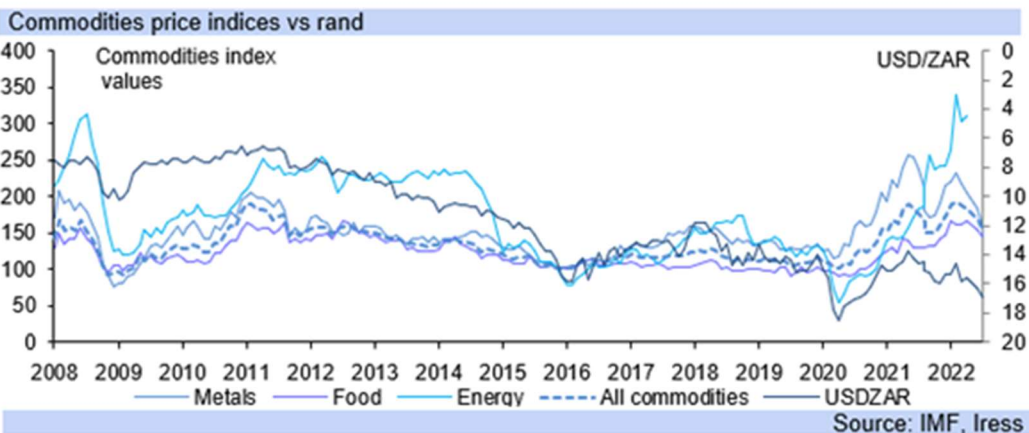
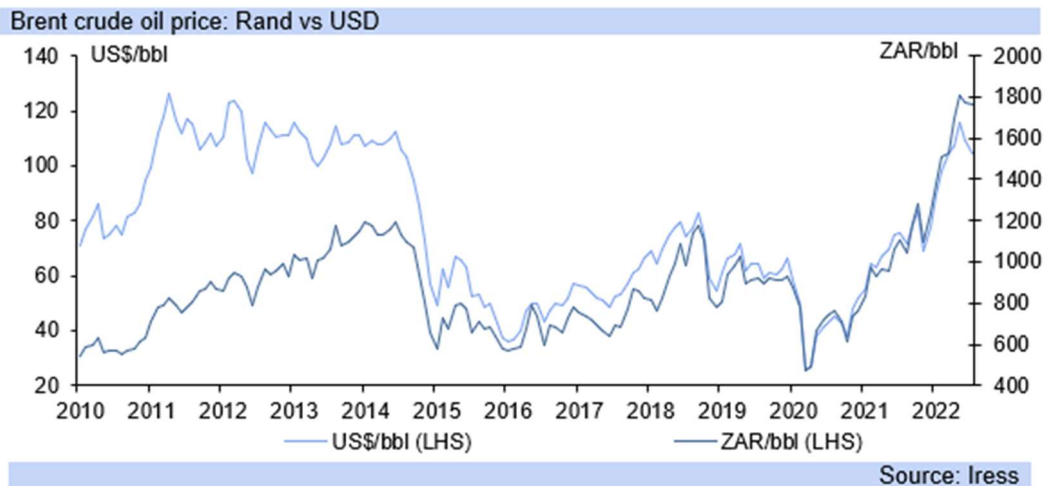




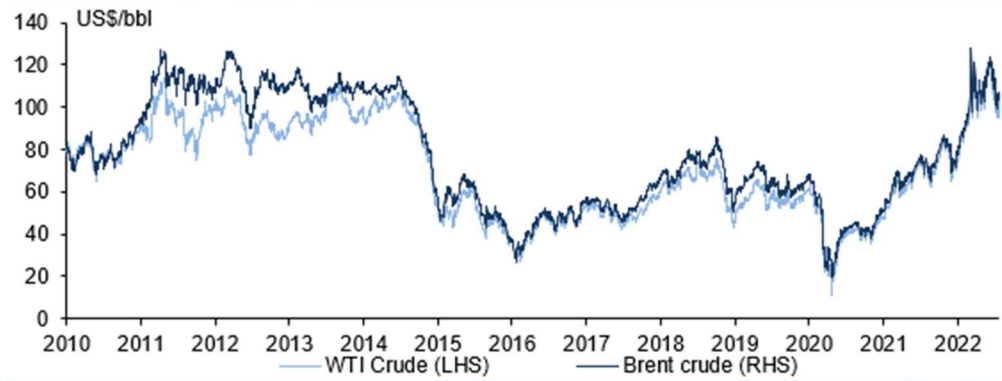
SA Economics

Wednesday 27 July 2022

Oil note: SA is in line for close to a R2.00/litre cut in the petrol price in August given the drop in the international gasoline price

