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Fuel price expectations for March 2014

Wandile Sihlobo, Economist, Grain SA

» According to today's Central Energy Fund Fuel update report, the petrol price is expected to increase yet again on 5 March 2014 by 33 cents/litre, while the price of diesel is expected to increase by 26 cents/litre.

Analysis movement of average over-/(under)recovery			
	Petrol 95	Diesel 0,05%	Diesel 0,005%
Movement in international product prices	(13,702)	(5,514)	(5,987)
Movement in exchange rate	(19,023)	(20,046)	(20,134)
Average unit over-/(under)recovery	(32,725)	(25,560)	(26,121)

The domestic fuel prices are mainly influenced by the international price movements as well as the exchange rate movements. Currently, the weakening of the exchange rate is the most dominating factor, contributing to the under recovery of domestic fuel prices: 19 cents/litre to the expected petrol prices and 20 cents/litre to the expected diesel prices.

The rand is currently (12:00 pm on 19 February 2014) trading around R10,9252 to the dollar. The rand is slightly weaker, in line with other emerging currencies, mainly pressured by the escalating violence in the Ukraine. The consumer price inflation (CPI) came out at 5,8% year on year in January, slightly above the expected 5,7% year on year; a key driver being petrol prices. However, this had a soft effect on the domestic currency.

International price movements are contributing 14 cents/litre to the expected under-recovery of petrol prices and still 6 cents/litre to the expected under-recovery of the diesel prices. As far as the oil markets are concerned, oil prices are supported by the increasing demand from the United States for heating fuel as a result of cold weather conditions. The Chinese Purchasing Manager Index, which is expected to be released on Thursday, 20 January 2014, will give an indication of the Chinese economic growth, hence oil demand prospects.

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Input-price prospects: March 2014

Corné Louw, Snr. Economist: Inputs, Grain SA

Expected fertiliser prices for March 2014

- » **Exchange rate deteriorates further compared to January this year**
- » **International fertiliser prices are picking up, particularly phosphate.**

International trends in fertiliser prices can be used to predict changes in local fertiliser prices relatively accurately. From January 2014 to 13 February 2014 international fertiliser prices changed as follows (**Table 1**):

Table 1:

Average international fertiliser prices (dollar value)			
	January 2014	13 February 2014	% change
Fertiliser	Dollar/ton	Dollar/ton	%

Ammonia (Middle East)	442	456	+3,2%
Urea (46) (Eastern Europe)	354	360	+1,7%
DAP (USA Gulf)	438	486	+11,0%
Potassium chloride (CIS)	318	309	-2,8%
rand/dollar exchange rate	10,836	11,040	+1,9%

Table 2 contains the movements in international fertiliser prices in rand terms. From the table it is clear that the international fertiliser prices of ammonia, urea and DAP have risen so far in February, while the price of potassium chloride dropped. We can therefore expect the prices of local nitrogen and phosphate products to increase in March of this year.

Table 2:

Average international fertiliser prices (rand value)			
Fertiliser	January 2014	13 February 2014	% change
	Rand/ton	Rand/ton	%
Ammonia (Middle East)	4 794	5 031	+4,9%
Urea (46) (Eastern Europe)	3 831	3 974	+3,7%
DAP (USA Gulf)	4 749	5 368	+13,0%
Potassium chloride (CIS)	3 449	3 411	-1,1%

Historical fertiliser price statistics

Tables 3 and 4 indicate the movement of international fertiliser prices in dollar and rand terms over a period of one year.

Table 3:

Average international fertiliser prices (dollar value)			
Fertiliser	January 2013	January 2014	% change
	Dollar/ton	Dollar/ton	%
Ammonia (Middle East)	680	439	-35,4%
Urea (46) (Eastern Europe)	404	352	-12,9%
DAP (USA Gulf)	485	432	-11,0%
Potassium chloride (CIS)	425	321	-24,6%
rand/dollar exchange rate	8,787	10,836	+23,3%

Table 4:

Average international fertiliser prices (rand value)			
Fertiliser	January 2013	January 2014	% change
	Rand/ton	Rand/ton	%
Ammonia (Middle East)	5 971	4 760	-20,3%
Urea (46) (Eastern Europe)	3 550	3 813	+7,4%
DAP (USA Gulf)	4 262	4 677	+9,7%
Potassium chloride (CIS)	3 734	3 474	-7,0%

Table 5 shows what happened to local fertiliser prices over a period of one year. It also shows how local prices reacted to international price trends and the exchange rate. It is clear that the local KAN price competes with the urea price, rather than following the declining trend of international ammonia prices. The local market is also clearly currently benefiting from the trend in MAP.

Table 5:

Average local fertiliser prices			
Fertiliser	February 2013	February 2014	% change
	Rand/ton	Rand/ton	%
KAN (28)	5 242	5 540	+5,7%
Urea (46)	6 259	6 896	+10,2%
MAP	7 902	7 405	-6,3%
Potassium chloride	7 036	6 889	-2,1%

Price trends for international agricultural chemicals

Table 6 contains international insecticide prices per active ingredient over a period of one year. The first part of this table shows the price in dollar, while the second part shows the same prices, but converted to rand. From these trends it is clear that the weakening exchange rate over a period of one year could cause prices in the local market to rise. Discussions with local companies have revealed that most of the companies will have to increase their prices sharply in March 2014 to make provision for the weak rand.

