per barrel, the source said.

Trade sources said that OPEC+ will aim to keep prices in the $80 per barrel range, which is the fiscal breakeven price for Saudi Arabia, the No 1 exporter.

According to a JM Financial report, at spot Brent price and actual product cracks, OMCs' gross auto-fuel marketing margin has risen to ₹6.4 per litre (vs historical margin of ₹3.5 a litre) and gross auto-fuel integrated margin has gone up to ₹15.2 per litre (vs historical margin of ₹11.4).

Similarly, Prabhudas Lilladher expects OMCs — Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation — to witness a strong Q3 FY24 on the back of improvement in gross marketing margins (GMMs) on petrol and diesel.

OMCs' GMMs on petrol and diesel in Q2 FY24 stood at ₹7.6 per litre and ₹1 a litre, respectively. Gross margins on diesel, which were negative in August-October 2023, turned positive in November.

"GMM on petrol stands at ₹8.2 a litre in Q3 till date, while there is a gross marketing loss of ₹0.6 a litre on diesel. In the week ended November 28, GMMs on petrol and diesel stood at ₹9.7 a litre and ₹4.7, respectively. However, sustainability of higher-than-normalised GMMs is questionable in light of the upcoming elections," the brokerage added.