Fuel Price Trends and Forecast

Updated Oct 2014

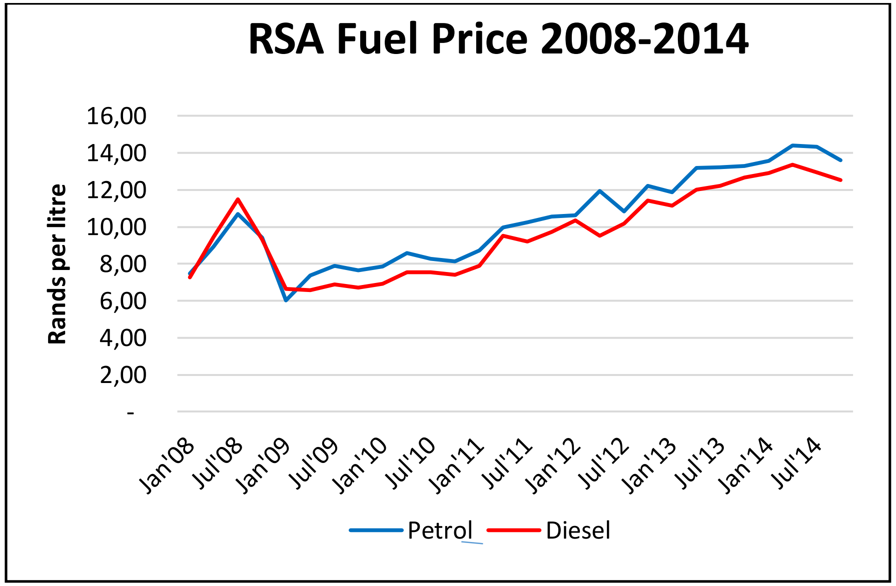
White-Paper for Information Purposes Only

With the yearly increases in fuel, the affect is felt by South African consumers and corporates alike. The higher fuel prices exert a strong price inflationary impact on the economy as a whole.

Since 2003 to date, there has been an average increase of 13% year on year. In 2014 we have seen the fuel price increase to over R14 per litre, with the highest cost of R14.39 (Unleaded 95 – Reef) in April this year.

In completing more than 50 detailed fleet reviews, our Eqstra Fleet Consulting team was able to estimate that fuel now contributes between 42% & 48% of overall corporate fleet expenditure. This affirms fuel as the single biggest cost to fleet controllers, and emphasises the importance of better management of driver behaviour and better choice of vehicles.

Figure 1: RSA Annual Fuel Price 2003 - 2014



Figure

The petrol retail price in South Africa is regulated by government, and changed every month on the first Wednesday of the month. The calculation of the new price is done by Central Energy Fund (CEF) on behalf of the Department of Energy (DOE). The petrol pump price is composed of a number of price elements and these can be divided into international and domestic elements.

- The international element, or Basic Fuel price (BFP), is based on what it would cost a South African importer to purchase crude oil on the international market and to transport the product onto South African shores.
- The Domestic element's consist of a variety of elements, which include different pricing zones (magisterial district zones) certain domestic transport costs, government imposts, taxes and levies and retail and wholesale margins needs to be added to the international price.
- The exchange rate of the SA Rand to the US$ - as crude oil is traded in US currency

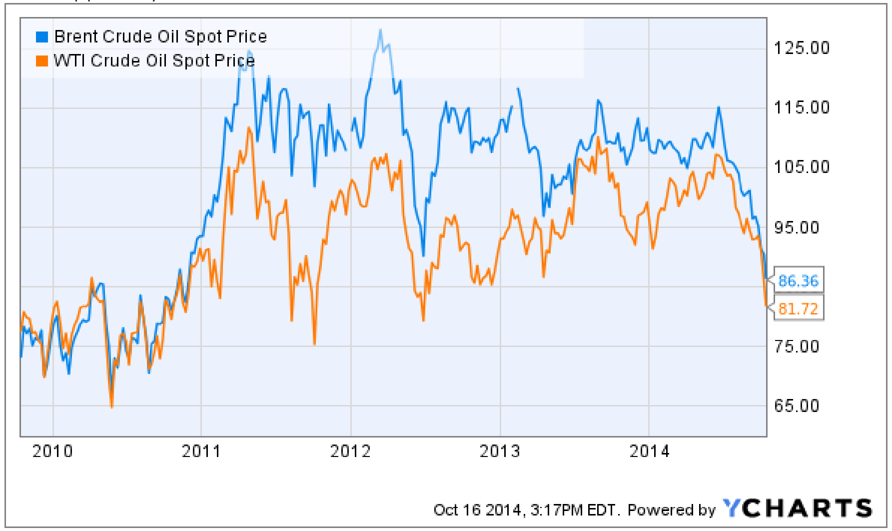
The fuel price is set to reduce by a further 45c per litre on the 5th November which would reduce the price of unleaded 95 to R13.16 on the reef, and the wholesale price of diesel (0.05%) is R12.31 on the reef which is nearly 9% lower than the April high.

This recent reduction in the fuel prices is largely attributed to the reduction in global crude oil prices, which have dropped from $115 per barrel in April to $86 per barrel currently – this being the lowest cost for four years and leading to speculation that OPEC will reduce output significantly to artificially increase the price.