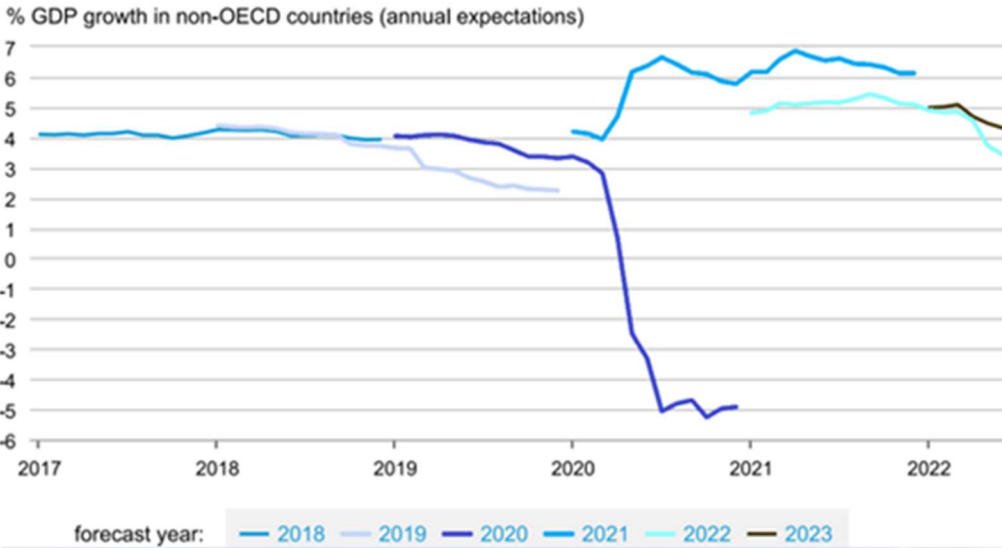


Brent crude oil vs WTI crude oil price



Source: Iress

Changes in expectations of economic growth can affect oil prices



Source: EIA

Overview of the World Economic Outlook Projections

	Year over Year				Difference from April 2022 WEO Projections 1/		Q4 over Q4 2/		
	2020	2021	Projections		2022	2023	2021	Projections	
			2022	2023				2022	2023
World Output	-3.1	6.1	3.2	2.9	-0.4	-0.7	4.4	1.7	3.2
Advanced Economies	-4.5	5.2	2.5	1.4	-0.8	-1.0	4.7	1.3	1.5
United States	-3.4	5.7	2.3	1.0	-1.4	-1.3	5.5	1.0	0.6
Euro Area	-6.3	5.4	2.6	1.2	-0.2	-1.1	4.7	0.7	2.1
Germany	-4.6	2.9	1.2	0.8	-0.9	-1.9	1.8	0.5	1.5
France	-7.9	6.8	2.3	1.0	-0.6	-0.4	4.9	0.4	1.1
Italy	-9.0	6.6	3.0	0.7	0.7	-1.0	6.4	0.6	1.6
Spain	-10.8	5.1	4.0	2.0	-0.8	-1.3	5.5	1.3	2.3
Japan	-4.5	1.7	1.7	1.7	-0.7	-0.6	0.4	2.4	0.6
United Kingdom	-9.3	7.4	3.2	0.5	-0.5	-0.7	6.6	0.1	1.3
Canada	-5.2	4.5	3.4	1.8	-0.5	-1.0	3.2	2.5	1.7
Other Advanced Economies 3/	-1.8	5.1	2.9	2.7	-0.2	-0.3	4.6	2.0	2.8
Emerging Market and Developing Economies	-2.0	6.8	3.6	3.9	-0.2	-0.5	4.2	2.1	4.7
Emerging and Developing Asia	-0.8	7.3	4.6	5.0	-0.8	-0.6	3.8	4.0	4.7
China	2.2	8.1	3.3	4.6	-1.1	-0.5	3.5	4.1	3.2
India 4/	-6.6	8.7	7.4	6.1	-0.8	-0.8	3.9	4.1	7.2
ASEAN-5 5/	-3.4	3.4	5.3	5.1	0.0	-0.8	4.7	3.4	6.1
Emerging and Developing Europe	-1.8	6.7	-1.4	0.9	1.5	-0.4	6.1	-7.0	7.7
Russia	-2.7	4.7	-6.0	-3.5	2.5	-1.2	4.8	-13.9	4.8
Latin America and the Caribbean	-6.9	6.9	3.0	2.0	0.5	-0.5	3.9	1.8	2.1
Brazil	-3.9	4.6	1.7	1.1	0.9	-0.3	1.6	1.5	1.5
Mexico	-8.1	4.8	2.4	1.2	0.4	-1.3	1.2	2.9	1.0
Middle East and Central Asia	-2.9	5.8	4.8	3.5	0.2	-0.2	...	...	...
Saudi Arabia	-4.1	3.2	7.6	3.7	0.0	0.1	6.7	6.9	3.7
Sub-Saharan Africa	-1.6	4.6	3.8	4.0	0.0	0.0	...	...	...
Nigeria	-1.8	3.6	3.4	3.2	0.0	0.1	2.4	2.1	2.3
