

## Fuel Price Trends and Forecast

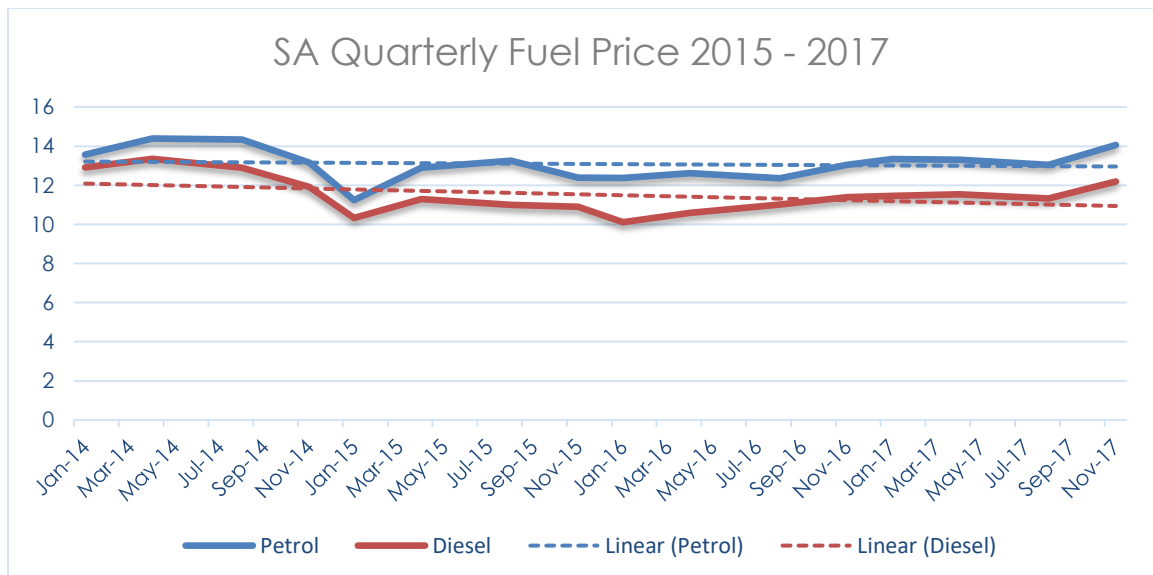
White Paper – Updated December 2017

(For information purposes only)

Fluctuations in international petroleum prices combined with a weakening rand has pushed fuel prices higher for the month of December 2017. On average, the rand has weakened against the US dollar although it has shown resilience in the days following South Africa's recent downgrade of the credit ratings. Despite this, South Africa's economic situation remains weak, and our view is still that further fuel price hikes can be expected into the first quarter of 2018

The average rand/US dollar exchange rate for September 2017 was R13.13 compared to R13.22 during August. This led to a lower contribution to the Basic Fuels Price on petrol and diesel by 3.86c/l, and 3.78c/l respectively and contributed to the fuel price hike on Wednesday 01st November 2017 for both petrol and Diesel.

Figure 1: RSA Quarterly Fuel Price 2014 – 2017



The petrol retail price in South Africa is regulated by government, and adjusted every month on the first Wednesday of the month.

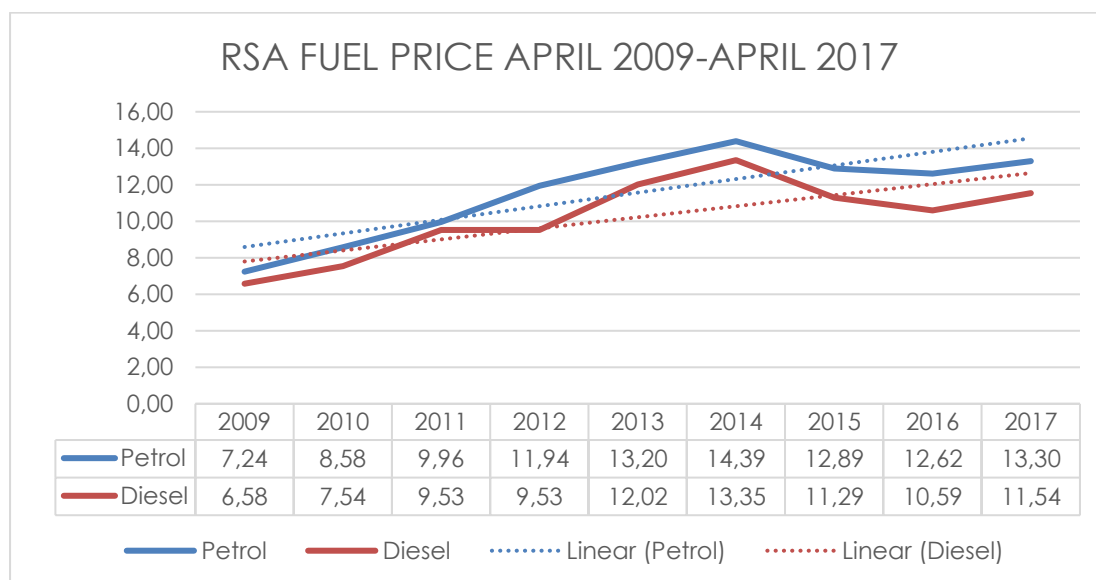


The Central Energy Fund (CEF) calculates the new petrol price on behalf of the Department of Energy (DOE). The petrol pump price is composed of several price elements, both international and domestic.

