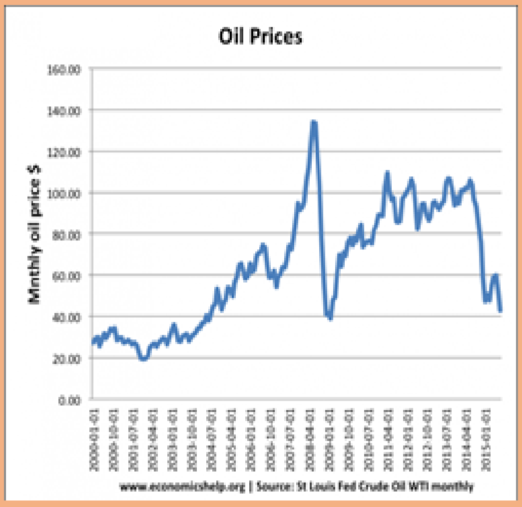
CBOD

GHANA CHAMBER OF BULK OIL DISTRIBUTORS

2017 1ST TRIMESTER PRICING ANALYSIS



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ABOUT THE REPORT

The Petroleum Pricing Trimester Report is a CBOD initiative to provide relevant petroleum pricing information about the Ghanaian Downstream Industry to inform and guide industry players, consumers and other stakeholders in evaluating policy and business strategies.

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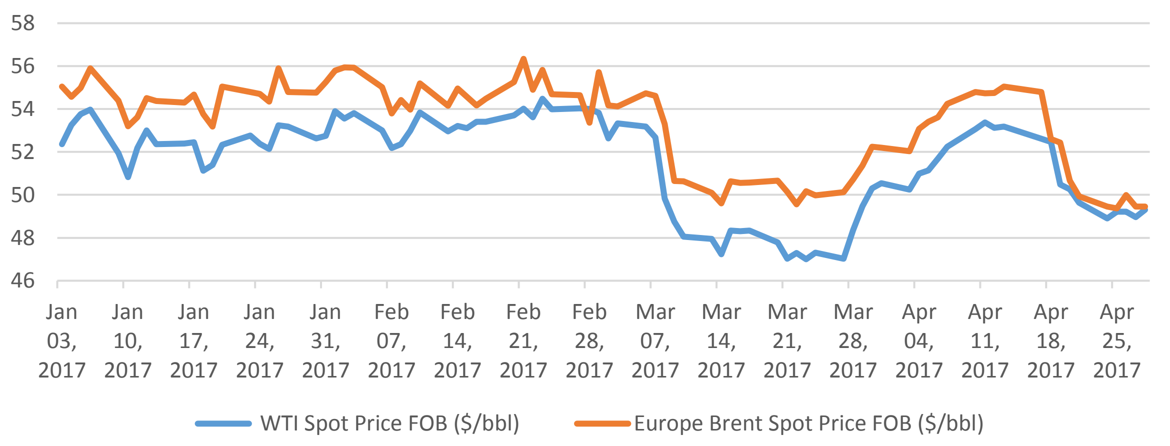
The report is authored by Mr. Enock Kofi Anku (Research Analyst, CBOD).

1.0 Crude Oil

Crude oil price remained above $50/bbl mark in the early months of 2017. The monthly average price for Brent and WTI hovered around $53.59/bbl and $51.67/bbl respectively in the first quarter of 2017. The stable crude price comes as a result of two competing fundamental developments, a reduction in OPEC production and an increase in US Shale production. These developments kept price a little above the $50/bbl mark.

Monthly average Brent crude oil price decreased marginally from $54.96/bbl by year end December 31, 2016, to $51.59/bbl in March, representing a 6.13% fall in Brent crude prices for the first quarter of 2017. The fall in prices of crude occurred as a result of a rise in US commercial crude supplies for nine straight weeks despite production cuts by major OPEC-led exporters. Average crude prices bounced back in the first half of April at about $54/bbl and $52/bbl and fell to $49.5/bbl and $50/bbl in the second half of the month for both Brent and WTI respectively. The rise in price during the first half of April according to Reuters reports, were as a result of a disruption in the pipelines of the biggest oilfields in Libya and the geopolitical tensions after the US strike on Syria, which continue to limit oil supply from the Middle East. Nonetheless, the rising US production and inventories remain the key drivers of the oil prices, but equally important is the level of compliance among the OPEC members to commit to the 1.2 million barrels per day output cut.

