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SA agricultural sector likely to pay 3% more for diesel next month

The weaker ZAR/USD exchange and higher Brent crude oil prices means agribusinesses and farmers could be paying 3% more for a litre of diesel next month. Recent data from the Central Energy Fund shows that petrol (95 ULP Inland) and diesel (0.05% Wholesale Inland) prices could increase by 55 cents per litre (c/l) and 37 c/l, respectively, on 03 May 2017. This could bring the retail price of petrol up to R13.85 per litre from the current level of R13.30 per litre. Wholesale diesel price could increase to R11.87 per litre from R11.50 per litre. This coincides with a harvesting period for summer crops and a planting period for winter crops.

- This expected fuel price increase is partly on the back of higher Brent crude oil prices, which averaged US\$55 a barrel this month, up by 6% from March 2017. The ZAR/USD exchange also played a key role on the expected fuel price increase, after weakening by 5% from the previous month, averaging R13.66 this month.
- The entire agricultural sector will be negatively affected by the increases in fuel costs, as this coincides with the harvesting period for the summer crops growing areas of the country. Fuel costs make up roughly 11% of grain farmer's production costs in South Africa. About a third of this is typically utilised during harvesting season. Therefore, an increase in fuel will add pressure to farmers, as well as agribusinesses that are operating in the grain and oilseeds industry.
- At the same time, the winter crop growing areas are set to start planting in May 2017, which means there will likely be an increase in fuel consumption.
- Overall, this year is likely to see increased activity in the agricultural sector, with total summer crops production estimated at 16.69 million tonnes, which is a 78% increase from the previous season.

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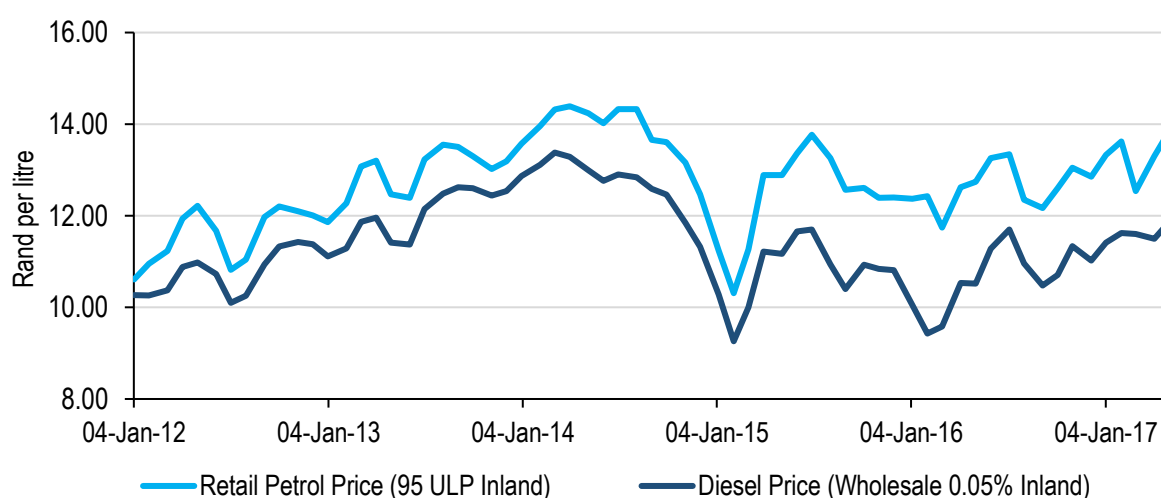


Chart 1: SA retail petrol and wholesale diesel prices

Source: Central Energy Fund, Agbiz Research

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