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<u>March 2017 forecast indicates small price rise, but with low probability</u>

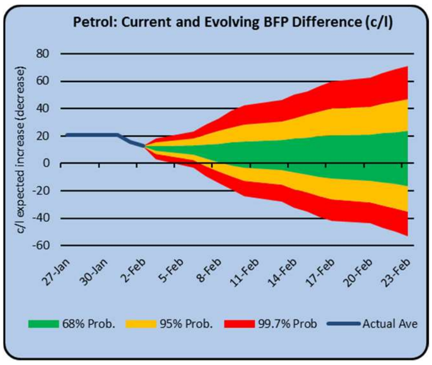
03 February 2017

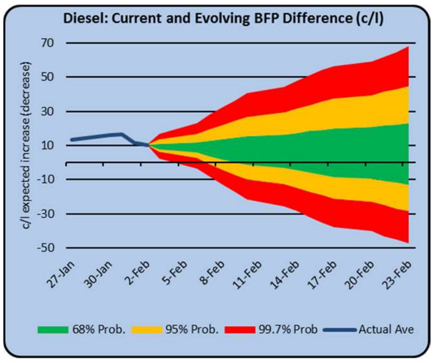
We're 5 days into the cycle to determine the price change for March, and while we often can make a strong forecast at this point, the price behaviour has meant that this is not possible at this stage. While indicating a small rise, there is still a large likelihood that this may change over the remaining calculation points. The High margin of error reflects this uncertainty.

The stated under-recoveries for both petrol and diesel are relatively high because of the way in which the pricing mechanism works, and we would expect this number to trend lower as new data points are added. This is why our forecast increase seems lower than the current under-recovery suggests it might be.

Given the near zero forecast increase, any new data that diverges from the current market price will provide direction for the price change in March. Factoring in the fact that the State of the Nation address takes place next Thursday (09 Feb) in parliament, this pricing cycle may well be dominated by political events.

Next price change takes place on 01-Mar-17	Inland Price (R/l)	Current (Under)/Over recovery (c/l)	Probability of increase	Probability of decrease	Price Change Expected (c/l)	Margin of error (c/l)
Petrol 95 Retail	13.33	(12.72)	56.0%	44.0%	4	20.0
Diesel 500ppm Wholesale	11.41	(10.41)	59.7%	40.3	5	17.9





The graphs to the left show the current average price difference between market rates and the current Basic Fuel Price (BFP) and varying ranges of future outcomes based on 1,2 and 3 standard deviations.

They are based on market data from 27 Jan – 2 Feb, comprising 5 of the 20 data points in the current cycle, and 10,000 possible price scenarios for the remaining 15 business days.

The forecasts are formulated based on actual historical moves, using specifically designed forecasting tools, and not on subjective market predictions for the oil price or the USD/ZAR exchange rate.

As with any statistical forecast, as more data becomes available, the forecast will become increasingly accurate, and the range of possible price changes will reduce.

Back testing of our forecasts shows that at this stage of the cycle our forecast is within the margin of error 65% of the time, as opposed to the statistically expected outcome of 68%.

All data is sourced from data published by CEF, including historical data from March 2014. (http://www.cefgroup.co.za/petrol-price/)

Contact Jayson Dunne on 082 900 1561 or 010 900 4951for more information.

Rubicon Risk Advisory Services specialises in Monte Carlo simulation, assisting executives in their decision-making processes, avoiding many common psychological traps such as Confirmation Bias, Cognitive Dissonance and Group Think.

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