Figure 1: WTI vs Brent Price



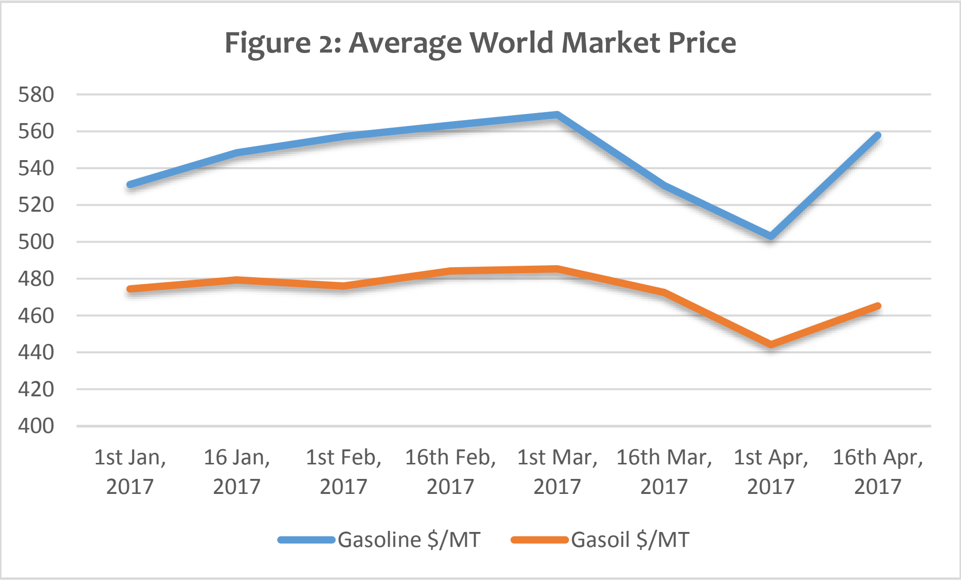
Source: EIA

The US Energy Information Administration (EIA) continues to project a rise in US crude production for 2017 and beyond. This situation is likely to reduce price further if other factors remain unchanged.

2.0 Refined Product Window Review

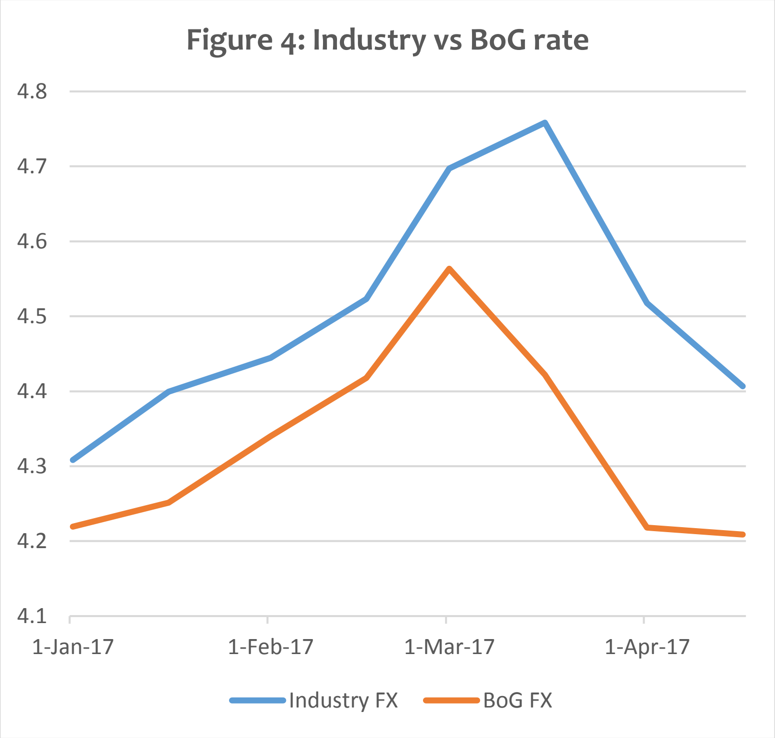
Refined petroleum products prices followed similar trends as crude prices. The average world price for the second half of January increased marginally by 3.26% and 1% for Gasoline and Gasoil respectively as compared to the previous pricing window. The marginal rise in the prices of refined products continued to the first half of March. The second half of March recorded a significant drop of 6.75% and 2.65% for Gasoline and Gasoil respectively compared to the previous half of the month.

