

June Price Forecast may bring some winter Cheer

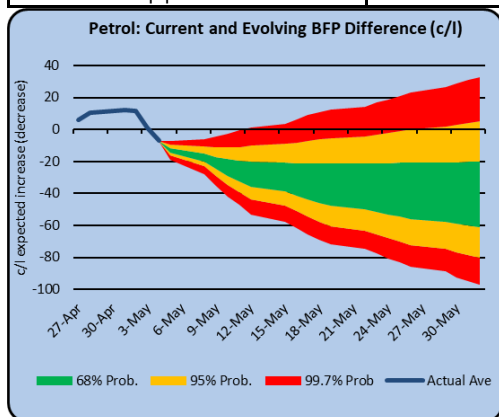
5 May 2017

Recent Rand strength as well as weaker international product prices bode well for a price cut in June. Despite only having just over 25% of this period’s price observations, we are forecasting a greater than 95% likelihood of there being a price cut next month. However, the Rand weakness over the past few days might reduce the extent of the price cut though, which we currently forecast as 40c/l for Petrol and 38c/l for Diesel.

The extent of the price move we are forecasting may surprise, but it needs to be borne in mind that while the present over recovery for Petrol is only 7.2c/l, current market rates are 48c/l below the ruling BFP. It is these new observations that will continue to pull the average for the month lower. It’s this effect rather than a prediction about the direction of the exchange rate and the oil price that informs our forecast.

With nearly 75% of the data points outstanding, our margin of error is still quite high, as can be seen below. This will reduce with each new observation.

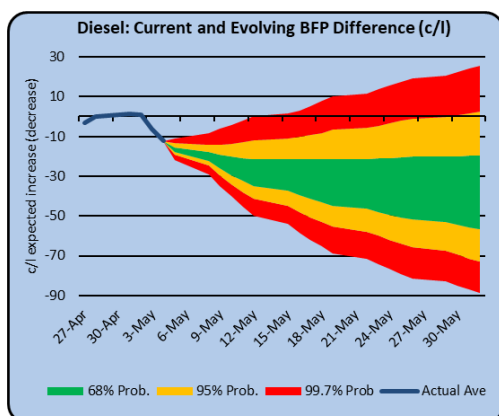
Next price change takes place on 7-Jun-17	Inland Price (R/l)	Current (Under)/Over recovery (c/l)	Probability of increase	Probability of decrease	Price Change Expected (c/l)	Margin of error (c/l)
Petrol 95 Retail	13.79	7.21	3.6%	96.5%	(40)	20.7
Diesel 500ppm Wholesale	11.80	12.35	3.0%	97.0%	(38)	18.4



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 26 – 27 April, comprising 7 of 27 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.