FUEL PRICE TRENDS AND FORECAST

EQSTRA FLEET MANAGEMENT

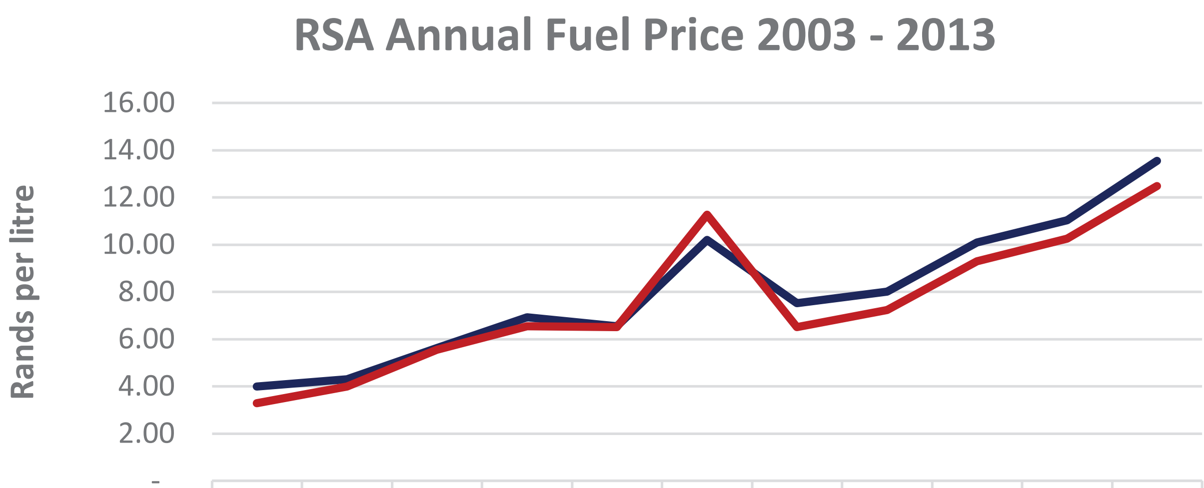
www.efm.co.za
0861 EQSTRA (377872)

A sharp increase in the price of fuel captures both the corporate sector and private community's attention and directly impacts South Africa's economy. More to the point, our corporate sector clients are struggling to manage rising operational expenditure and it has become a virtual nightmare to try and budget/ estimate the single biggest expense in fleet.

In completing more than 50 detailed fleet reviews, our Eqstra Fleet Consulting team was able to estimate that fuel now contributes between 42% & 48% of overall corporate fleet expenditure.

In light of this fact it is alarming to note that within 15 years the price of fuel has increased by more than 560%. This increase is equal to an average increase of 13% year on year. Considering the average CPI over the same period was 5.25%, effectively fuel increases have surpassed the CPI index by staggering 247%.

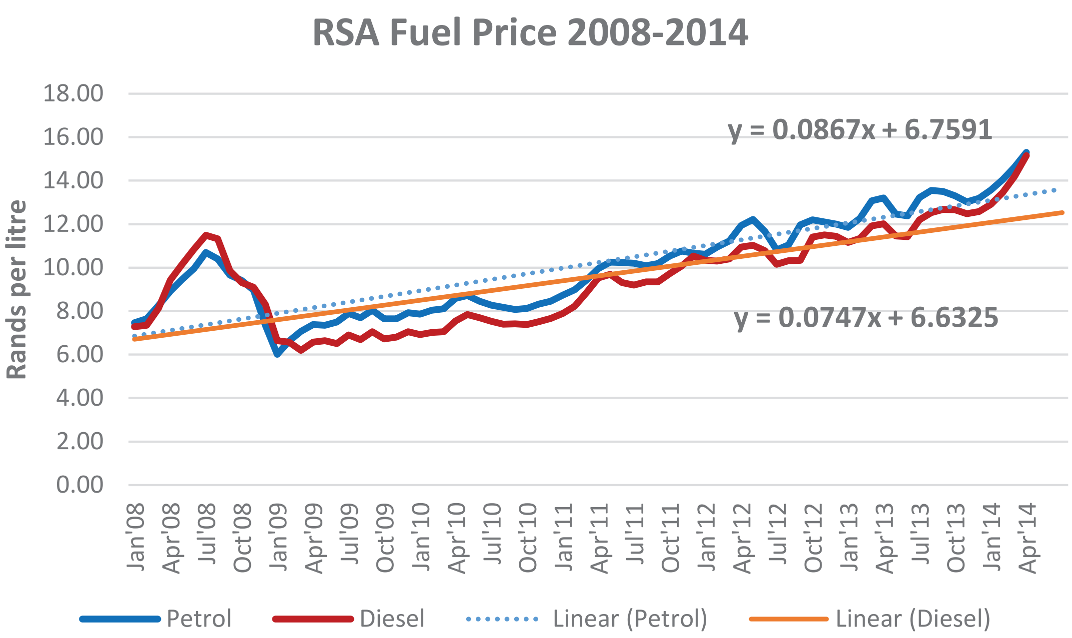
Figure 1: RSA Annual Fuel Price 2003 - 2013



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Petrol	4.00	4.31	5.62	6.92	6.55	10.20	7.52	8.02	10.09	11.04	13.55
Diesel	3.29	4.00	5.56	6.54	6.51	11.27	6.52	7.24	9.30	10.25	12.48

There does appear to be a slight "slowdown" during the last five years, with fuel increasing on average 12% YoY since 2009, but as the graph below indicates, increases on petrol still remain higher than the 15 year trend-line.

