May-July 2017

CBOD PRICING ANALYSIS

Ghana Chamber of Bulk Oil Distributors

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ABOUT THE REPORT

The Petroleum Pricing 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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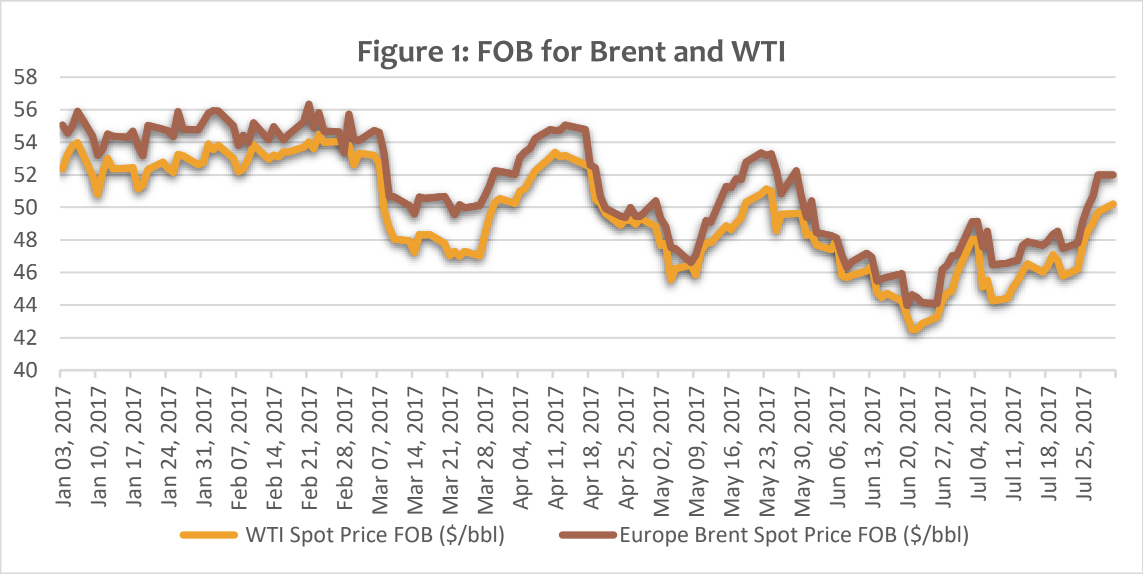
1.0 Crude Oil Prices

Crude oil prices continued a downward trend for the months of May to June but rose marginally in July. Brent crude oil spot prices averaged $50.33/bbl in the month of May, $2/bbl lower than the average in April. The West Texas Intermediate (WTI) crude oil spot prices declined by $2.56/bbl within the same period, settling at $48.48/bbl in May. The average crude oil spot prices for Brent and WTI further declined by $4.0/bbl and $3.34/bbl respectively since May 1, settling at $47.08/bbl and $46.02/bbl for June 30.[1] This represents a 6% and 7% decline in crude oil prices for Brent and WTI respectively. Average crude prices for July rose marginally by 4.6% and 3.5% for Brent and WTI respectively relative to the previous month.

The crude oil market was bearish for the months of May and June despite OPEC's decision on May 25, 2017 to extend their production cuts until end of March 2018. The global crude price has been weighed down by market's impatience and the slow pace of inventory drawdown amid a significant recovery in Nigeria and Libya's supplies and particularly, the high drilling activities in the US shale production. In Nigeria, crude production surged significantly by more than 174,000bpd to 1.68 million bpd as supplies sidelined by the militant attacks came back in full operation, helping the country to reclaim its position as the largest producer in Africa. Output from Libya increased by more than 178,000bpd to 0.73 million bpd as the country's rival factions moved toward reconciliation with supplies back on line. The US Energy Information Administration continues to forecast a rise in crude oil production in the coming months which is expected to further dampen price.



