

FUEL PRICES ARE LIKELY TO INCREASE IN MARCH: 09 February 2015

Brent crude oil prices have been gaining momentum since the 30th of January 2015. As of today, prices have increased by 17% month-on-month. Consequently, in the coming month, we expect an increase of domestic fuel prices. On the 4th of March 2015, the petrol price is expected to increase by 28 cents per litre, while the diesel price might decrease by a mere 1 cent per litre.

Contributing Factors to Diesel and Petrol Prices

The domestic fuel price is mainly influenced by international product prices, as well as exchange rate movements. Currently, the Brent crude oil price is contributing to the under-recovery of the petrol price, but the diesel price is still overshadowed by the strengthening of the exchange rate (*see table below*).

ANALYSIS MOVEMENT OF AVERAGE OVER/ (UNDER) RECOVERY			
	Petrol 95	Diesel 0.05%	Diesel 0.005%
Movement in International Product Prices	(32.501)	-3.634	-3.046
Movement in Exchange Rate	4.454	4.591	4.624
Average Unit Over/ (Under) Recovery	(28.047)	0.957	1.578

Source: Central Energy Fund

Rand and Brent Crude Oil View

The rand is still at weak levels against major currencies, owing to both domestic and international factors. Domestically, the Rand has been largely impacted by negative sentiment due to concerns over electricity supply constraints. Internationally, there are prospects that the US dollar might strengthen further, due to possible rate hikes.

Moreover, global economic growth is disappointing. Recent trade data from China showed further economic weakness; their exports were down by 3.3% year-on-year, while imports significantly dropped by 19.9% year-on-year. This significant drop on imports suggests a slowdown in Chinese manufacturing sector. China is a major destination for South Africa's

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raw commodities. This morning (09:52am), the rand was trading around R11.51 to the US dollar.

Brent crude oil price is getting support from news of sluggish oil production in the United States. At (09:52am) the Brent crude was trading around \$57.80 a barrel. Important to note that there are still increasing supplies in the world markets, and demand continues to soften. Slow economic growth in the Euro Zone and China may lead into a decreased demand for oil, thus keeping oil prices at soft levels. Chinese Brent crude oil imports are reportedly down by 7.9% year-on-year in volume terms in January 2015.

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