

Little relief at the gas pumps

Energy expert blames weak loonie

By LAUREN KRUGEL The Canadian Press

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An energy consultant is blaming the weakening loonie for keeping gas prices from dropping as much as expected. (Peter Parsons / Staff)

CALGARY — Gasoline prices are expected to creep a bit lower for the rest of the year, but not by as much as many motorists would hope, an energy consultant said Monday, citing the weaker loonie as the main culprit.

"The loonie has been a great buffer for the consumer as oil prices increased," said Roger McKnight, with En-Pro International in Oshawa, Ont.

"The opposite is happening right now."

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World oil prices are set in U.S. dollars, so a rising loonie against the greenback offsets some of the impact of higher crude prices. Now that the loonie has slid below parity, consumers are getting a raw deal even though oil prices are 20 per cent lower than they were in July.

The loonie lost about five cents against the U.S. dollar last week, but rose 0.11 of a cent to 97.25 US on Monday.

Fear that another recession could be triggered by government debt problems in Europe and the United States has oil traders betting global energy demand will fall — pushing the price down from around US\$100 per barrel in July to around US\$80 on Monday.

Since crude is used to make gasoline, the price-drop should filter through to the gas pump, but the weaker loonie is offsetting the drop in Canada, McKnight said.

The Canadian average for regular unleaded gasoline Monday was just under \$1.22 per litre, according to the price-tracking website Gasbuddy.com. That compared with about \$1.25 a litre a month ago and \$1.01 a litre a year ago when crude was at about US\$77 per share.

McKnight, whose firm helps transportation sector clients manage their fuel costs, sees gasoline prices falling by about five cents over the next few months as demand weakens in the winter.

While lower fuel prices are certainly a welcome silver lining for consumers, they are also symptomatic of wider economic challenges, said TD Bank economist Derek Burleton.

"In this kind of environment, oil prices are a bellwether of general global sentiment. It's more symbolic of bigger challenges globally," Burleton said.

"Unfortunately nobody wins in Canada's economy when that happens, even if gasoline prices fall back a bit."

Canada's economy is highly reliant on exports of resources and manufactured goods. So if crude prices are falling because key trading partners are ailing, particularly the United States, it's bad news for Canada.

While falling crude prices will benefit gasoline consumers, it could also harm some Alberta oilsands producers, which need enormous amounts of capital to build and operate their projects.

"If oil settles below US\$80, one tends to start getting a little concerned about near-term outlook for energy-producing provinces like Alberta," said Burleton.

"I think US\$80 is a little bit of a psychological threshold there."

In a research note, CIBC World Markets analyst Andrew Potter said the effect of lower oil prices varies from company to company.

For instance, integrated energy producers — companies that produce oil, refine it and sell the finished products — can generate cash flow even if oil prices fall to US\$70.

Those include Suncor Energy Inc., Cenovus Energy Inc. and Husky Energy Inc.

Imperial Oil Ltd. is the exception among integrated oil companies, as it is in the midst of building the first \$10.9-billion phase of its Kearl oilsands project.

Companies that just explore and produce oil, but don't have refineries or fuel outlets to act as a buffer, are a bit worse off if oil prices fall, said Potter. Producers like Canadian Natural Resources Ltd. and Nexen Inc. may curb their spending if oil prices drop much further, he said.