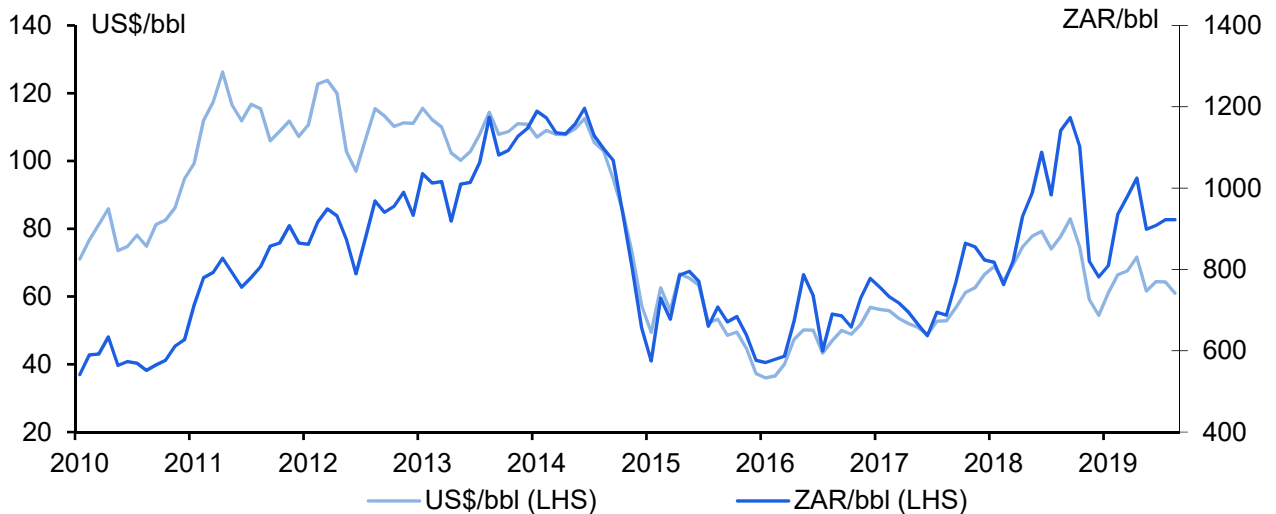


Oil note: fears of slower global growth lowers oil prices, but this is overshadowed by rand depreciation, with a petrol price increase for September likely. Q4.19 could see the rand strengthen, if not before then



14 August 2019

Figure 1: Oil price: Rand vs USD



Source: Iress

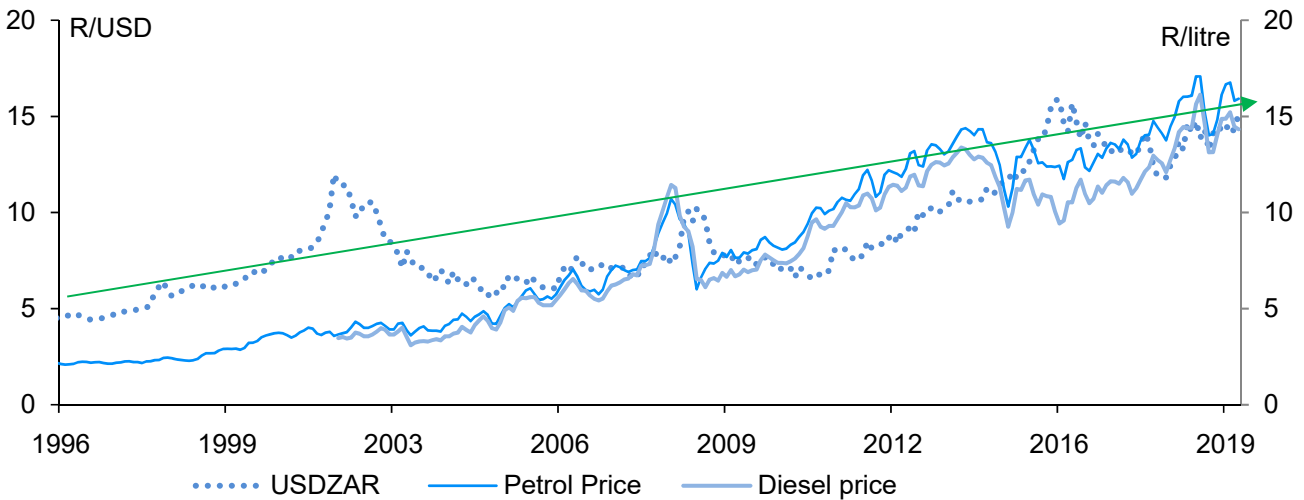
- Since its high point this year of US\$74.5/bbl, which occurred in April, the Brent crude oil price has dropped by over 21%, leading to worries of a bear market for the commodity. However, the oil price high this year proved to be temporary, and for most of the period since this spike, the oil price has declined.
- Indeed, the Brent crude oil price averages US\$65/bbl to date this year, down from 2018's US\$71.8/bbl. We continue to expect the price will average US\$65/bbl this year, with some upwards pressure from current levels, but with continued volatility also likely.
- The rand to date averages R14.32/USD in Q3.19, essentially in line with our forecast (see "Rand Outlook", 17th May 2019, see website address below) of R14.30/USD. However, August has seen risk aversion levels in global financial markets elevate notably, with the rand depreciating beyond R15.00/USD.
- At the end of July the Federal Reserve Bank failed to deliver the extremely dovish tone markets anticipated, reducing expectations of multiple US interest rate cuts this year and sparking risk-off. These cuts were seen to be needed to stave off the risk of a future economic slowdown on the back of US-led trade protectionism.
- Thin liquidity conditions in August, as many market players in the northern hemisphere are away on summer vacation, exacerbated the sensitivity of the market reaction to the perceived Fed turnaround in tone, followed by heightened global trade tensions.