### Factors that affect the fuel price

- ❖ Global price of crude oil, which is used to produce petrol and diesel.
- ❖ Rand depreciation. Because oil is traded in Dollars, the Rand/Dollar exchange rate affects how many Rands we need to pay for a barrel of oil.
- ❖ 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.
- ❖ Wholesale margins. Fuel wholesalers in South Africa consist of the seven major oil companies in addition to around 600 independent wholesalers.
- ❖ Transport and delivery costs. Petrol and diesel are transported to depots and petrol stations by pipelines, rail, sea and road, the costs for which are then added on to the petrol price.

**Figure 2: RSA Petrol Price (Reef) April 2009 – April 2017**



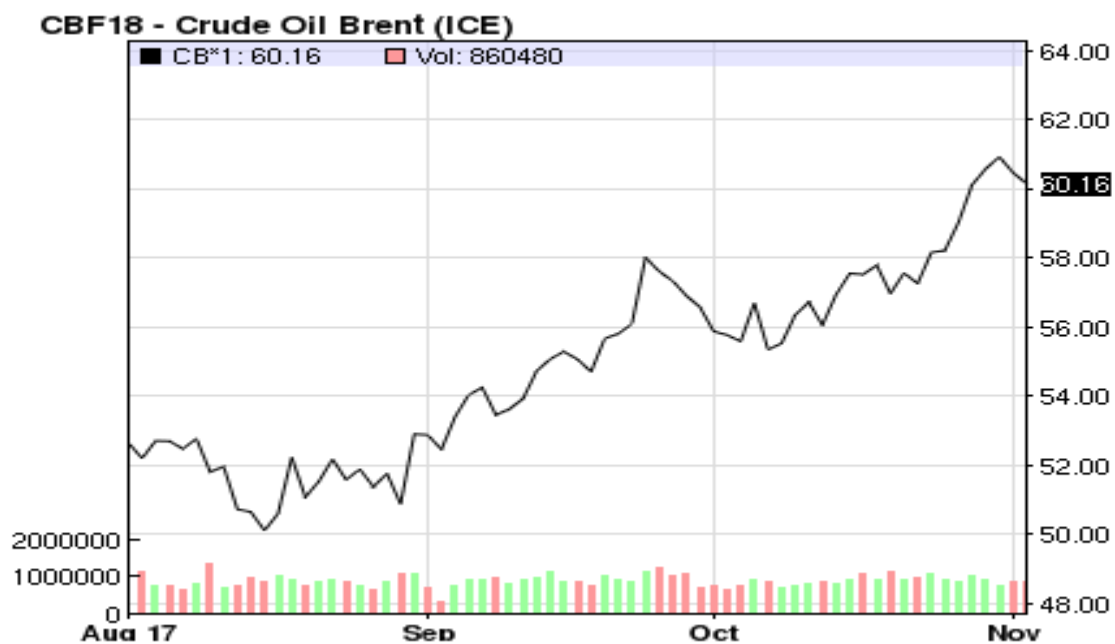
This recent increase in fuel prices is largely attributed to the increase in global crude oil prices which have risen from \$46.86 per barrel in November 2016 to \$60.27 per barrel (November



2017). In the middle of 2017 (June), the price temporarily decreased to \$45.75 per barrel.

As a result, there have been fears over the supply of Brent crude oil in the market, and prices have increased accordingly. The price of Brent crude oil started an upward trend on 23 June 2017 from \$45.75 a barrel to \$ 60.27 a barrel on 02 November 2017.

**Figure 3: Brent Crude Oil Spot Price (02 November 2017)**



Source: Nasdaq.com

In addition, 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 average South African Rand/US Dollar conversion rate over the last 11 months was R 13.33. The current exchange rate as of 02 November 2017 is at R 13.99 – this compared to the average rate of R12.76 in 2015 and R14.71 in 2016.

The influence of the exchange rate on the fuel price is far more evident when considering the last three years pricing, where fuel prices increased on average by 8.5% per year – and the Rand gained by 1.39% against the US Dollar from 2016 – 2017.



## Outlook

The daily average rand/dollar exchange rate has weakened over the past month from about R13.80 to the dollar to about R14.20/\$ due to political uncertainty and further economic deterioration that caused a further downgrade. November's petrol price hike was a mere 4c a litre while the price of diesel rose by 27c. The continuous increase in the diesel price was especially bad news because virtually all consumer goods are transported by road and the higher price of diesel will result in higher prices across the board.

On 6 December, the price of petrol for all grades increased by 71 cents a litre. The per litre price of diesel 0.05% sulphur and 0.005% sulphur increased by 60 cents and 57 cents respectively. The price of illuminating paraffin – wholesale and Single Maximum National Retail price – will rise by 73.3 cents and 98 cents a litre respectively. All of this will put further pressure on South Africa's consumers.

The department of energy said in a statement that the minister has approved a net increase of 3.9 cents per litre in the annual margin adjustments on petrol and a net decrease of 0.7 cents per litre on diesel and illuminating paraffin wholesale prices, in line with the application of the Regulatory Accounts System. Due to the further increase in the crude oil price, it is expected that the average international price of gasoline may rise by 45.7 cents per litre and the diesel price by 34.3 cents per litre.

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