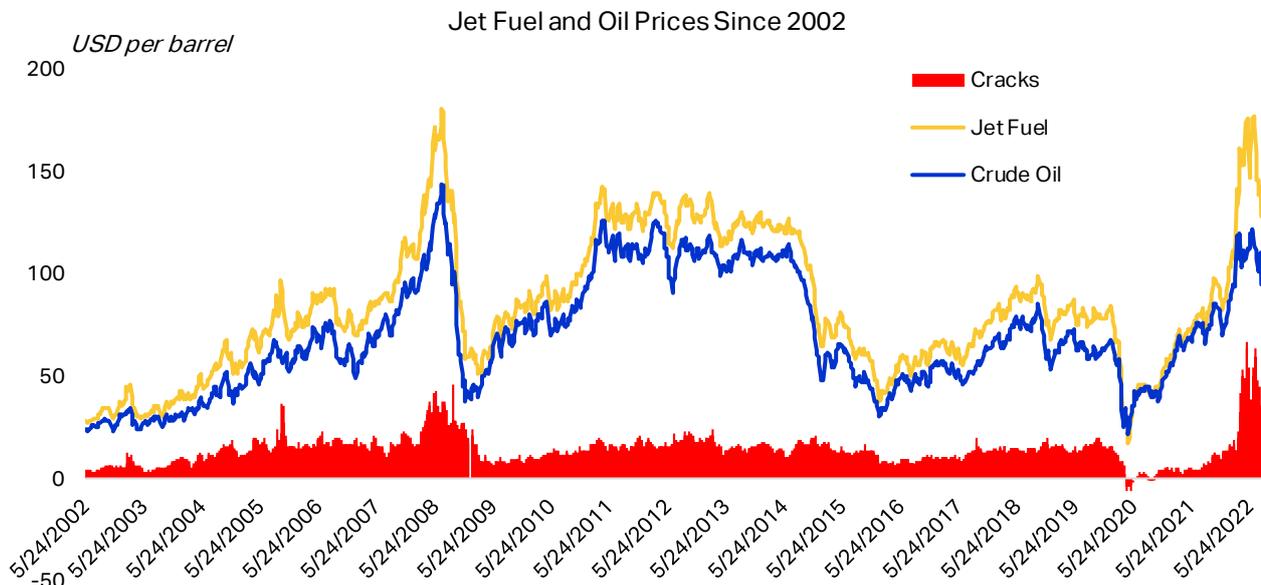




IATA Economics' Chart of the Week

Soaring jet fuel prices now trending downward

19 August 2022



Source: IATA Economics using data from Platts.

- Inflation has risen sharply across the globe with few countries having been spared this fate at the current juncture. For the 38 countries that are members of the OECD, representing around half of global GDP, inflation reached a 30-year high of 10.3% in June. While this is a high number, it pales in comparison to the rise in the price of jet fuel, the inflation of which reached 128% in June, more than doubled from a year ago.
- For airlines, the increase in jet fuel prices represents a major challenge as this cost typically accounts for 20% to 25% of total operational costs. The jet fuel price rose by more than 70% during the first 6 months of 2022, marking one of the steepest increases since at least 2002 (see chart), and causing unprecedented pressure in terms of cost management for the airline industry.
- This increase is buoyed by both soaring crude oil price and cracks between jet fuel and oil. Following Russia's invasion of Ukraine on 24 February 2022, the Brent crude oil price increased by over 30% as per June due to sudden loss of supply from Russia, which is the third largest oil producer in the world. Adding to that is the crack spread between the jet fuel price and the crude oil price. Lifted by the strong post-Covid recovery in demand for air transportation and amid continued shortages of supply, the cracks reached an all-time high of close to USD 67 per barrel in June. These two forces boosted the jet fuel price to its highest level in 14 years.
- Faced with this major cost increase, it is encouraging to note that the global supply of oil recovered in July, and this upward trend is expected by IEA (International Energy Agency) to last till at least the end of the year. The Brent crude oil price already fell by USD 30 per barrel from its peak in June to USD 96 per barrel on 18 August. As suggested by the downward-sloping futures curve, the market expects the oil price to continue trending down till at least next year.
- Refinery supply has also rebounded globally. The IEA expects refinery output in August to reach its highest level since January 2020. The third quarter of 2022 is also likely to be the first quarter in two years when supply of refinery products surpasses demand. This has already translated into lower cracks between the price of jet fuel and that of crude oil, sending it back to around USD 30 per barrel, down by 50% from its peak in June. As a result, the jet fuel price also retreated by 28% in early August from its recent peak. While energy prices remain high, these recent developments alleviate, at least partially, the impact of the double whammy of high oil prices and high crack spreads on our industry.

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