

Date: 31 January 2019

Stable fuel prices for February 2019 – another welcome relief

The Ministry of Mines and Energy (MME) announced on 31 January 2019 that fuel prices will remain unchanged with effect of 6 February 2019 midnight. 95 Octane Unleaded Petrol will cost NAD12.05 per litre and Diesel 50ppm NAD13.13 per litre at Walvis Bay and NAD12.47 and NAD13.56 respectively in Windhoek.

A brief analysis:

- Average monthly Brent Spot Oil prices increased by 2.9% from an average of USD57.36 per barrel in December 2018 to USD59.04 per litre in January 2019 (up to 28 Jan 2019) as per information from the US Energy Information Administration. Monthly average prices for January 2019 were, however, 14.5% lower than the average price of USD69.08 per barrel in January 2018.
- The Namibia dollar appreciated by 2.1% on average in January 2019 (NAD13.89 per USD) compared to December 2018 (NAD14.18 per USD). However, the NAD has depreciated against the USD by 13.8% compared to January 2018.
- The slight increase in global oil prices combined with the appreciation of the NAD against the USD has led to stable fuel prices in Namibia.
- The National Energy Fund incurred under-recoveries between April 2018 and October 2018 of a combined NAD5.20 per litre for petrol and NAD5.69 per litre for diesel. These under-recoveries were partly offset by price increases totalling NAD2.35 per litre for petrol and NAD2.85 per litre for diesel, leaving the NEF with a deficit of NAD2.85 for petrol and NAD2.84 per litre for diesel.
- In contrast, the NEF recorded over-recoveries (the actual cost of fuel was lower than the pump price at service stations) of a combined NAD3.47 per litre for petrol and NAD2.82 per litre for diesel between November 2018 and January 2019. NAD1.90 per litre for petrol and NAD1.40 per litre for diesel was passed on to the motorist over this period leaving the NEF with a surplus of NAD1.57 per litre for petrol and NAD1.42 per litre for diesel.
- Based on the under-recoveries and over-recoveries per litre, the NEF has still subsidised fuel by NAD1.28 per litre for petrol and NAD1.42 per litre for diesel. However, whether the NEF has incurred a net loss or gained a net surplus over the period April 2018 to January 2019 depends on the volume of fuel sold.
- Leaving the fuel prices unchanged despite over-recoveries per litre in January could indicate that the NEF has still incurred a loss that the Ministry of Mines and Energy is trying to recover.
- The slowdown in the global economy suggests that the demand for oil will remain suppressed. Unless OPEC and Russia agree on substantial production cuts that cannot be compensated by production increases by non-OPEC member states, in particular shale oil producers in the USA and Canada, the weak demand will prevent upward price pressure on oil. Despite output cuts agreed

upon between OPEC (Saudi Arabia) and Russia in 2018, Russia reportedly produced a record output in 2018.

- The Namibia dollar has hold ground against major currencies so far this year. Some political risks could emanate from the national elections in South Africa in May 2019. If the South African rand / NAD can hold its current position, we might see some fluctuations in the fuel price, but not to the extent experienced in 2018.

The two consecutive, substantial fuel price decreases in December 2018 and January 2019 and stable prices for February 2019 bring relief to not only motorists, but to all businesses and consumers at a time when the economy is still not gaining much momentum. In particular the fishing and transport sector will benefit from more stable fuel prices since fuel accounts for some 29% and 24% respectively of their total input costs.

Transport inflation was the main driver of the inflation rate in 2018. Fuel prices for February 2019 are 3.7% (petrol) and 12.0% (diesel) higher than in February 2018. After double-digit inflation rates for transport from September 2018 to December 2018 we can expect a return to single-digit transport inflation for January and February 2019, which will ease overall inflationary pressure. Fuel prices (operation of personal transport equipment) contribute 9% to the overall inflation rate and have, therefore, an impact on the overall inflation rate.

As said before, new technologies such as e-vehicles, can reduce the dependency on oil and hence on imports and increase the demand for locally available resources, such as renewable energies. Namibia needs to start laying the foundation for the necessary shift, even if stable fuel prices might reduce the immediate pressure to embark on the transition.