"My well came in big, so big" ... James Dean as Jett Rink in the film Giant (1956).

Here’s why the price of oil is headed to $US90 according to Morgan Stanley

Resources

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The price of Brent Crude oil — one of two international benchmarks — is set to rise as high as $US90 a barrel according to investment bank Morgan Stanley.

That’s because demand is increasing for heavier Brent crude oil needed to power ships, trucks, planes, trains, cranes, bulldozers and heavy machinery.

Morgan Stanley’s Global Oil Strategist Martijn Rats calls it “the fuel of emerging market industrial growth and international trade.”

“The market for Brent crude will remain tight, with demand growing by 0.6 million barrels a day per year, and inventories falling,” he said in a research note over the weekend.

Supplies of new oil are “increasingly light” which resulted in lower yields for such industrial uses. There was a “mismatch between the supply of light-grade shale oil available and demand for heavier oil”, Mr Rats said.

Although the US is poised to become world's largest oil producer this year, according to the International Energy Agency, it isn't producing the kind of oil that fast-growing emerging markets want or its refineries can handle.

US shale oil is light and good for making petrol, but the rest of the world wants jet fuel, kerosene, diesel and heating oil which are made from heavier, denser oils.

These factors as well as shortages in supply would drive the price of Brent up to $US90 a barrel by 2020.

At the close of business on Monday, Brent was trading at $US73.05.

WTI and Brent have been rising over the last year on the back of OPEC production cuts.

The US benchmark price for the lighter West Texas Intermediate (WTI) was $US63.80 a barrel.

These are facts that Australian oil executives like Blue Energy's John Phillips have **already noted and are banking on for the years ahead**.

Mr Rats predicts the market for Brent crude will remain tight with demand growing by 600,000 barrels a day per year and inventories falling.

The sector where the magic will happen is refining — an industry that is all but dead in Australia.

“With jet fuel, mining, chemicals and heavy transport demand here to stay, the world is falling short by about one refinery annually until 2020,” Mr Rats said. The world needed to add three refineries every year to match demand growth, he said.

It takes about 10 years to get a refinery started from scratch.

“While gasoline drove the refining cycle into its silver age, we believe diesel will spearhead the transition into a golden age, as its margins look set to nearly double by 2020 from last year’s average,” Mr Rats said.

“We see the sector delivering 30 per cent to 50 per cent outperformance versus the major global market benchmarks over the next two years as a lack of investment drives margins higher.”

Australia has four refineries left: BP’s Kwinana refinery in WA, Viva’s Geelong facility, Caltex’s Lytton plant near Brisbane and Exxon’s Altona refinery in Melbourne.

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