South Africa	-6.3	4.9	2.3	1.4	0.4	0.0	1.8	2.2	1.7
Memorandum									
World Growth Based on Market Exchange Rates	-3.4	5.8	2.9	2.4	-0.6	-0.7	4.4	1.6	2.5
European Union	-5.8	5.4	2.8	1.6	-0.1	-0.9	4.9	0.9	2.8
Middle East and North Africa	-3.4	5.8	4.9	3.4	-0.1	-0.2	...	...	...
Emerging Market and Middle-Income Economies	-2.2	7.0	3.5	3.8	-0.3	-0.5	4.3	2.0	4.7
Low-income Developing Countries	0.1	4.5	5.0	5.2	0.4	-0.2	...	...	...
World Trade Volume (goods and services) 6/	-7.9	10.1	4.1	3.2	-0.9	-1.2	...	...	...
Advanced Economies	-8.8	9.1	5.3	3.2	-0.3	-1.4	...	...	...
Emerging Market and Developing Economies	-6.2	11.7	2.2	3.3	-1.8	-0.9	...	...	...
Commodity Prices (US dollars)									
Oil 7/	-32.7	67.3	50.4	-12.3	-4.3	1.0	79.2	28.6	-13.4
Nonfuel (average based on world commodity import weights)	6.7	26.1	10.1	-3.5	-1.3	-1.0	16.4	5.7	-0.6
World Consumer Prices 8/	3.2	4.7	8.3	5.7	0.9	0.9	5.8	8.3	4.1
Advanced Economies 9/	0.7	3.1	6.6	3.3	0.9	0.8	4.9	6.3	2.3
Emerging Market and Developing Economies 8/	5.2	5.9	9.5	7.3	0.8	0.8	6.1	10.0	5.7

Source: IMF, WEO July 2022

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during May 30, 2022–June 27, 2022.

Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = World Economic Outlook.

1/ Difference based on rounded figures for the current and April 2022 WEO forecasts. Countries whose forecasts have been updated relative to April 2022 WEO forecasts account for approximately 90 percent of world GDP measured at purchasing-power-parity weights.

2/ For World Output (Emerging Market and Developing Economies), the quarterly estimates and projections account for approximately 90 percent (80 percent) of annual world (emerging market and developing economies') output at purchasing-power-parity weights.

