DIESEL BRO'S

PREMIUM FUEL SUPPLIERS

SOUTH AFRICA

HOW SOUTH AFRICA WILL FEEL

THE KNOCK-ON EFFECTS OF THE RUSSIAN CONFLICT

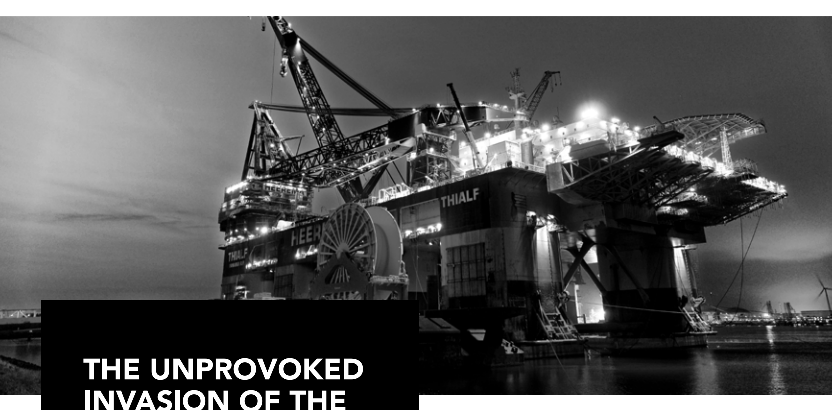
DEAR LOYAL PARTNERS

It's hard to avoid the news regarding the conflict in Europe, which has caused international oil prices to skyrocket. Some economists even predict that the worst-case scenario could be eventual fuel prices in the region of R40 per litre in South Africa.

But on a positive note, the world is slowly but surely opening up again as travel bans are being lifted and restrictions eased. And the same seems to be true for our country.

Recently, President Cyril Ramaphosa announced that Government's intentions are to lift the national state of disaster soon, which were implemented when the first COVID-19 case was recorded inside our borders in March, 2020. To say the past two years have been somewhat of a rollercoaster is an understatement!

To make it a smoother ride, we've collected this month's burning topics and latest news. For an in-depth look into what's current in the world of fuel, energy and logistics, please read on.



THE UNPROVOKED INVASION OF THE SOVEREIGN STATE OF UKRAINE BY RUSSIA

has had a negative impact on fuel prices around the world. The war has driven up the cost of crude oil which could see the price of fuel in South Africa double to over R40 a litre.

The higher fuel prices would have a knock-on effect on food security as it impacts farmers' ability to produce food. Fuel costs make up 13% of the grain production costs and approximately 80% of South Africa's grain is transported by road.

In addition, the price of fertiliser has risen by a whopping 70%, Russia happens to be the largest exporter of fertiliser in the world. IOL recently reported that all these factors could see a price explosion in energy markers and Russia diverts its gas supplies from Europe to China. According to the latest data from the Central Energy Fund, petrol and diesel prices look set for record increases in the first week of April, says the Automobile Association.

Based on the current data, 95 octane petrol is set to increase by R2.15/l, 93 octane is expected to climb by R2.07/l, diesel by between R2.94/l and R3.08/l and illuminating paraffin by R2.51/l. The AA says the current data implies that fuel prices will touch R24/l for petrol and R23.60 for diesel. Oil prices have been soaring amid the fallout from Russia's invasion of Ukraine.

Although Russia and Ukraine may thousands of kilometres from South Africa, the invasion will have serious ramifications for this country's citizens.

WHILE IT IS NEARLY IMPOSSIBLE TO PREDICT THE FUTURE

one scenario being advanced is that the conflict will develop into a protracted war. This will likely happen if it takes longer than anticipated for Russian forces to secure Ukrainian cities, whose defenders are fighting back from street to street.

This implies that the impact on countries with absolutely nothing to do with the conflict will be felt for a long time. South Africa is not isolated from the ramifications of the Russia-Ukraine conflict.

Elevated crude oil prices on the world market will translate to higher fuel prices for South African motorists, taxi operators and those in the business of moving goods. The taxi operators will simply pass on the additional fuel cost to commuters, so too will retailers, who themselves will be asked to pay more to have their wares delivered.

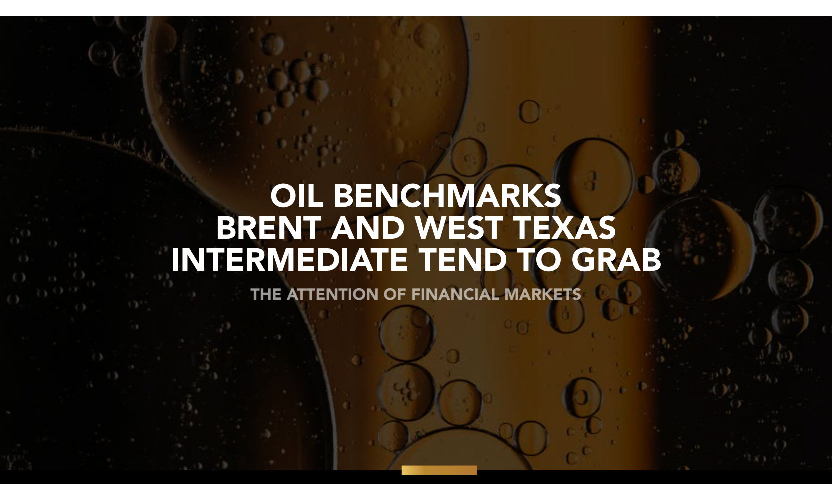
Oil prices had been rising for about six months before the war started. If the recent increases persist, the World Bank estimates that a full percentage point will be shaved off the GDP growth of South Africa and other oil importers.