Source: EIA

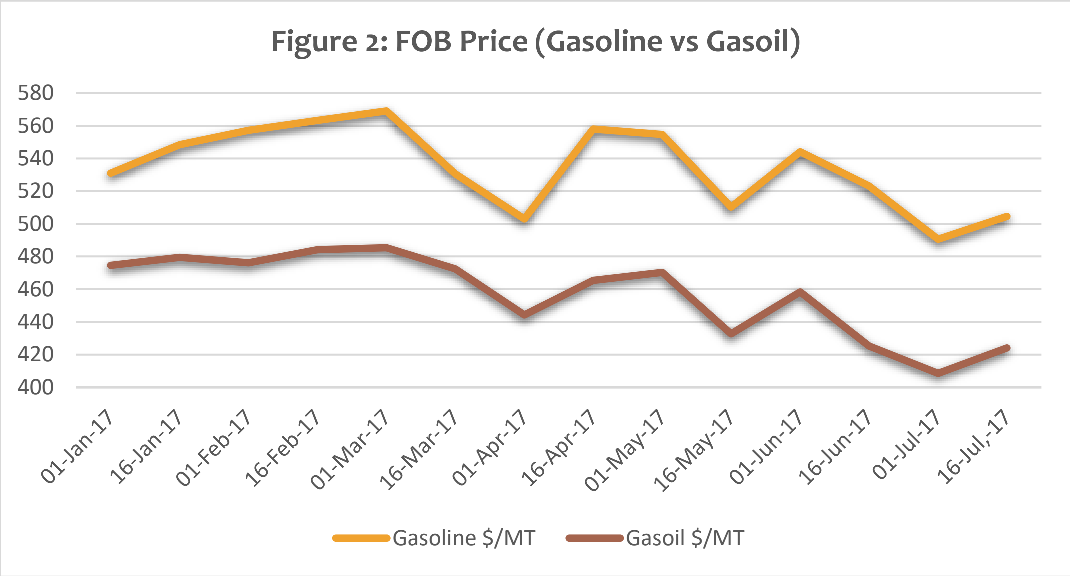
2.0 Refined Products Review

The average Free On Board (FOB) prices for gasoline and gasoil followed an undulating pattern over the period under review. Gasoline and gasoil averaged $510.28/mt and $432.60/mt respectively in the second half of May, $44/mt and $38/mt lower than the average in the first half of May. This represents an 8% decline

[1] The US Energy Information Administration data (2017)

in the prices of both products within the pricing windows of May. This was followed by a price jump of 6.61% and 5.93% for gasoline and gasoil respectively in the 1st half of June. The 2nd half of June saw a decrease in the FOB price for gasoline and gasoil by 3.83% and 7.19% respectively compared to the previous window. The decrease in FOB prices continued in the 1st half of July and rose marginally in the 2nd half. Overall, refined product prices over the three month period[2] decreased by 9% and 9.8% for gasoline and gasoil respectively.

The relative decline in refined product prices is a reflection of the dwindling crude oil price over the period under consideration.



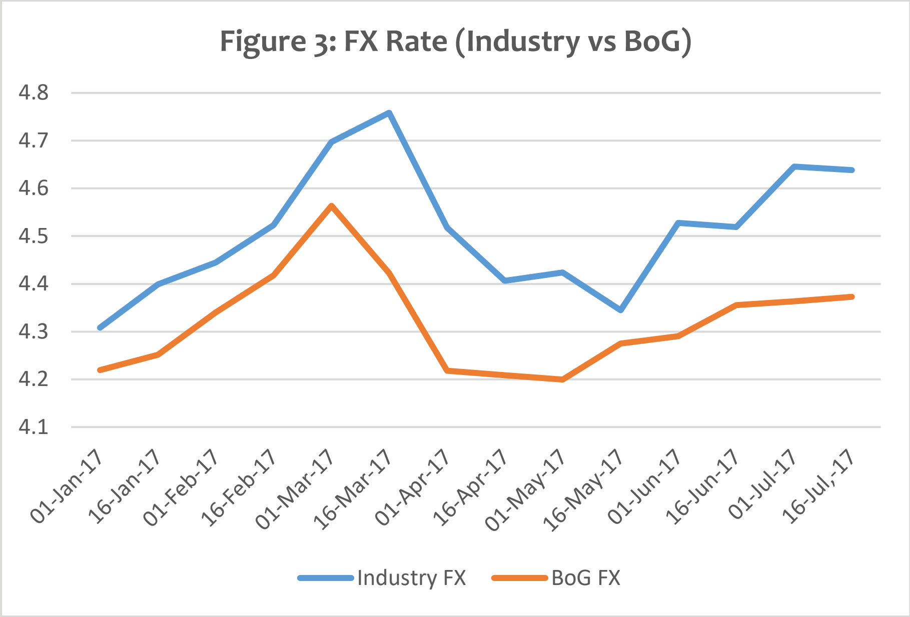
Source: Platts FOB benchmark

3.0 FuFex

The fuel FX rate (FuFex) used is the average of the quoted indicative forward forex rate from major oil financing banks adjusted by the covered-interest parity pricing model. The BoG Forex rate and FuFex (Industry) rate follow similar trend over the period under consideration. The average FuFex rate in the 1st half of May increased by 0.39% from the average rate in the 2nd half of April. The FuFex rate experienced an average increase of 2.36% from the 1st half of May to the 1st half of June. This further increased by 2.43% at the end of July. The FuFex rate over the three month period increased by 4.85% and this reflects the 4.13% depreciation of the BoG daily interbank rate within the same period.