It is important to note that the production of crude oil is only feasible if a minimum price of $80 - $90 per barrel could be achieved – which supports the speculation that OPEC will be forced to reduce production.

Figure2: rent Crude oil Spot Price

Data supplied by YCharts

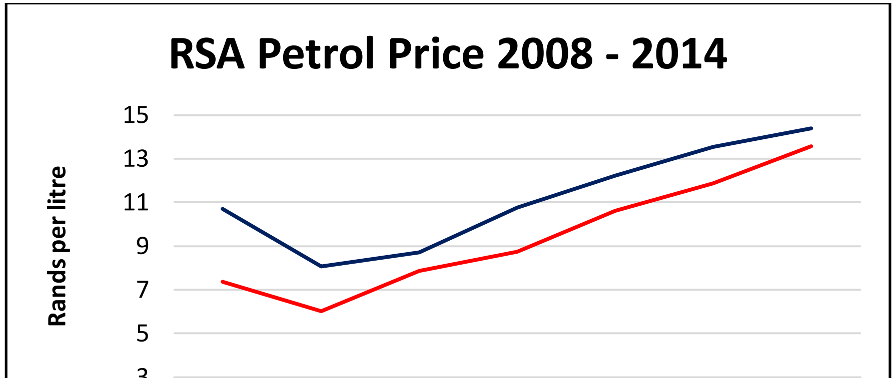


The current downwards trend in petrol prices is therefore unlikely to continue, even if the cost of Brent crude is reduced even further.

One of the key elements of pricing however remains the strength of the Rand - with forecasts for the South African Rand showing a continuing weakening again the US$. The average South African Rand/US$ conversion rate over the last 12 months was 10.50. The current exchange rate as of 22 October is at 10.95 – this compared to the average rate over the last 10 years being 7.85.

The correlation between the Rand and the Fuel prices is far more evident when considering the last five years pricing, where fuel prices increased on average 14% per year – and the rand weakening on average 10% year on year against the US$ for the past five years.

Figure 2: RSA Petrol Price 2008 – 2014



	2008	2009	2010	2011	2012	2013	2014
Low	7,35	6,01	7,86	8,73	10,61	11,86	13,57
High	10,7	8,05	8,72	10,77	12,22	13,55	14,39

The Outlook

Based on the historical data, and the external predictions on both the Brent Crude and Rand pricing – we are revising our April 2013 predictions and **estimating that the average increase for the full calendar year of 2014 vs 2013 pricing will be between 10% and 11%**

This prediction should be welcomed, considering that as of July the pricing was still tracking at 12.96% versus the last years pricing. Whilst we hope that this trend will continue it remains statistically likely that 2015 pricing will again increase in the range of between 12% and 15%

To place this in context, the average fleet vehicle consumes approximately 5,000 litres per annum. At the October 2014 fuel price this would equate to an annual cost of R68, 300 per vehicle. A 10% increase would result in an annual increase of +/- R6, 800 – whereas a 13% increase would result in an annual fuel increase per vehicle of R8, 800.

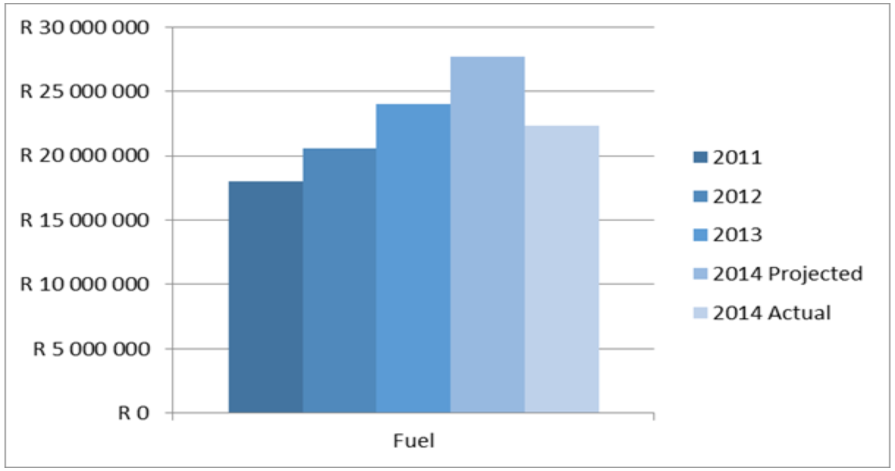
Recommendations

Based on the information available to us at date of print, we would strongly recommend at least a 12-13% increase is forecasted/ budgeted for 2015.

With Fuel costs accounting up to 48% of a fleet's annual expense, we would further urge fleet controllers to:-

1. Review vehicle selection and consider introducing more fuel efficient/ lower engine models to try and curb increases
2. Implement measurements that will actively manage driver behaviour and reduce speeding
3. Consider revising policies to curb private mileage by your employees

We have in December 2013 implemented a new strategy for a fleet of 500 vehicles that focussed on all the above measures, the result being that the client was able to not only beat inflation/ projection – but they are actually spending nearly R3m less this year than the previous year, even though they only replaced 12% of their fleet with more efficient vehicles.



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