No smooth drive ahead into the new year

By Nicky Smith

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Consumers and motorists are in for a miserable new year, with a petrol price hike of as much as 33c/l being forecast by the Automobile Association (AA) and people in Gauteng possibly no longer being able to avoid toll roads when they return to work.

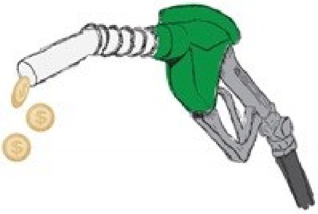

Image: [Free Digital Photos]

Higher fuel prices, driven by a weakening rand and Brent crude prices above $100 a barrel, are likely to be a reality for the first half of next year.

The AA said on Tuesday (17 December 2013) the average exchange rate "has continued to creep up to the R10.30 (to the dollar) mark", which had "translated into across-the-board under-recoveries in the fuel price".

"International petroleum prices have eased slightly so far in December," AA spokesman Graeme Scala said. "But possible relief may come from the exchange rate, which was averaging about R10.20 to the US dollar at the beginning of the month but has been in decline since then, with a daily spike to R10.50 on December 6."

The South African National Roads Agency (Sanral) has declined to provide statistics on how tolling has affected traffic volumes on the tolled highways as it did not want to reflect a distorted picture that may be created by a fall in volumes due to the holidays.

Tolling started on December 3 and anecdotal reports suggest an increase in traffic on alternative routes. Earlier this month, the Opposition to Urban Tolling Alliance said Sanral had inflated the number of e-tags in circulation in an effort to enhance the perceived success of the toll programme. Sanral has dismissed the claims.

Mohammed Nalla, head of strategic research at Nedbank Capital, said once a decision from the US Federal Reserve on its bond-buying programme was announced today there would likely be some relief for the rand, which could improve the outlook for fuel prices in the short term.

Nalla said while the Fed would scale back its quantitative easing programme, this was not necessarily negative for South Africa as it could stimulate demand for US assets from the Bank of Japan and European Central Bank. This would offset the pressure created by the tapering. Nalla said the rand had suffered because of the uncertainty ahead of the Fed's announcement of its decision.

"Our view is the Fed will continue with its asset purchase programme until March next year, so the sell-off in emerging market currencies has probably been overdone," creating opportunity for the rand to regain some strength. This in turn, Mr Nalla said, may mitigate against a steep fuel price rise next month.

According to the AA forecast, diesel could rise by 31c/l while petrol is likely to climb by between 31c/l and 33c/l, depending on the grade. Illuminating paraffin "will be hit particularly hard if current trends continue" - the predicted increase is for 39c/l.

While there may be some short-term relief with a better rand-dollar exchange rate, the bad news was that the continued improvement in the performance of the world's largest economies was likely to keep Brent crude oil prices at current levels.

"There is a fairly depressed outlook for domestic spending and sentiment for the first half of next year; the recovery in the US and other developed economies will have limited spillover for South Africa," Mr Nalla said.

"In terms of what consumers can look forward to in the next year - because growth remains poor and inflation has eased off - we think the Reserve Bank will keep rates on hold for most of 2014, so we are likely to enjoy lower interest rates ... consumers would do well to pay back as much debt as they can before the cycle turns."