

Fuel Price Trends and Forecast

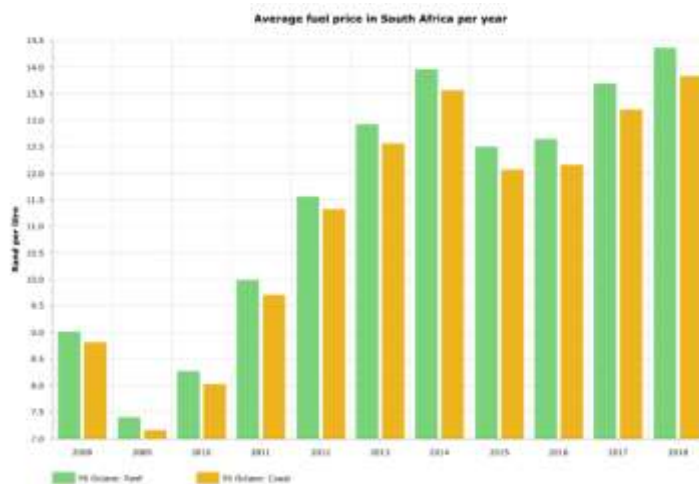
White Paper – Updated September 2018

(For information purposes only)

In South Africa, the price of fuel is adjusted monthly based on several factors, mainly international petroleum prices, and the Rand / US Dollar exchange rate. The Basic Fuel Price (BFP) is based on the import parity pricing principle i.e. what it would cost a South African importer of petrol to buy the petrol from an international refinery, transport the product from that refinery, insure the product against losses at sea and land the product on South African shores. It is calculated from costs associated with shipping petroleum products to South Africa from the Mediterranean area, Arab Gulf, and Singapore. These costs include insurance, storage, and wharfage (the cost to harbour facilities when off-loading petroleum products into storage). Other costs associated with the BFP include transport costs (from the harbour to inland areas), customs and excise duties, retail margins paid to fuel station owners, and secondary storage costs. Movements in these costs over the past months include an additional 10 cents a litre charge in transport for fuel from coastal areas to Gauteng, and 11 cents a litre increase in the retail margin at both inland and coastal stations. A spike in international oil prices and a huge swing in the rand/US dollar exchange rate have combined to ensure a knockout increase at the pumps at the end of September 2018.



Figure 1: RSA Yearly Fuel Price 2008 - 2018



What affects the petrol price in South Africa?

The biggest factor in the rise and fall of the petrol price in South Africa is the global price of crude oil, which is used to produce petrol and diesel. However besides this there are several other factors which influence the price we pay when we fill up our cars. These include:

- **Fuel Levies** – The National Roads Act of 1971 allows the South African government to collect a fuel levy from every litre of fuel that's sold. Fuel levies consist of two indirect taxes: The General Fuel Levy and the Road Accident Fund (RAF) Levy. In April 2018 the General Fuel Level increased by 7% to R3.37 per litre while the RAF level increased by 18% to R1.93 per litre. This increase has significantly affect transport costs as operators have sought to recover fuel price increases.
- **Rand Depreciation** – oil is traded in Dollars. One of the key elements of pricing remains the strength of the Rand - with forecasts for the South African Rand showing a continuing weakening against the US Dollar. The current exchange rate as of 26 September 2018 was R14.30 – this compared to the average rate of R12.76 in 2015. The rand has depreciated by 20% against the US dollar this year.



Figure 3: Monthly Average exchange rate of the Rand per 1 US Dollar

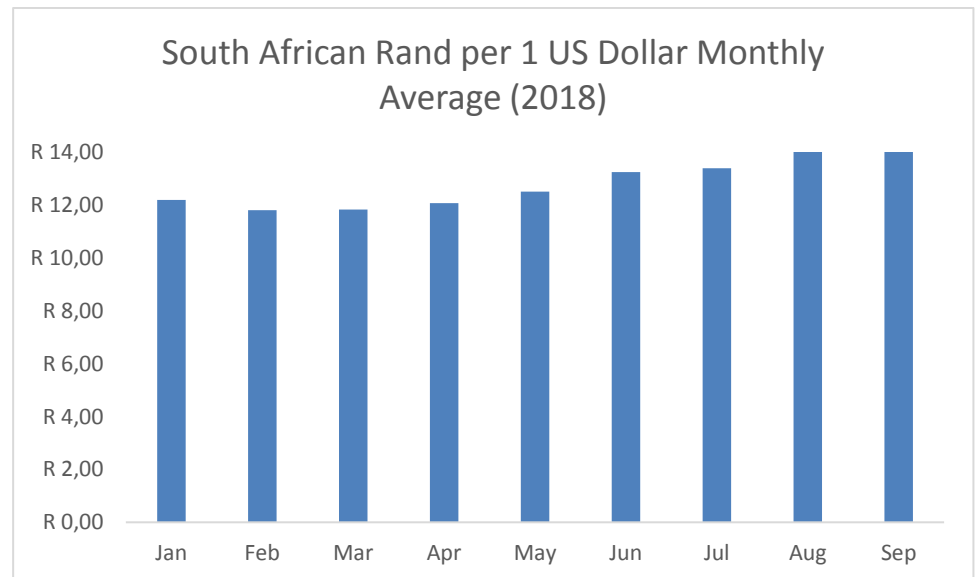
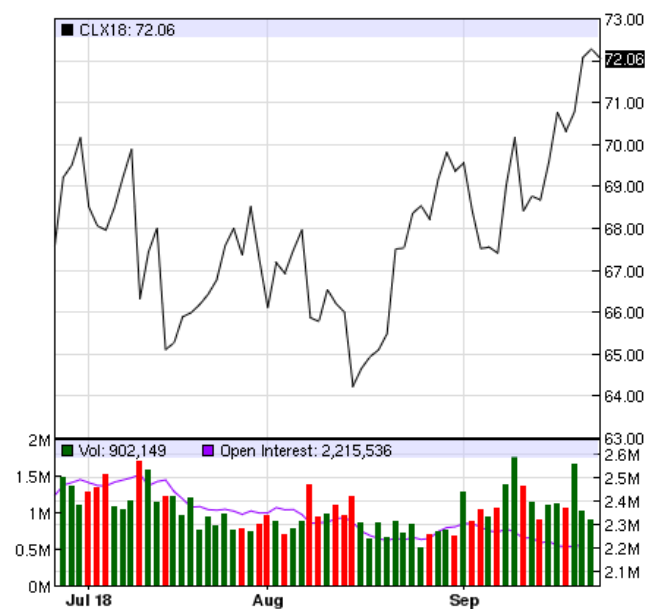


