SA Economics

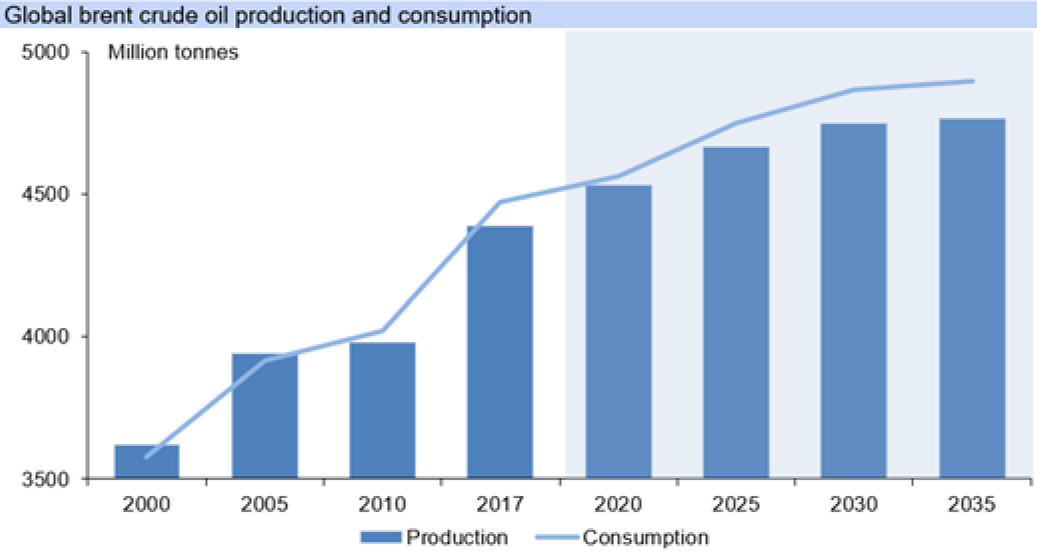
Wednesday 26 May 2021

Oil note: oil prices have steadied after a strong ascent which contributed to recent higher inflation globally, looking forward this should help inflation stabilise as well with producers likely comfortable at current Brent oil price levels

Brent crude oil price: Rand vs USD

Source: Iress

Global brent crude oil production and consumption



Source: FocusEconomics

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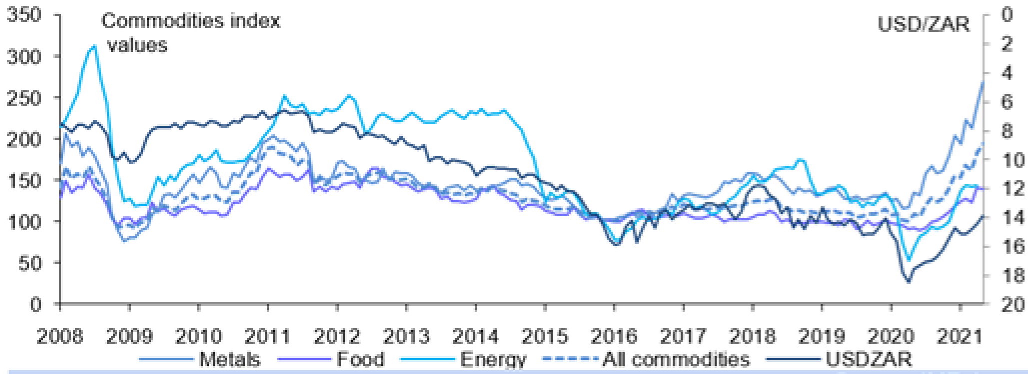
Commodities price indices vs rand



Source: IMF, Iress

- After a sharp run up in international oil prices in the second half of last year, and early this year, oil prices have steadied since February, which should aid in soothing global inflationary pressures, although base effects from last year's low prices are still to work out the system.
- Global inflation rose markedly in April this year on base effects from the collapse in commodity prices a year ago in the face of the pandemic. While commodity prices have risen substantially since, gains are likely to be milder going forward, helping to anchor inflation.
- For inflation both globally and domestically, we continue to expect that base effects will cause readings to come out markedly higher in May, and keep inflation elevated over the rest of this year and into early next, but not cause it to continue to climb substantially higher after May.
- However, the sharp jump up in many countries' inflation readings in April, and expected further lift in May, has given rise to concern this may be repeated further, leading worries of a high global inflationary environment, particularly given the current commodities' boom.
- Commodity prices in general have recouped their losses from last year's pandemic and from the erosion caused by US-led trade wars. The price recovery has been driven by both expectations of demand and growing actual demand as well as supply shortages.
- Supply conditions for commodities generally will ease as vaccinations cover more workforces and lift production, while the highs commodities' prices have reached are also stimulatory for production, including exploration, but price lifts from here will likely be much more modest.
- Oil prices are unlikely to see further substantial strength after the quotas (supply limitations) instituted by the global oil production cartel and its affiliated producers, OPEC+ (Organisation of Petroleum Exporting Countries) pushed prices to current levels.