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14 August 2019

Figure 2: Rand versus petrol and diesel prices – rand weakness pushes up fuel costs



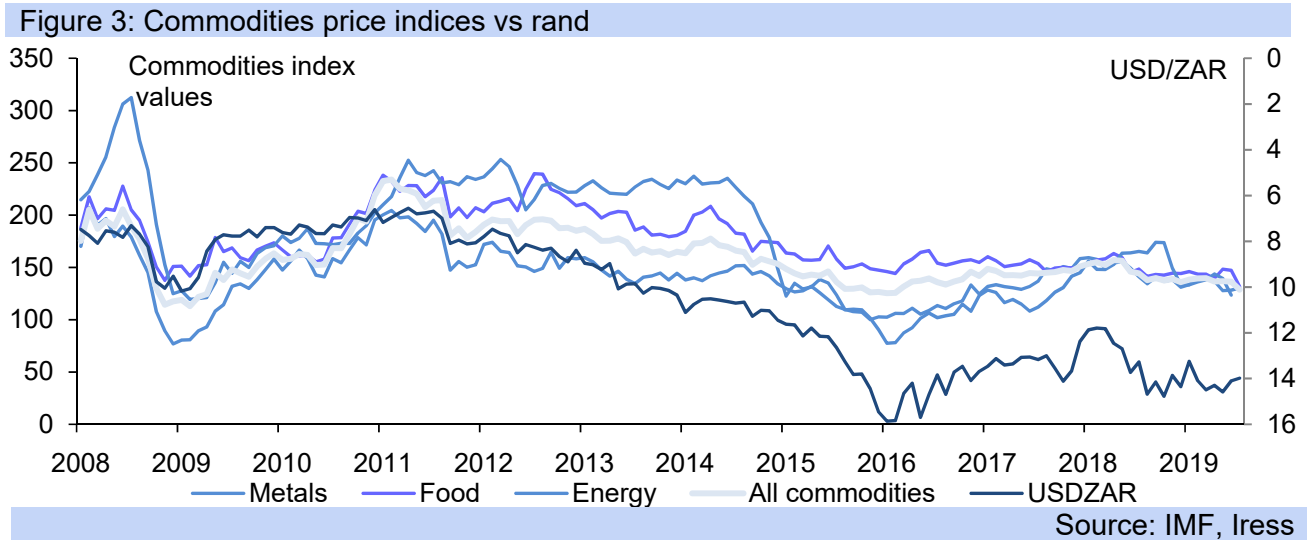
Source: Iress

- Q4.19 could see risk aversion subside (see “Rand note: elevated risk aversion in global markets causes marked rand sell-off in what is typically a risk off period for the domestic currency. The fourth quarter of the calendar year, in contrast, tends to see the rand recover”, 12th August 2019, website address below).
- With the rand oversold, some recovery in the domestic currency has already occurred, and further is expected in September as market players return. However, our Q3.19 forecast of R14.30/USD (average for the quarter), would be revised closer to R14.50/USD if the rand does not continue to correct this month.
- The recent fall in the Brent crude oil price, to US\$58.2/bbl from US\$66.9/bbl last month, does not signal a petrol price cut, as may be expected. Recent marked rand weakness has cancelled out the lower oil price impact, with a petrol price increase currently scheduled for September.
- Indeed, the signalled petrol price increase for September has been building this month, currently at 10c/litre, but is likely to climb higher as the impact of the weakness of the rand overshadows the effect of the lower international oil price on domestic fuel prices.
- The Brent crude oil price is not expected to remain in the US\$50/bbl to US\$59/bbl range this year, even with a significant weakening in global economic demand from US-Sino trade conflict, as further quota support from OPEC is likely to ensue if this range becomes likely.

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14 August 2019



- Already Saudi Arabia announced limits on oil exports for August and September, which has seen the Brent crude oil price move back to US\$61/bbl. Further price improvements over September, and into Q4.19 on a reduction in sensitivity to global growth concerns, as risk aversion levels moderate, are also likely.
- Besides international events, heated politics internally in South Africa including over the independence of the SARB, and worries over Eskom’s debt, has also weakened the rand, contributing to the petrol price hike building for September, as the depreciation of the rand feeds directly through into higher prices.
- Looking forward, South Africa sees the MTBPS (Medium-Term Budget Policy Statement) in the third week of October. Before that Eskom is expected to publish a debt rescue plan before the end of September. Moving part of Eskom’s debt onto government’s balance sheet is reported as one option being considered.
- Eskom is expected to recommend one of four options in its debt rescue package, with the other three potentially being a debt equity swap with the PIC, further cash injections and/or moving part of Eskom’s debt into a special purpose vehicle (around R250bn).

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14 August 2019

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14 August 2019

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