The fall in price was occasioned by the fall in crude oil price in the world market within the same period as observed in figure 1 above. Prices for white products[1] recovered in the second half of April as crude prices bounced back to its highest level for more than a month. Gasoline and Gasoil rose sharply by 10.9% and 4.8% respectively.



[1] These are products obtained from refining crude oil. These include Gasoline, Gasoil, LPG, Kerosene, Fuel oil among others.

3.0 FuFex



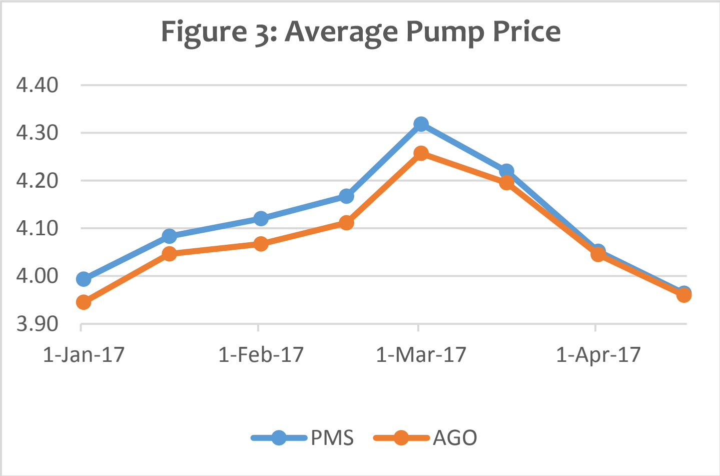
The FuFex is an average of the quoted indicative forward forex rates from major oil financing banks partially adjusted by the covered-interest parity FX (CIP FX) pricing model.

The industry FX followed similar trend as the BoG daily interbank FX rate. The industry FX rate experienced an average change of 2.2% in the period to the 1st selling window in March and fell to 1.3% during the 16th -31st March 2017 window. The change is reflective of the 4% fall in the BoG daily interbank rate in the month of March.

The rise in FX rate in the early part of the year was mainly triggered by seasonal demand factors and major market uncertainties about Government fiscal health and policy direction following the regime change. Nonetheless, these pressures eased significantly in March on the back of improved foreign exchange flows to the market and a renewed confidence in the economy after the hearing of the Budget Statement by the Hon. Finance Minister. The significant foreign subscription to the March 2017 Ghana cedi bonds (Ghs 1.01bn) issued by the Ministry of Finance gave a major boost to FX supply and market confidence to contribute to the Cedi's gains. These gains are expected to thrive through the second trimester of the year.

4.0 Domestic Petroleum Pump Prices

The domestic pump prices followed an upward trend from the beginning of the year to the first half of March. Prices for PMS and AGO respectively moved from Ghs3.994/ltr and Ghs3.949/ltr in the first half of January to peak at Ghs4.313/ltr and Ghs4.263/ltr in the first half of March, representing a change of 7.97% and 7.95% for both products[2]. This was driven by the fast depreciation of the Ghana Cedi in the early weeks of the year.



A reversal of the trend was experienced in the second half of March with a continuous decline in pump prices through to the last half of the trimester (April). Prices for PMS and AGO respectively dropped from the price peak of Ghs4.313/ltr and Ghs4.263/ltr in the first half of March, to Ghs3.9424/ltr and 3.9339/ltr by end month April, representing a fall of 8.7% and 7.61% for both products. The fall in pump prices was mainly due to the resurgence of the Ghana Cedi, abolishment of the Excise duty on petroleum products and the reduction of the Special Petroleum Tax from 17.5% to 15%.

The average first trimester price for PMS and AGO stood at Ghs4.100/ltr and Ghs4.065/ltr. This represents a 20.83% and 25.51% respective increase for both PMS and AGO from their 2016 first trimester position.

Using the 1st selling window in January 2017, as a base year, the pump price index (PuPI) ended the trimester at 98.70 and 99.62 for PMS and AGO indicating a comparative drop of 1.30% and 0.38% from the year start price. It may be worth noting that the index for both products over the same period in 2016 increased to 100.57 and 100.73 for PMS and AGO respectively. While the 2017 index may be considered better for consumers, it should be acknowledged that unlike 2017, no special interventions through tax reviews occurred in 2016. The index is however likely to decrease if prices continue to fall both on the international market and the Forex market.