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- For South Africa, Brent crude oil is its key import, and it has run in the US$60-70/bbl range since February, averaging around US$65/bbl. Currently it is at US$68/bbl, and could stay in this region as this appears comfortable for OPEC+, barring unexpected shocks.
- Consequently, oil prices are not expected to see substantial increases this quarter, nor into the second half of this year. Instead, with cooling commodities' price acceleration in general, inflation outcomes should not see a further, a marked acceleration from June.

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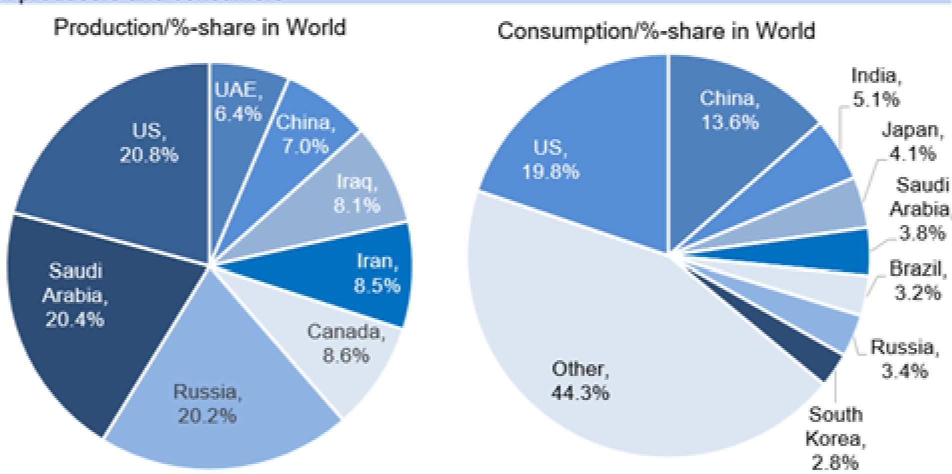
Major oil producers and consumers



Source: FocusEconomics

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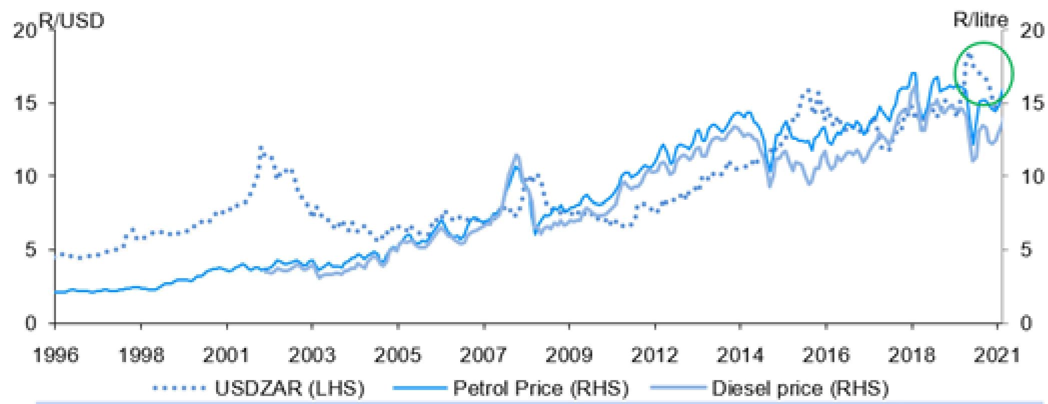
Rand versus petrol and diesel prices – rand weakness pushes up fuel costs