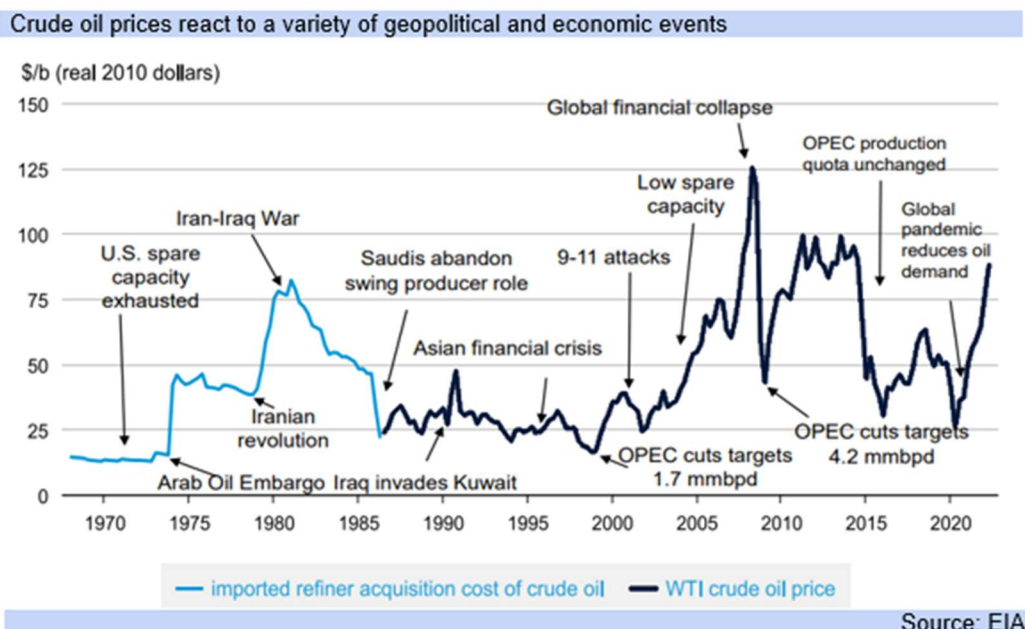
3/ Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

4/ For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year. 5/ Indonesia, Malaysia, Philippines, Thailand, Vietnam. 6/ Simple average of growth rates for export and import volumes (goods and services). 7/ Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in US dollars

- With only a few days of July left, lower energy prices this month are indicating a -7.4% drop in South Africa's petrol price in August, and a -6.2% decline in the diesel price, which will provide some welcome relief to high living costs, if government passes them through.
- Energy prices have fallen as global growth expectations for this year and next year drop lower again. The IMF published a gloomy update late yesterday to its world economic outlook (WEO), warning that "(t)he U.S. has only a slim chance of avoiding ... recession".
- The IMF now expects global growth of 3.2% y/y this year, revising it successively lower from the 3.6% y/y expected for 2022 in its April WEO update, and 4.4% y/y in January's WEO, while in October last year the IMF forecast 4.9% y/y for 2022.

- Indeed, in June last year the IMF forecast 5.0% y/y for 2022 growth. The successive downward revisions reflect the building negative expectations for global economic activity this year and next, with the IMF now forecasting 2023 world GDP growth at 2.9% y/y.
- The downward revision for 2023's IMF global growth expectation is quite material, dropping -0.7% y/y since the April forecasts, as US growth was revised down by -1.3% y/y to 1.0% y/y and that of the Euro Area by -1.1% y/y to 1.2% y/y for 2023.
- The IMF warns "it will ... test ... the mettle of central banks ... to continue raising interest rates in a bid to restore price stability". "It's easy to cool off the economy when ... (it) is running hot. It's much harder to reduce inflation when the economy is close to a recession."
- The rise in the oil price over June, which saw an average for Brent crude of US\$117/bbl, has been reversed, with July averaging closer to US\$105/bbl, below May's US\$112/bbl, and even April's US\$106/bbl (March US\$112/bbl. January and February were below US\$100/bbl).
- SA is mainly importing refined petroleum products however, but the price of gasoline has seen similar directional movements to that of oil over May to July. Indeed if the rand had not weakened materially over July, SA would be in line for a R3.00/litre cut in the petrol price.
- To date, the rand has weakened by over R1.00/USD on average in July to date versus June, as safe haven flows increased, with worries over slowing global growth and even recession placing downwards pressure on oil and gasoline prices.

