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Rampant Rand and lower oil prices point to lower pump price for all fuels

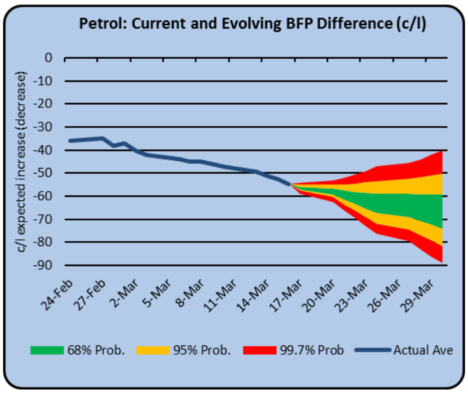
17 March 2017

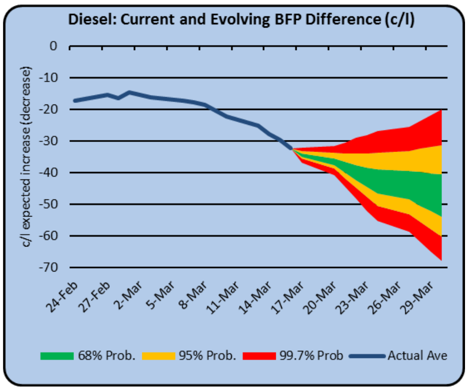
The continued strength of the Rand despite US rate hikes this week as well as lower oil product prices means that the over recovery in the BFP continues to grow. Presently it's 55c/l and 32c/l for Petrol and Diesel respectively. However, due to the averaging nature of the price mechanism, we are forecasting adjustments 12c/l and 15c/l in excess of this.

We currently forecast that the petrol price will drop by 66c/l before tax and levy adjustments, with a margin of error of 7.5c/l. there is now a greater than 99% chance that consumers will see a price drop in April, despite the 39c/l increase in statutory price elements.

Diesel continues to experience lower over recoveries and, as a result, our forecast is for a 47c/l drop in the BFP or 8c/l after tax adjustments. The margin for error for our diesel forecast is 6.8c/l.

Next price change takes place on 05-Apr-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	13.54	54.64	0.0%	100.0%	(66)	7.5
Diesel 500ppm Wholesale	11.61	32.27	0.0%	100.0%	(47)	6.8





The graphs to the left show the current average price difference between market rates and the current Basic Fuel Price (BFP).

They are based on market data from 23 February – 16 March, comprising 15 of 25 data points in the current cycle.

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 75% 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/)

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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.