Source: Iress

Brent prices and futures prices

Annual data	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
USD per bbl (aop)	98.9	52.4	43.8	54.3	71.0	64.2	43.4	64.1	63.5	61.8	60.6	59.5
Quarterly data	**Q2.20**	**Q3.20**	**Q4.20**	**Q1.21**	**Q2.21**	**Q3.21**	**Q4.21**	**Q1.22**	**Q2.22**	**Q3.22**	**Q4.22**	**Q1.23**
USD per bbl (aop)	33.4	43.4	45.4	61.3	65.7	66.0	65.4	65.1	64.0	64.2	64.0	62.2
Monthly data	**Jun-21**	**Jul-21**	**Aug-21**	**Sep-21**	**Oct-21**	**Nov-21**	**Dec-21**	**Jan-22**	**Feb-22**	**Mar-22**	**Apr-22**	**May-21**
USD per bbl (aop)	66.4	65.9	66.1	66.0	65.8	65.4	65.0	65.5	65.1	64.8	64.1	63.9
Futures Prices (14 May)	-	66.8	66.3	65.8	65.4	64.9	64.5	64.0	63.6	63.2	62.9	62.6

Source: FocusEconomics

- International oil price movements will continue to depend on quota decisions from OPEC+, along with global travel restrictions, vaccine rollouts and the path of COVID-19 infections. Any upwards oil price pressure will likely be driven more by the impact of quotas than demand.
- As demand rises for oil, OPEC+ is likely to roll back its quotas on supply, as it has in the past, allowing demand to meet supply. Other energy prices (excluding oil) could see some upwards price pressure from improving demand as they have not been artificially supported by quotas.
- While not expected, the oil price does remain at risk of volatility however, as it is also heavily influenced by financial market sentiment on global economic growth and other developments, either positive or negative such as slower or quicker global vaccine rollouts than expected.
- Geo-political tensions in the Middle-East remain a concern for the oil outlook, as do any major supply disruptions, with OPEC+ not that quick to adjust quotas, and so marked price volatility can easily occur. The most likely scenario however is for Brent around US$65/bbl this year.

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- Stabilisation in oil prices is clearly helpful for inflation, and SA's CPI inflation has been boosted from 2.9% y/y in February, to 4.4% y/y in April. Oil price movements in the month before influence SA's inflation, with Brent of US$34bbl for March 2020 versus $66bbl in March 2021.
- South Africa's CPI inflation is expected to average a moderate 4.4% y/y for 2021, close to the mid-point of the target range of 4.5% y/y, despite some monthly volatility and a temporary rise in May to 5.2% y/y. Similar temporary volatility is expected in global inflation figures too.
- The rand's strength has assisted in moderating the inflation impact of commodity prices recently for SA, and the domestic currency continues to be a key gainer from both the commodity boom and the perceived improvements in its domestic political environment.
- While higher oil prices have been helpful for oil exporting nations, with additional revenues aiding their economic recoveries, it has not been helpful for oil importing nations, or for the global recovery, as oil prices rose artificially quickly on quotas, and not demand.
- Global economic activity is continuing to show strong evidence of recovery, led by industrial activity with global PMI readings showing strong outcomes, above expectations and at recent highs, as supply side pressures drive inflation, and not yet substantial demand pressures.

Global brent crude oil production and consumption outlook

	2000	2005	2010	2017	2020	2025	2030	2035
Production/Million tonnes oil equivalent								
Global	**3,618**	**3,938**	**3,977**	**4,387**	**4,531**	**4,666**	**4,747**	**4,766**
North America	642.5	637.7	638.6	916.8	1,035.1	1,144.9	1,182.1	1,164.5
Europe and CIS	728.6	849.4	859.5	862.2	852.9	835.1	830.1	820.3
Middle East	1,149.9	1,226.4	1,219.2	1,481.1	1.514.3	1,567.2	1,607.2	1,674.3
Asia Pacific	381.0	382.9	402.7	375.5	347.2	335.3	327.0	298.9
Others	715.8	841.2	856.5	751.6	781.6	783.5	801.2	807.8
Consumption/Million tonnes oil equivalent								
Global	**3,580**	**3,915**	**4,021**	**4,470**	**4,564**	**4,751**	**4,864**	**4,897**
North America	1,057.7	1,120.5	1,010.8	1,056.4	1,017.9	994.7	957.6	905.7
Europe and CIS	932.3	962.7	900.7	904.5	871.4	851.0	816.4	771.2
Middle East	242.4	298.4	363.1	404.4	446.0	470.1	491.9	509.3
Asia Pacific	997.7	1,149.5	1,297.9	1,598.0	1710.6	1,864.3	1,971.9	2,037.8
Others	349.5	383.8	448.9	506.3	518.0	570.9	626.1	673.4