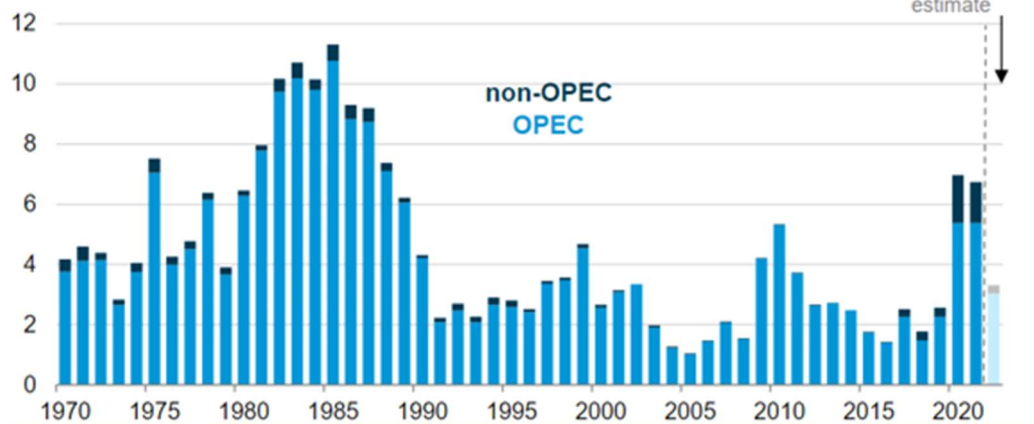
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EIA estimates show a decrease in global surplus crude oil production capacity in 2022

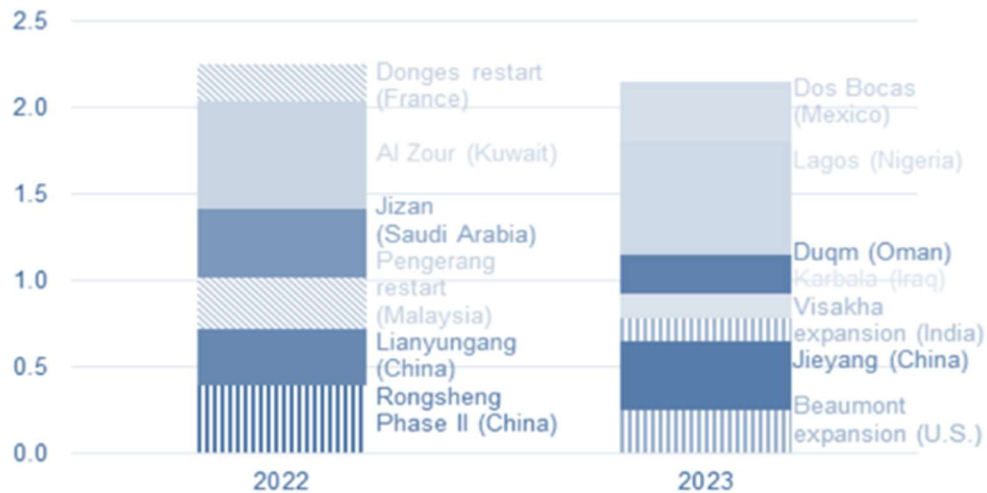
Annual global surplus crude oil production capacity (1970–May 2022)

million barrels per day



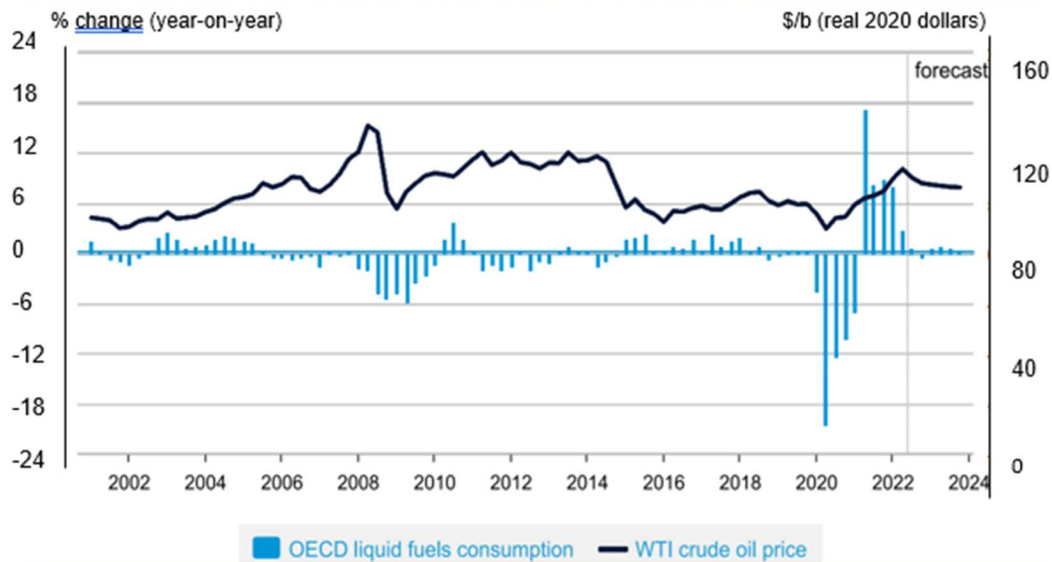
Source: EIA

Select global refining projects (million barrels per day (crude oil distillation capacity)