Table 6: Insecticides

Insecticides – year-on-year price changes in dollar terms (Dec 2012 - Dec 2013)			
	Dec 2012	Dec 2013	% change
	Dollar/ton	Dollar/ton	
Imidacloprid (95%)	22 363	21 715	-2,9
Lambda-cyhalothrin (95%)	23 604	24 587	4,2
Carbofuran (99%)	13 602	12 778	-6,1
Deltamethrin (98%)	80 825	73 581	-9,0
R/\$	8,630	10,356	20,0
Insecticides – year-on-year price changes in rand terms (Dec 2012 - Dec 2013)			
	Dec 2012	Dec 2013	% change
	Rand/ton	Rand/ton	
Imidacloprid (95%)	192 995	224 881	16,5
Lambda-cyhalothrin (95%)	203 705	254 623	25,0
Carbofuran (99%)	117 387	132 329	12,7
Deltamethrin (98%)	697 528	762 005	9,2

Table 7 contains international herbicide prices per active ingredient over a period of one year. The first part of this table shows the price in dollar, while the second part shows the same prices, but converted to rand. Due to the weakening rand, the effect for the herbicides is the same as for insecticides, and the local prices are expected to increase sharply in March 2014.

Table 7: Herbicides

Herbicides – year-on-year price changes in dollar terms (Dec 2012 - Dec 2013)			
	Dec 2012	Dec 2013	% change
	Dollar/ton	Dollar/ton	
Glyphosate (95%)	5 553	5 037	-9,3
Acetochlor (92%)	3 023	3 106	2,7
Atrazine (97%)	3 826	3 809	-0,4
Metolachlor (97%)	3 987	4 000	0,3
Trifluralin (95%)	5 031	4 128	-17,9
R/\$	8,630	10,356	20,0
Herbicides – year-on-year price changes in rand terms (Dec 2012 - Dec 2013)			
	Dec 2012	Dec 2013	% change
	Rand/ton	Rand/ton	
Glyphosate (95%)	47 923	52 163	8,8
Acetochlor (92%)	26 089	32 166	23,3
Atrazine (97%)	33 019	39 446	19,5
Metolachlor (97%)	34 408	41 424	20,4
Trifluralin (95%)	43 418	42 750	-1,5

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Introduction of a diesel hedge contract referencing European Gasoil

Funzani Sundani, Economist: Industry Services, Grain SA

» The Johannesburg Stock Exchange (JSE) recently received the necessary support to introduce the diesel hedge contract to be listed on the global market for both commodity and equity derivative members. This contract will be tracking the European Gasoil contract, which is under license from the CME Group. This 5 000 litre contract will start trading on 20 February 2014.

It will start trading with the 14 May expiry month until 14 October, but it is important to note that additional expiry months can be introduced on demand. The detailed table below shows the trading calendar for the diesel hedge contract.

Expiry Month (Pump Month)	Reset Period	Last Trading Day	Options Expiry (American Style)	Cando Option Expiry (European Style)	Clearance Day-Final Average Price Published
2 May 2014	1–30 Apr 2014	31-03-2014	28-03-2014	02-05-2014	02-05-2014
2 Jun 2014	2–30 May 2014	30-04-2014	29-04-2014	02-06-2014	02-06-2014
1 Jul 2014	2–30 Jun 2014	30-05-2014	29-05-2014	01-07-2014	01-07-2014
1 Aug 2014	1–31 Jul 2014	30-06-2014	27-06-2014	01-08-2014	01-08-2014
1 Sep 2014	1–29 Aug 2014	31-07-2014	30-07-2014	01-09-2014	01-09-2014
1 Oct 2014	1–30 Sep 2014	29-08-2014	28-08-2014	01-10-2014	01-10-2014

The initial margin on introduction will be set at R3 600/contract, with a calendar spread margin requirement of R1 100/contract. Please note that, similar to all other cash-settled commodities, the initial margin will be adjusted monthly, unless required otherwise, referencing the same methodology as the other cash-settled products.

For more detailed information on the specification of this contract, please visit Grain SA's website and the JSE website. You can also email them at commodities@jse.co.za or phone them at 011 520 7231.

Source: *The JSE*

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Learn more about conservation agriculture

» Come and discover more about conservation agriculture.

If you haven't registered yet, why not do it right now?!

12–13 March in Ottosdal

Grain SA and the Maize Trust are presenting this **conservation agriculture conference** on Wednesday, 12 and Thursday, 13 March 2014.

Theme: Conservation agriculture: sustainable crop production intensification and farmer innovation.

RSVP before 1 March 2014

to Coert Coetzee, conference coordinator, Ottosdal No-till Club
018 571 1388 / 082 802 5886
coetzeecj@lantic.net

For more info, click [here](#).

Don't miss out on this interesting event! Limited places available.

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Food for thought ...

» I greet you this week with an interesting thought from a previous American president and some food for thought in a picture.

"Agriculture is our wisest pursuit, because it will in the end contribute most to real wealth, good morals, and happiness."

From a letter from Thomas Jefferson to George Washington (1787)



All the best and blessings until our next newsletter after the Grain SA congress.

Diana Rabie
Communication Consultant, Grain SA

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