

#### WHAT TO EXPECT FROM PETROL PRICES IN 2021

As a South African, you probably cringed during the first week of February when you heard that petrol prices would increase by 81 cents and diesel prices by 58 cents. Unleaded 95 now costs R14.97 at the coast and R15.67 inland. Yikes! Because diesel prices often differ between retailers, it might be more appropriate to consider the wholesale price of 50ppm diesel, which is now R13.00 at the coast and R13.60 inland.

The reason for this latest increase has more to do with the steady surge in global oil prices than with a depreciating local currency. In fact, the rand has been on its best behaviour and seems to be in an appreciating trend. We expect it to average around R15.50, although it will be quite volatile around this level. On average, it should not be the most concerning influencer for petrol prices in 2021. As global production returns to pre-pandemic levels, and as the expectation about a new global growth-wave solidifies (which will be good news for our commodity producers in South Africa), greater demand will support higher oil prices.

And then there is the weather. Colder winters in the northern hemisphere, like the one currently in the United States (US), usually increases demand, causing oil prices to rise. Or socio-political tensions flare up in the Middle East, which can add a couple of dollars to the oil price. But we expect these to be muted during 2021, the world is still in a pandemic-induced euphoria of working together to curb infections. Luckily, global oil supply is well under capacity. But even if supply dries up, we can always count on the American shale gas industry to start flooding the market and reign in high prices. Oil prices should therefore not exceed \$70 a barrel, and average at levels around \$65. But these two factors, the international dollar price of crude oil, and the value of our rand, only make up the basic price of fuel in South Africa. The taxes levied on fuel in South Africa is far more concerning.

In South Africa, 38% of our total petrol price, roughly R5.88, is taxes, mostly the fuel levy and taxes levied for the road accident fund. Hiking these taxes are a favourite for finance ministers in South Africa: it is a broad tax and easy to administer. Like VAT, but a bird of another feather. Fuel tax is not seen the same as VAT and therefore easier to get by voters, pesky unions, and party members. Considering the dire state of our state finances and the difficulty of increasing VAT or taking more from those with jobs through higher personal taxes or wealth taxes, we expect that fuel related taxes will increase by as much as R1.50 during the minister's next budget address later in February. If we are lucky, it will only increase by R1.00.

Luckily though, the pandemic has decreased the average monthly kilometres travelled for most South Africans, meaning higher petrol prices should not hurt your budget in the same way as before COVID. As working-from-home becomes a reality for many South African industries, the overall impact of higher petrol prices, will also have a smaller impact on inflation, than it did in the past. So, don't worry about higher interest rates just yet.