SOUTH AFRICA IMPORTS

40% OF ITS WHEAT REQUIREMENTS

and in the past almost a third came from Russia and Ukraine. While the Agricultural Business Council of SA does not believe this country will experience shortages of wheat, which is milled into flour, a key ingredient for making bread a staple food in the country, the international wheat price has soared because of limited supplies.

This will ultimately reflect in the South African wheat prices and the prices the locals will pay for bread. It is likely that, because of the raging war, the planting of this year's spring wheat, barley and maize crops in the two countries will be disrupted. This implies that the global shortage of these grains will linger for some time.



OIL BENCHMARKS BRENT AND WEST TEXAS INTERMEDIATE TEND TO GRAB

THE ATTENTION OF FINANCIAL MARKETS

Regular consumers, however, don't buy crude; they purchase refined petroleum products such as diesel and petrol.

A DIESEL SHORTAGE IS A BIG PROBLEM

Diesel is the workhorse of the global economy. It keeps trucks and vans, excavators and heavy machinery, freight trains and ships all moving, and wholesale and retail diesel prices are surging.

The surge matters because of the ubiquity of diesel in modern life. As the fuel of transportation, the price rally will hit everyone, adding to inflationary pressures that are already running at a multi-decade high. More than the cost of oil, skyrocketing diesel prices should be the main worry of central banks.

The dire diesel supply situation predates the Russian invasion of Ukraine. While global oil demand hasn't yet reached its pre-pandemic level, global diesel consumption surged to a fresh all-time high in the fourth quarter of 2021. The boom reflects the lopsided Covid-19 economic recovery, with transportation demand spiking to ease supply-chain messes.

EUROPEAN REFINERIES HAVE STRUGGLED TO

match this revival in demand. One key reason is pricey natural gas.

Energy supplier, Eskom expects running costs for its diesel-fed turbines, which are used to keep the lights on when coal-powered plants break down, to surge as it struggles to keep up with maintenance.

Eskom sees about a third of its coal-fired capacity being unavailable at any one time under a most likely scenario, it said in a presentation recently to the National Economic Development and Labour Council (Nedlac), which groups business, government and labour union representatives.

That would require it to spend R20.9 billion on fuelling its open-cycle gas turbines in the 13 months through April next year, or almost three times what it spent in the financial year ended March last year.

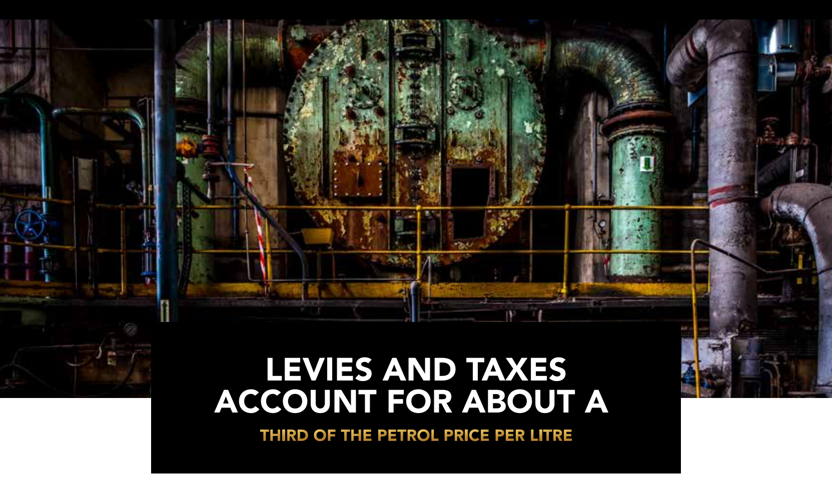
Under its most likely projection, between 12 000 and 13 000 megawatts would be unavailable at any time due to breakdowns and some missing capacity would need to be replaced using turbines. Even then, 25 days of power cuts should be expected as it would struggle to replenish diesel supplies fast enough and there would be financial constraints in paying for the fuel, the company said in the presentation.

The parliamentary mineral resources and energy committee meeting came as the government announced an overall review of the petrol price – with more pressing mitigation of rising petrol prices under way.

AS STATED BEFORE, RUSSIA'S INVASION OF UKRAINE

has triggered rapidly rising global oil prices that have upped the pressure in South Africa where the petrol price, after a series of increases, breached R20 per litre.

In an unusual move, the 2022 Budget did not raise the fuel levies and the Road Accident Fund (RAF) tax – the carbon tax component of the petrol price went up one cent to 10c a litre – to provide relief to consumers.



LEVIES AND TAXES ACCOUNT FOR ABOUT A

THIRD OF THE PETROL PRICE PER LITRE

with the basic fuel price (BFP) set on parity pricing for oil imports. Administered prices under the Regulatory Accounting System include wholesale, distribution, retailers and entrepreneur margins, alongside zone differentials that set prices on geographic district and the slate levy financing cumulative petrol price under-recoveries.

That the government also is looking at ways to mitigate further fuel price hikes is on public record – even if the details are not.

The focus right now is on April and May, according to the government in its efforts to mitigate the impact of global oil spikes sparked by Russia's invasion of Ukraine. To date, there's been no word.

KEEP YOUR EYES PEELED FOR NEXT MONTH'S HOT TOPICS AND RELEVANT NEWS

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