[2] These are computed using the Top 10 OMCs (Allied Oil, Glory Oil, Goil, Frimps Oil, Puma Energy, Total Oil, Star Oil, Vivo (Shell) Energy, Top Oil and Petrolsol.

4.1 OMC Pricing Performance (Top 10 Analysis)

FRIMPS Oil which displaced the 2015 lowest priced oil company, GOIL, in 2016, remained in the top 3 of the lowest priced OMCs but lost its 1st place to the 2016 highest priced OMC, Glory Oil. The top 3 lowest priced OMCs comprised GLORY Oil, FRIMPS Oil and PUMA Energy for the 2017 first trimester while GOIL, TOTAL and VIVO (SHELL) were the highest priced.

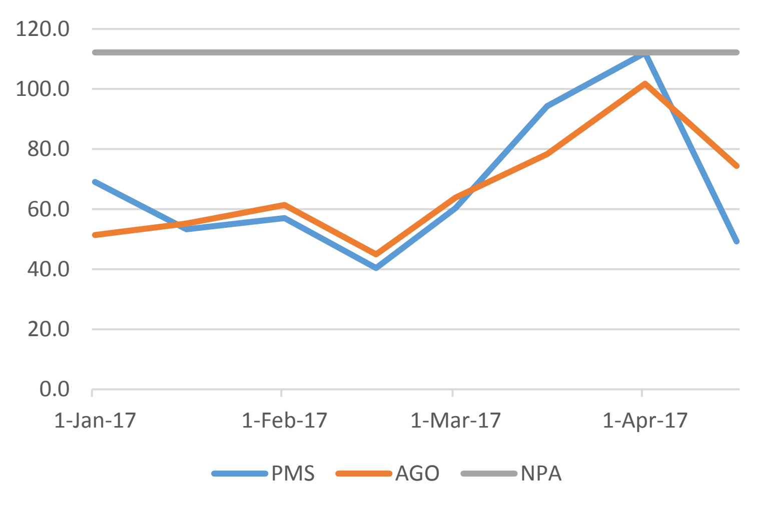
AVERAGE TOP 10 PUMP PRICES FOR 2016 AND 2017 TRIMESTER

	PMS (PETROL)			AGO (DIESEL)	
OMC	2017	2016		2017	2016
Glory Oil	4.012	3.403		3.965	3.240
Frimps Oil	4.018	3.364		3.987	3.209
Puma Energy	4.069	3.374		4.047	3.216
Star Oil	4.107	3.396		4.067	3.249
Top Oil	4.108	3.409		4.065	3.242
Allied Oil	4.111	3.388		4.082	3.235
Petrolsol	4.133	3.395		4.129	3.250
Goil	4.140	3.403		4.100	3.248
Total	4.151	3.401		4.099	3.248
Vivo Energy	4.153	3.403		4.105	3.248

5.0 BDC Premiums

The BDC premium refers to importers total supply chain cost structure, inclusive of a gross margin. The components of the premium include the freight cost, marine insurance cost, demurrage, hedge cost for both price and Forex risk storage fees, mooring/port fees, booster pump fees, in-plant losses, dyeing cost, financing fees, among others.

Figure 5: BDC Vs NPA Premium



The average BDC premium for the trimester decreased from $77.49/mt and $81.98/mt for PMS and AGO in 2016 to $66.2/mt and $65.7/mt respectively. This represents a 14.57% and 19.86% drop from the 2016 position. It also marked a 40.96% and 41.47% drop compared to indicative NPA premiums of $112.17/mt for PMS and AGO respectively.

The premiums for both products reached its highest in the first half of April ($112/mt and $101.8/mt for PMS and AGO respectively). The premiums in this period were still lower by 0.13% and 9.28% for PMS and AGO when compared to the indicative BDC premiums of the NPA. The comparative lower premiums raise concerns over the commercial viability of the BDC trade. The worsening BDC premium situation is significantly driven by the continuous influx of illegal products which render the legal trade uncompetitive, hence the need to lower premiums below economic levels.

6.0 Conclusion

Key pricing indicators (crude, refined products, Forex) are expected to be relatively stable over the next trimester with variation not exceeding 5%. In the event that government takes very strong actions to address the influx of illegal trade, BDC premiums may be restored to minimal economic level.

The combine effects of expected stable prices of crude, refined products and marginal increases in BDC premiums is expected to keep pump prices relatively stable in the next trimester.