

FURTHER DECREASE IN FUEL PRICES EXPECTED: 14 January 2015

Since June 2014, Brent crude oil has never been far from the news headlines, with its price having decreased by more than 50% now. Consequently, in the coming month, we expect further significant cuts in fuel prices. Petrol and diesel prices are expected to respectively decrease by R1.10 and R1.09 per litre on the 4th of February.

Contributing Factors to Diesel and Petrol Prices

The domestic fuel prices are mainly influenced by the international product prices, as well as the exchange rate movements. Currently, the exchange rate movement is contributing to the under-recovery of fuel prices, but overshadowed by international product prices (see table below).

ANALYSIS MOVEMENT OF AVERAGE OVER/ (UNDER) RECOVERY			
	Petrol 95	Diesel 0.05%	Diesel 0.005%
Movement in International Product Prices	117.316	116.111	116.860
Movement in Exchange Rate	(6.362)	(6.961)	(7.016)
Average Unit Over/ (Under) Recovery	110.954	109.150	109.844

Source: Central Energy Fund

Rand and Brent Crude Oil View

The rand is still at weak levels against the US dollar, and is expected to weaken further, following the disappointing manufacturing data and electricity concerns. South Africa’s manufacturing output contracted by 1.3% year-on-year. This morning (08:59am), the rand was trading around R11.59 to the US dollar.

Brent crude oil price is also trading at low levels; at 08:59am was around \$47.38 a barrel. The significant decrease in oil prices is due to increased supplies from Saudi Arabia, as well as raising shale oil production in the United States. Additionally, slow economic growth in the Euro Zone and China resulted into a decreased demand for oil, thus further adding to price falls. Going forward, many analysts maintain a bearish view on Brent Crude prices.

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Goldman Sachs lowered its price outlook, owing to concerns about global oversupply, weak demand and soft growth in the key Chinese and European markets.

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