Source: FocusEconomics

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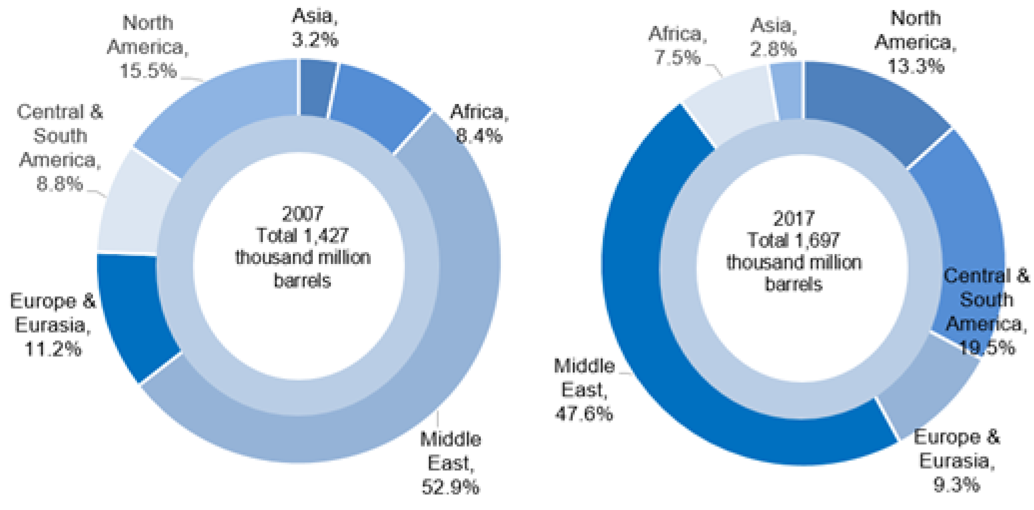
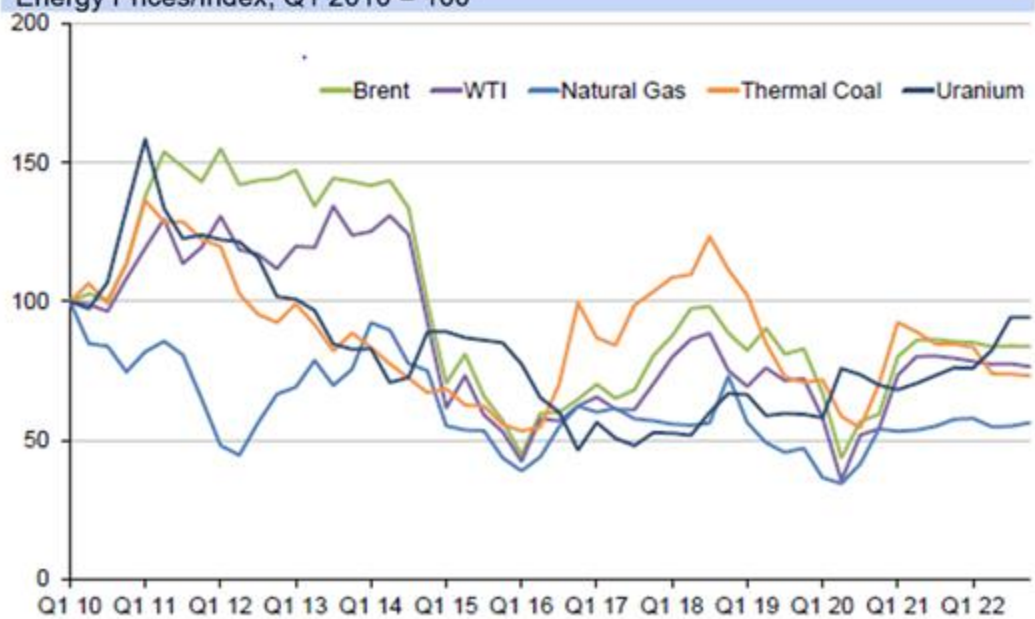
Distribution of proven oil reserves in 2007 and 2017



Source: FocusEconomics

Energy Prices/Index, Q1 2010 = 100



Source: FocusEconomics

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