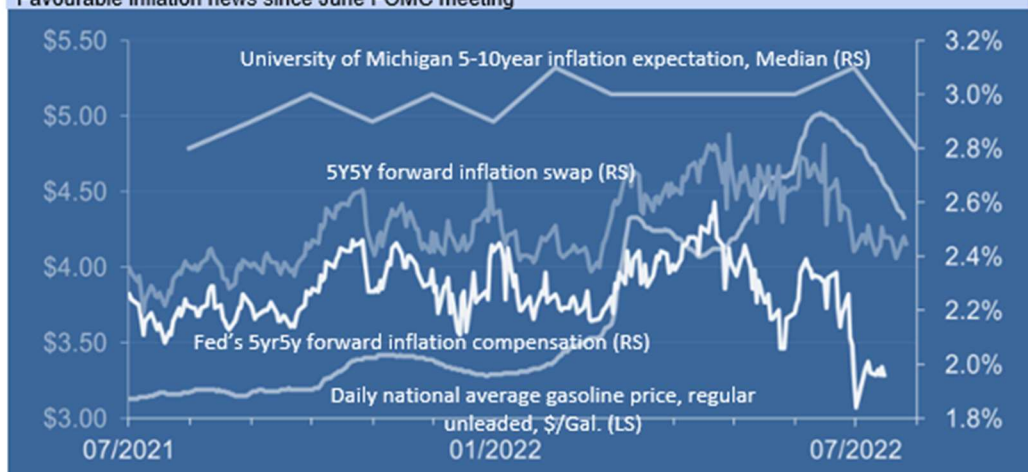
Source: EIA

In OECD countries, price increases have coincided with lower consumption



Source: EIA

Favourable inflation news since June FOMC meeting



Source: Bloomberg

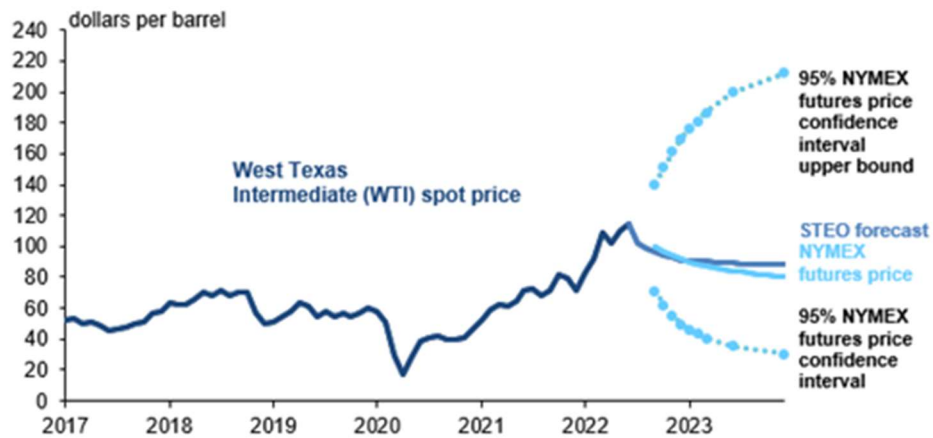
- So far in the United States, July has seen the publication of a few data reading showing reduced price pressures, compared to expectations and the previous month's figure, for a number of economic indicators, but not for the overall CPI or PPI inflation rates yet.
- These include June's ISM prices paid, import prices, PPI excluding food and energy, as well as excluding trade services, July's University of Michigan 1 year and 5-10 year inflation change expectations and the S&P CoreLogic Case-Shiller National Home Price index.
- The IMF warned yesterday that "while the U.S. labor market is strong now, with very low 3.6% unemployment, ... (it) expects that as this monetary policy tightening continues, then that's going to gradually cool off also the labor market causing joblessness to rise."