Figure 2: RSA Monthly Fuel Price 2008 - 2014

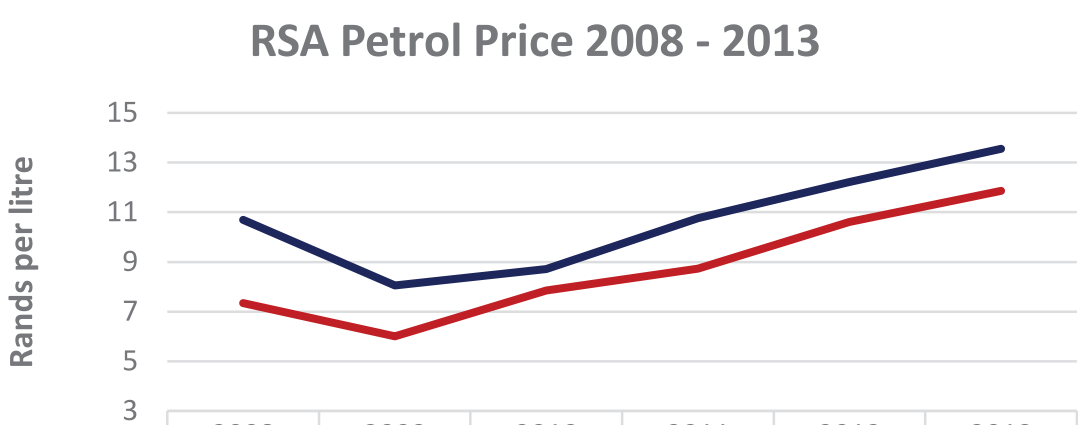


Currently the price of fuel is R13.55 for unleaded 95 on the reef, and the wholesale price of diesel (0.05%) is R12.48 on the reef. There are however already indications that South Africa can expect further sharp price movements during this year.

And whilst the **12-13% increase appears to be a statistical indication in terms of estimating by what % we can reasonably budget** for increases it remains virtually impossible to predict pricing. The key factors that will impact our pricing in the following year are:-

1. Weakening of the rand will increase the costs – economists are predicting a dismal year for the rand, as opposed to a recovering US$
2. Global supply of crude oil – with tensions in the Middle East easing, the easing of sanctions against Libya, Iran and the USA likely to become a net exporter of oil by 2016 there appears to be an over-supply looming. It is estimated that each million barrels produced per day could shave $20 off the world price, and with Libya alone capable of adding 1 million barrels per day there should be price reductions on the horizon.

Figure 3: RSA Petrol Price 2008 - 2013



	2008	2009	2010	2011	2012	2013
Low	7.35	6.01	7.86	8.73	10.61	11.86
High	10.7	8.05	8.72	10.77	12.22	13.55

The volatility of oil pricing is further proven when we analyse the yearly lows and highs in fuel pricing for the past four years. Whilst the trend appears to be fairly consistent it contradicts the 13% increase, with an average difference of 15.93% between the lowest price and highest price per annum during the last 5 years.
To place this in context, the average fleet vehicle consumes approximately 5,000 litres per annum. At the start of 2013 this would equate to an annual cost of R59,300 - however at the end of December the same calculation results in an annual cost of R67, 750 which is a 14.1% increase in real financial terms.

It is therefore important that we try and understand the key factors that influence the fuel price in an effort to pro-actively predict future increases/ decreases.

Factors affecting fuel prices

Supply side factors

Brent Crude oil is refined to produce petrol and diesel and the cost of crude oil is traditionally the single greatest factor affecting fuel prices over time, it is therefore fundamental to understand factors that drive the supply of crude oil. It is commonly known that one of the factors driving the supply of crude oil is the price consumers are prepared to pay. According to the US Energy Information Administration (EIA) (2010) the supply of crude oil is influenced by:

- The rate and cost of production, which in turn depends the technology used;
- The size of crude oil stockpiles, which can buffer the impact of large price changes;
- The size of remaining crude oil reserves and cost of providing new wells;
- Unplanned interruptions to production due to war, extreme weather or catastrophe;
- Cartel policies, such as OPEC's production quota and target price; and
- The global demand for crude, which is heavily influenced by seasonal factors in the USA and the sustained growth of the Chinese & Indian economy with resulting increases in car ownership.

Demand side factors

The two factors that underpin the demand for petrol are the number of consumers and the rate of consumption. The number of consumers is a function of the number of vehicles and the number of drivers, (Pekol: 2010). Both these increase with population and can be affected by:

- The cost of purchasing and maintaining a motor vehicle;
- Individual's disposable income – generally higher disposable income is associated with higher consumption, including consumption of vehicle.
- Taxation incentives for purchasing and running motor vehicles.

