Motorists ride rollercoaster

By Siseko Njobeni, Energy Affairs Editor

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Spate of petrol and diesel price decreases is giving cash-strapped consumers some much-needed economic relief.

This past year was not a smooth ride for South African motorists, with the volatility of international crude oil prices buffeting local fuel prices.

Months ago, motorists were taking one blow after the other as the minerals and energy department effected fuel price increases on a monthly basis. At the time, it seemed as if the pain would go on forever.

Fuel retailers were feeling the heat. Rising costs and falling margins were putting them out of business, they said. The Fuel Retailers' Association started putting pressure on the department to increase the retail margin — the amount the retailer retains for every litre of petrol sold. The department fixes this based on the actual costs that the retailer has incurred.

How big a margin?

The level of this retail margin is a bone of contention between the department and the industry. When times are hard, as they were earlier this year, the industry does its best to squeeze as much retail margin from the government as it can.

Rising fuel prices were high on the Congress of South African Trade Unions' (Cosatu's) list of grievances when it embarked on a one-day national strike in August this year. That fuel prices were determined by factors the government, or anyone, for that matter, could do little about — namely the exchange rate and the crude oil price — was not going to deter the angry workers from hitting the streets.

When crude oil prices hit a record of more than US$147 a barrel, it seemed as if the world was on a one-way street. It looked as if nothing could stand in the way of the rampant oil price. Goldman Sachs analyst Arjun Murti even forecast the oil price was headed for the US$200 a barrel level. It was difficult to ignore Murti's predictions. After all, he is the man who, a few years ago, forecast a US$100 a barrel oil price. At the time, many thought he had lost his marbles.

Then the unexpected happened. From those dizzy heights, the oil price just collapsed in the second half of the year. Major economies such as those of the US, Europe and Japan were experiencing economic slowdown. In fact, with the global credit crisis taking its toll, these economies were facing recession.

With the dreaded “R” word now a reality, the question on everyone's lip is whether crude oil prices have hit the floor level.

Oil prices have been hitting new lows. Last week oil fell to US$36 a barrel, a four-year low.

It is a tough one to call. Organisation of Petroleum Exporting Countries (Opec) president Chakib Khelil earlier this month told the media that the oil price had no floor. In other words, it can still sink deeper.

In a spin

The volatility in the oil price has Opec in a spin. The oil cartel, the supplier of 40% of the world's oil, recently announced that it would cut production by a record 2,4-million barrels per day from next month.

With the major economies — and biggest consumers of oil — slipping into recession, Opec has predicted a decline in oil demand next year, hence the decision to cut production.

Opec has every reason to be concerned. The oil price has been extremely volatile and unpredictable.

The oil cartel says it has seen oil prices increase US$10 a barrel one day and fall US$16 a barrel on another.

However, the falling oil price has been nothing but sweet music to the ears of SA's hard-pressed motorists. Since September, the minerals and energy department has been dropping fuel prices. It goes without saying that these decreases have eased the inflationary pressure associated with high fuel costs.

The level of fuel prices in SA is dependent on the movements in the crude oil price and the US dollar/rand exchange rate. A combination of a low crude oil price and a strong exchange rate is the best-case scenario for a fuel price drop.

Weak rand not playing ball

The weakening rand has not played ball as it has diluted the full positive effect of the low oil price. However, the oil price has fallen to such an extent that the rand's relative weakness has not been enough to outweigh the gains of the low crude oil prices. That is why South Africans have enjoyed back-to-back fuel price decreases for a few months now.

If the daily data of the Central Energy Fund is anything to go by, the trend is set to continue in the new year. Unless, something unexpected happens, another fuel price drop is on the way next month.

Most importantly, the fuel price decreases bring much needed economic relief.

Economist Tony Twine of Econometrix says the latest drop in fuel prices earlier this month will ease the rate of inflation and put approximately R2,3bn into the hands of South African households, business and the government.

The prospect of more cash in the pocket due to fuel price cuts is the kind of Christmas present most cash-strapped consumers need — even if it only comes next month.

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