- The latest Conference Board consumer confidence reading has fallen below both June's reading, and the expected outcome for July, and June's existing home sales were down substantially versus expectations, as was the Philadelphia Fed business outlook (July).
- Nevertheless, the FOMC (US monetary policy committee or Federal Open Market Committee) is still likely to hike the fed funds target rate by 75bp at its meeting today (tonight SA time), noting both the risks to the economic outlook and the recent US data developments.
- The IMF believes the "risks to the (world economic) outlook are overwhelmingly tilted to the downside", and that "inflation could be harder to bring down than anticipated either if labor markets are tighter than expected or inflation expectations unanchor".
- "A plausible alternative scenario in which risks materialize, inflation rises further, and global growth declines to about 2.6 percent and 2.0 percent in 2022 and 2023, respectively, would put growth in the bottom 10 percent of outcomes since 1970".
- The IMF advocates that "(w)ith increasing prices continuing to squeeze living standards worldwide, taming inflation should be the first priority for policymakers. Tighter monetary policy will inevitably have real economic costs, but delay will only exacerbate them".
- Energy prices could fall further in the remainder of this year for oil and gasoline. Currently however, and pertinent for inflation, the price of gasoline is 52.5% higher y/y (Brent 35.7% y/y) and the loss of refinery capacity in SA is having an additional inflationary effect.

Commodity prices				
Commodity	Price	Norm Chg	% change	% change ytd
Energy				
NYM WTI crude	95.86	+0.88	+0.93%	+27.46%
ICE Brent crude	105.03	+0.63	+0.60%	+35.03%
ICE ARA Gasoil	1,063.50	-6.00	-0.56%	+59.45%
NYM NYH Gasoline	337.76	+2.26	+0.67%	+51.56%
NYM NYH Heating oil	358.00	-0.39	-0.11%	+53.64%
NYM HH Nat gas	8.95	-0.04	-0.42%	+140.08%
ICE NBP Nat gas	404.15	+33.71	+9.10%	+106.37%
Metals				
LME Aluminum	2,421.50	+13.00	+0.54%	-13.75%
LME Copper	7,536.50	+57.50	+0.77%	-22.47%
Spot Gold	1,719.79	+2.47	+0.14%	-5.98%
DCE Iron ore	740.50	+13.50	+1.86%	+16.37%
LME Nickel	21,571.00	-657.00	-2.96%	+3.92%
Spot Silver	18.65	+0.03	+0.14%	-19.98%
SHF Steel Rebar	3,885.00	+34.00	+0.88%	-15.00%
Agriculture				
CME Live cattle	142.38	-0.98	-0.68%	-1.46%
ICE Coffee	213.20	+3.15	+1.50%	-5.71%
CBT Corn	597.00	-3.75	-0.62%	+0.08%
ICE Cotton	94.87	+0.39	+0.41%	-12.12%
CBT Soybeans	1,385.00	+1.25	+0.09%	+16.39%
ICE sugar	17.50	+0.03	+0.17%	-7.31%
CBT SRW Wheat	798.25	-5.50	-0.68%	+3.57%

Source: Bloomberg

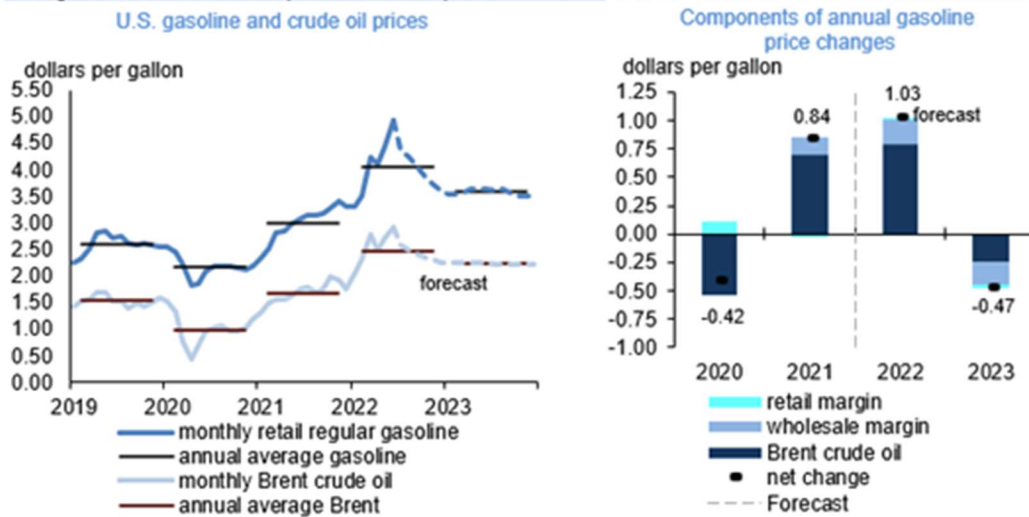
West Texas Intermediate (WTI) crude oil price and NYMEX confidence intervals



