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Media Release

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South Africa could face significant fuel price hikes in December

South Africa could be set for a significant hike in fuel prices by the end of November. According to unaudited mid-month fuel price data by the Central Energy Fund, both petrol and diesel are set for a sharp increase. Petrol is forecasted to increase by approximately 74 cents a litre and diesel is set to increase by 63 cents.

South Africa has seen a significant increase in the fuel price since September, with petrol almost increasing by 1 rand a litre and diesel climbing by 1 rand 30 cents a litre.

Fuel plays a significant role in the farming sector and is one of the major production costs that farmers incur every month. Thus, any additional increase in the fuel price will place a further burden on the farming sector and the sector is already faced with other major issues like the drought.

The abovementioned forecasted increase is to correct under-recovery during the prior month. The domestic fuel price is primarily influenced by two factors: the international crude oil price, and the rand/US dollar exchange rate. Combined with the weaker rand against the US dollar, testing at one-year low, international oil prices have seen a substantial increase this month.

Tensions in the Middle East also threatens oil output in the region. According to a MarketWatch report, tensions between the Kurdish regional government and Baghdad have been building after the Kurds voted for independence in a September referendum. Since last month, the risks intensified after Iraqi forces reportedly entered Kirkuk, which is a major oil-producing area and has been held by Kurdish fighters. The Iraqi army has taken full control of the city and secured the northern oil company facilities.

However, the US Energy Information Administration reported a rise in oil inventories and the International Energy Agency revised down its oil demand growth estimate for 2017 and 2018. In a scenario without any further major geopolitical events, oil prices might slightly decrease in the short to medium term. However, the possibility of further credit downgrades by ratings agencies such as Moody's and S&P are likely to put pressure on the rand US dollar exchange rate, which is a key influencing factor for domestic fuel prices.

Lastly, the volatility of the rand against major currencies, coupled with a further hike in the fuel price, which is envisaged to occur at the end of this month, is likely to push up food inflation leading up to December. We also expect the interest rate to remain unchanged during the Monetary Policy Committee Meeting next week as we await the decision by the rating agencies.

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