Skyrocketing fuel prices cannot solely be blamed on the Ukraine war, economist says

Momentum Investments economist, Sanisha Packirisamym, says the ongoing conflict between Russia and Ukraine is largely to blame for skyrocketing fuel prices, however, she says there are a few pre-existing issues that aided the current fuel price panic.

Source: [Pixabay]

“Before the war between Russia and Ukraine, the world economy was growing to the point where demand in many instances had outpaced supply,” says Packirisamy.

“Organisation of the Petroleum Exporting Countries Plus (OPEC+) did not manage to increase oil production to levels that could satisfy the increase in demand.”

Due to anticipated shortages, Packirisamy says buyers started procuring even more goods and thus drove the price even higher. In addition, she says continuous unrest in the Middle East between Yemen and Saudi Arabia has also contributed to uncertainty surrounding supply, generating more pressure on the price of oil to increase.

Fortunately, given South Africa's status as a net commodity exporter, the rand exchange rate has held up reasonably well in this latest episode of elevated geopolitical risk. If this were not the case, the rise in local fuel prices would have been even steeper."

AA warns of a fuel price shock for April 2022

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Looking at the conflict in Ukraine, Packirisamy says this war has certainly compounded our fuel woes by causing a sharp rise in the price of international oil. "Uncertainty around the future supply of oil, with Russia being a large supplier to many countries, has contributed to knee-jerk reactions, which have driven the price of Brent oil to extremely high levels."

These levels have already spiked above $130 per barrel, almost as dire as in the 2008 recession. Although the price per barrel has since receded, Packirisamy warns that the situation can quickly change. "If the war intensifies and expands, the price of oil can increase much more, but if a compromise can be reached, oil can decrease closer to levels observed at the start of the year," she says.

What can South Africa do about this? Packirisamy says the reality is the international price of oil is largely and unfortunately outside of South Africa's control. This is dependent on global demand and geopolitical risk factors which affect global- supply.

Packirisamy also believes that the government is reviewing the price of fuel. She further suggests that running prudent fiscal and monetary policy as well as carrying through on structural reforms to enhance the country's attractiveness could be beneficial for South Africa through the positive effect on the rand and subsequently the local pricing of fuel.