Source: EIA, Short-Term Outlook July 2022

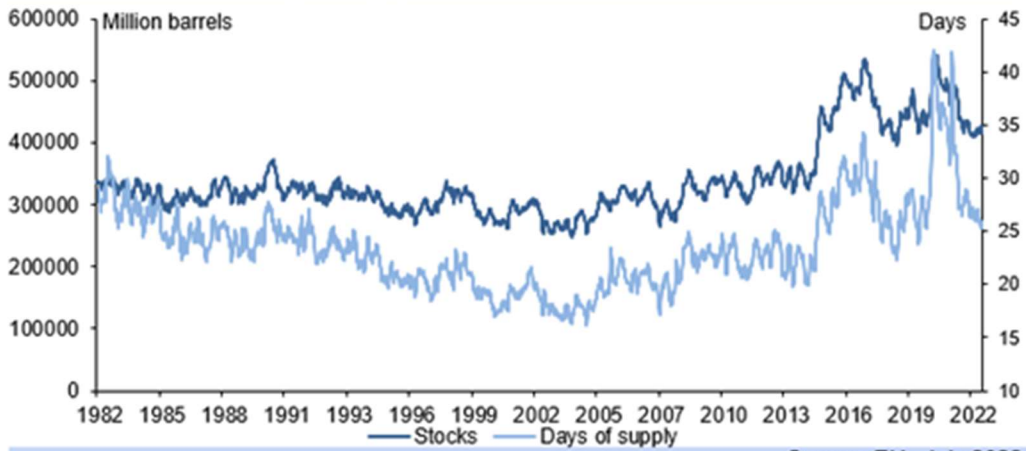
Note: Confidence interval derived from options market information for the five trading days ending July 7, 2022. Intervals not calculated for months with sparse trading in near-the-money options contracts.

US gasoline and crude oil prices and components of annual gasoline price changes



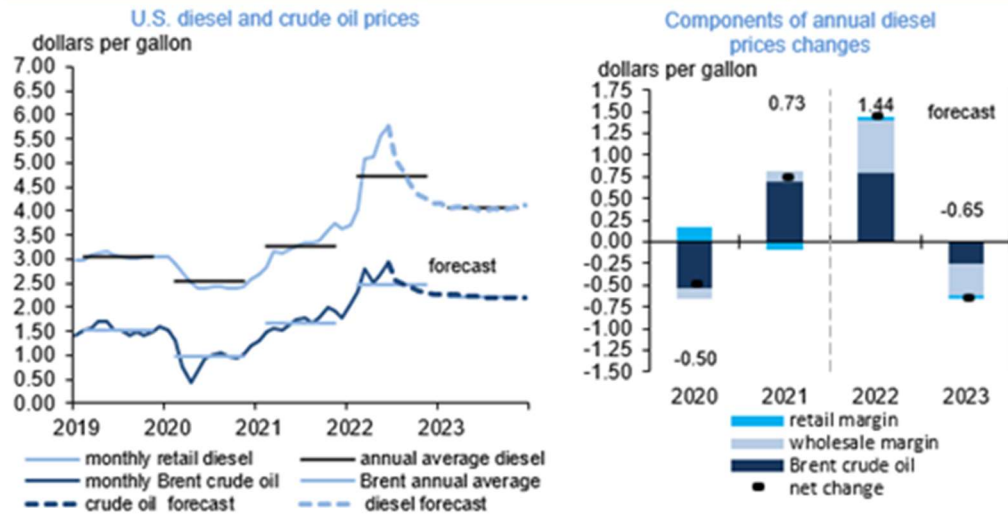
Source: EIA, Short-Term Outlook July 2022

US crude oil stocks and days of supply



Source: EIA, July 2022

US diesel and crude oil prices and components of annual diesel price changes



Source: EIA, Short-Term Outlook July 2022