Figure 4: Brent Crude Oil Spot Price (26 September 2018)

WTI (NYMEX) Price

End of day Commodity Futures Price Quotes for Crude Oil WTI (NYMEX)



Source: Nasdaq.com



- **Wholesale Margins** – Fuel wholesalers in South Africa consist of the seven major oil companies in addition to around 600 independent wholesalers. The government sets the wholesale margin, keeping it stable at around 15%.
- **Transport and delivery costs** – Petrol and diesel are transported to depots and petrol stations by pipelines, rail, sea and road, the costs of which are added on to the petrol price. Thus fuel costs less in coastal cities where there are ports nearby, as opposed to inland cities where fuel needs to be transported further via trucks.

To put all this into perspective, as at the beginning of July, the price of a litre of 95 octane petrol inland was made up as follows :

Basic Price:	R7.50 (750.07 cents)
Fuel Levy	R3.37 (337.00 cents)
RAF Levy	R1.93 (193.00 cents)
Retail Margin	R1.87 (187.20 cents)
Wholesale Margin	R0.34 (34.00 cents)
Storage and distribution	R0.34 (34.50 cents)
Gauteng Zone Differential	R0.51 (51.70 cents)
Demand Side Management Levy	R0.10 (10.00 cents)
Customs and Excise	4.00 cents
Petroleum Products Level	0.33 cents
Fuel Pump rounding	0.20 cents
Total price	R16.02

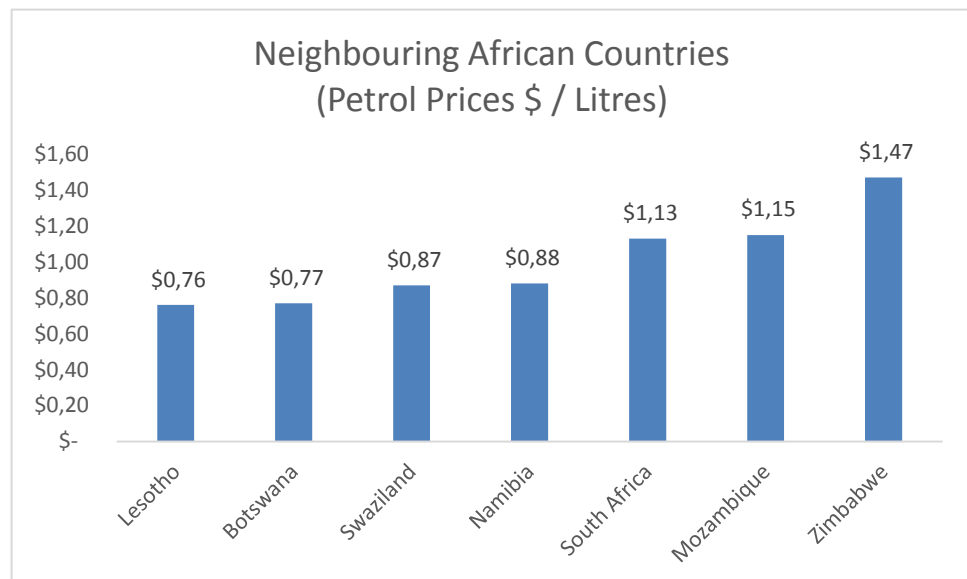
(Source : mybroadband.co.za)

Fuel prices : Southern Africa

As SA motorists continue to reel from a record high petrol price, we look at how much neighbouring Southern African countries are paying for their fuel. Southern African Development Community countries have a huge difference in terms of population, economy and legislation governing taxes. As at 1 October 2018, the average price of petrol around the world is \$1.17 US per litre, reports Globalpetrolprices.com. Lesotho has the cheapest fuel price in Southern Africa, followed by Botswana. Zimbabwe has the most expensive fuel.



Figure 2: Fuel Price Per Country



Forecast

Oil prices surged above \$81 a barrel in September 2018. Brent crude futures LCOc1 touched a four-year high, at \$82.55 a barrel. Motorists are expected to experience petrol increases for the rest of 2018. After the shock of the recession, local consumers were hit by another bombshell as the inland price of 95 octane petrol reached a record high at R17.08 a litre, creating a knock-on effect of higher food and transport costs. The weakening rand will boost the price of imported goods such as oil and increase the price of fuel.

A combination of a recession and record fuel prices will place consumer spending under pressure. Stats SA announced that South Africa's real gross domestic product (GDP) decreased by 0.7% in the second quarter of 2018, following a decrease of 2.6% in the first quarter which resulted in a recession, defined as two successive quarters of negative growth. After two consecutive sharp petrol price increases it seems there is more bad news to follow. Using conservative estimates the price of petrol could reach R17.30 per litre by the end of this year and be above R20 per litre by the end of 2019.



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