

WEAKER RAND CONTINUES TO WEIGH ON AGRICULTURAL INPUT COSTS: 17 Sep. 15

Fuel and fertilizer respectively accounts for approximately 11% and 35% of the total variable cost of grain production. South Africa is a net importer of fuel and imports more than 75% of its annual fertiliser consumption (see Figure 1). Thus, the weakening of the Rand have a significant impact on input costs, as some producers, especially on the eastern side of the country have already started with soil preparations (see Figure 2). On 7 October 2015, the petrol price might remain unchanged, while, the diesel price might increase by 50 cents per litre.

Contributing Factors to Diesel and Petrol Price changes

The domestic fuel prices are mainly influenced by international product prices, as well as exchange rate movements. Diesel price - both international product prices and a weaker Rand are contributing to the expected domestic fuel price increase (see Table 1).

Table 1: Analysis of movement of average over / (under) recovery

	Petrol 95	Diesel 0.05%	Diesel 0.005%
Movement in International Product Prices	30.866	(20.310)	(18.956)
Movement in Exchange Rate	(30.900)	(29.844)	(30.195)
Average Unit Over / (Under) Recovery	(0.033)	(50.154)	(49.151)

Source: Central Energy Fund

Rand and Brent Crude Oil View

At the time of writing the Rand was quoted at R13.33 to the US dollar (see Figure 3). The recent gains on the currency are on the back of opinions that the US Federal Reserve might leave the interest rates unchanged. Nonetheless, the decision will be known later today.

The Brent crude oil price has generally been under pressure due to large global supplies. Moreover, Iran is expected to add significant supplies in the world market early next year. At the time of writing, Brent crude was traded at US\$49.41 per barrel.

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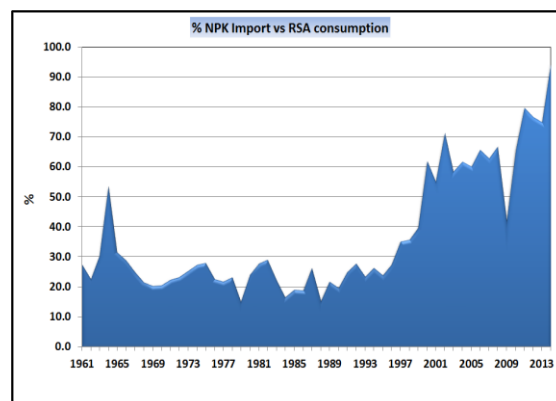


Figure 1: NPK Imports vs RSA Consumption

Source: Grain SA

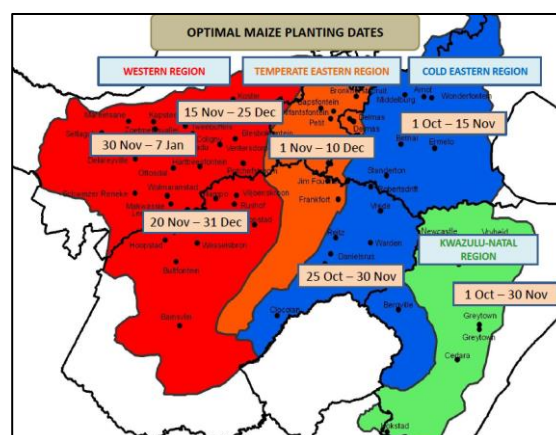


Figure 2: Optimal Maize Planting Dates

Source: Grain SA

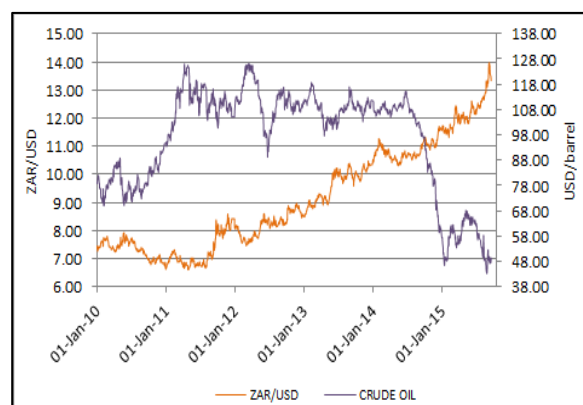


Figure 3: ZAR/USD and Brent Crude Price Movements

Source: Bloomberg and Grain SA