In summary, for a given number of motor vehicles' consumers, the rate of petrol consumption depends on:

- The fleet mix – e.g. vehicle type, number of cylinders, and engine size;
- The vintage profile, as newer vehicle are more fuel efficient;
- How well vehicles are maintained;
- The level of congestion on the road network;
- Vehicle loading patterns (i.e. for freight vehicles);
- The demographic and the economic characteristics of drivers;
- The level of economic activity.

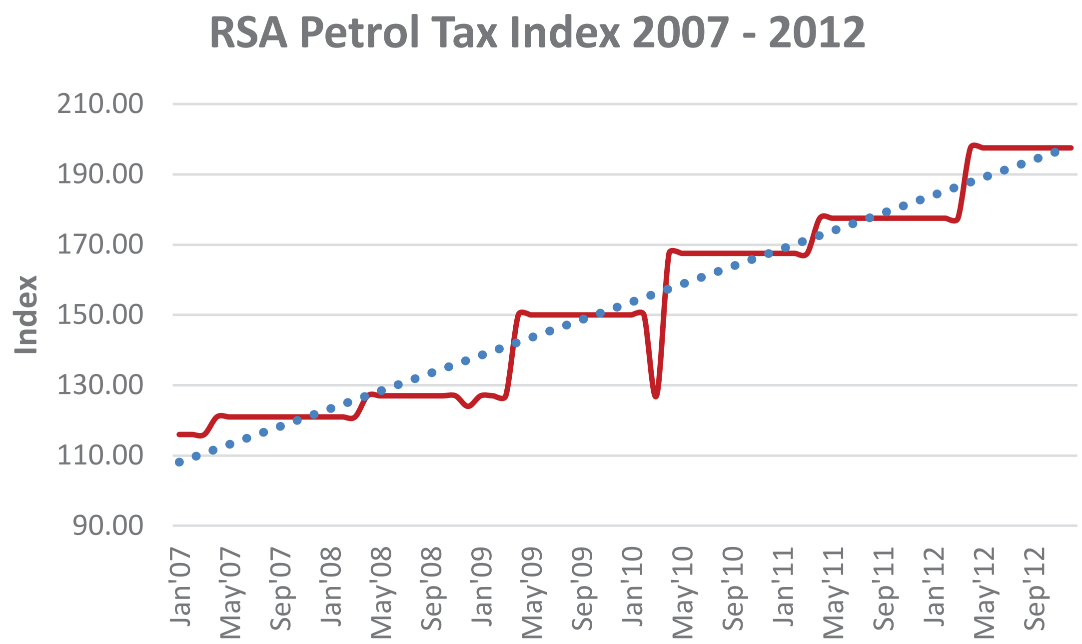
Other factors

Over and above supply and demand side factors, fuel prices are also influenced by:

- Impact of taxation – local governments are forced to tax fuel at higher rates to make up for the budget short-falls due to depressed economy;
- The impact of a rand/dollar exchange rate – a weaker rand tend to increase the import cost of oil and push the domestic price of fuel up.

Figure 4 indicates that since the beginning of 2007, petrol tax index has been constantly trending upward with only one major tax relief which took place in February/March 2010. The increase in petrol tax rate is a domestic factor that also has a serious effect on petrol prices. It is therefore important to account for changes in fuel tax in your annual fuel budget.

Figure 4: Petrol Tax Index



The future

We cannot predict with certainty what will happen in the future with prices of crude oil and petroleum. We can only speculate using statistics.

Based on the Shell SA figures, petrol and diesel are expected to increase by 46 – 48 c/l and 52.18 – 54 c/l respectively. Based on these figures, ceteris paribus, we anticipate fuel prices to be close to R14.00 per litre by the middle of 2014. This raises the need for fleet management companies to be stringent in managing driver behaviour and budgeting for fuel costs as well as the choice of vehicle fleet mix.

With the above in mind, and considering the South African trend we would recommend that at least 15% annual inflation is budgeted for fuel when preparing your fleet travel budget. We would also recommend that you review your fleet mix and operational costs at least every two years to ensure the optimal fleet is being run.

Eqstra Fleet Management has various solutions that can assist you in understanding and managing fuel costs more effectively. In particular our GPS solution has been instrumental in delivering savings in excess of 7% to clients by making sure driver behaviour is effectively managed.

Our Eqstra Fleet Consulting team has also been able to deliver more than R62m in savings initiatives during the last 18 months by simply reviewing the clients historic data, and working with the client to develop a more efficient mix and management structure.

We would urge you to contact us through either your account manager or by making direct contact with our Fleet Consulting team if you require any assistance in this regard.

Hein du Plessis
Head of Fleet Consulting
Email address: hduplessis@eqstrafleet.co.za

EQSTRA FLEET CONSULTING
12 Corobrik Road, Meadowdale
Johannesburg,
South Africa