[2] The period under review i.e. May, June and July

The Year to Date (YTD) depreciation of the FuFex rate at the end of July 2017 stood at 7.6% compared to the 3.7% depreciation of the BoG daily interbank rates.



4.0 Top 10 OMCs Average Pump Price

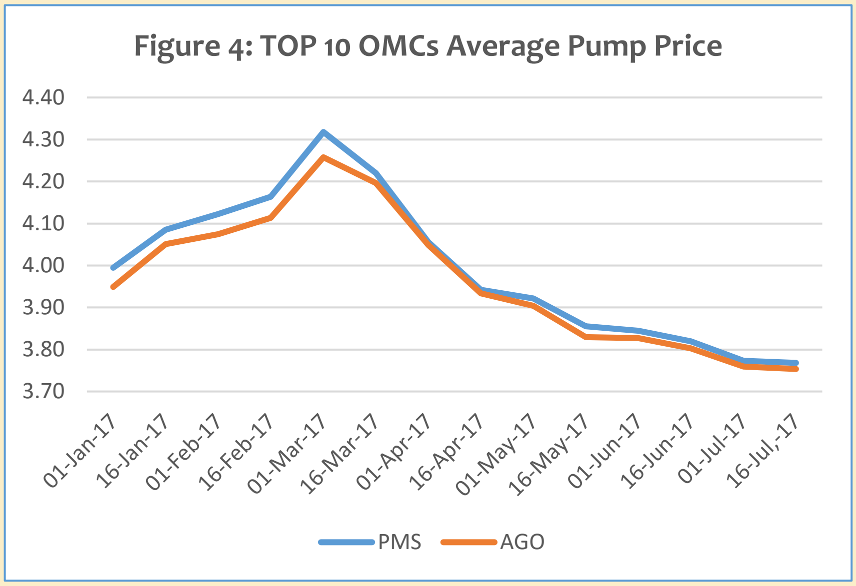
The domestic pump prices for gasoline and gasoil continued their downward trend from the 1st half of March as observed from the CBOD 1st trimester pricing report (2017). The pump price for gasoline and gasoil averaged Ghs3.890/ltr and Ghs3.875/ltr for the month of May, Ghp6.3/ltr and Ghp6.2/ltr lower than the average in April respectively[3]. Average pump prices over the period under review were Ghs3.834/ltr and Ghs3.819/ltr compared to the 1st trimester average prices of Ghs4.100/ltr and Ghs4.065/ltr for gasoline and gasoil respectively. This represents a price drop of 6% each for gasoline and gasoil for the two pricing periods.

The three month period under consideration saw pump prices decline steadily, mainly on the back of the reduction in the global crude oil prices. The pass through effect of the fall in FOB prices for gasoline and gasoil (about 10%) did not fully reflect in domestic pump prices (about 6% drop), mainly due to the depreciation of the local currency (about 4%) within the same period.

[3] The average prices are sampled using the Top 10 OMCs based on the first quarter OMC performance (Allied, Frimps, Petrosol, Top Oil, Star Oil, Puma Energy, Total Petroleum, Vivo Energy, Goil and Glory)

The YTD average pump prices for gasoline and gasoil stood at Ghs3.992/ltr and Ghs3.964/ltr respectively at the end of July 2017 compared to Ghs3.463 and Ghs3.323 in the same period in 2016.

The pump price index (PuPI) using the first half of January 2017 as the base year, ended the July month at 94.33 and 95.06 for gasoline and gasoil respectively, indicating a drop of 5.67% and 4.94% from the year start prices. The index for both products over the same period in 2016 increased to 102.43 and 105.6 for gasoline and gasoil respectively.



4.1 OMC Pricing Performance

The Top 10 OMCs used for the first Trimester pricing report (2017) continued their remarkable performance in the months of May to July. FRIMPS Oil, GLORY Oil and PUMA Energy continued to top the OMCs with the lowest price on the market whilst VIVO (Shell), TOTAL and GOIL Energy were the highest priced over the same period.

AVERAGE TOP 10 PUMP PRICES FOR MAY TO JULY				
	GASOLINE		GASOIL	
OMC	**2017**	**2016**	**2017**	**2016**
Frimps Oil	3.794	3.548	3.786	3.422
Glory Oil	3.806	3.578	3.787	3.456
Puma Energy	3.813	3.537	3.784	3.443
Star Oil	3.821	3.568	3.811	3.449
Top Oil	3.841	3.565	3.836	3.454
Allied Oil	3.848	3.550	3.831	3.437
Petrosol	3.854	3.525	3.839	3.410
Vivo Energy	3.856	3.567	3.839	3.448
Total	3.856	3.562	3.839	3.456
Goil	3.856	3.578	3.839	3.454

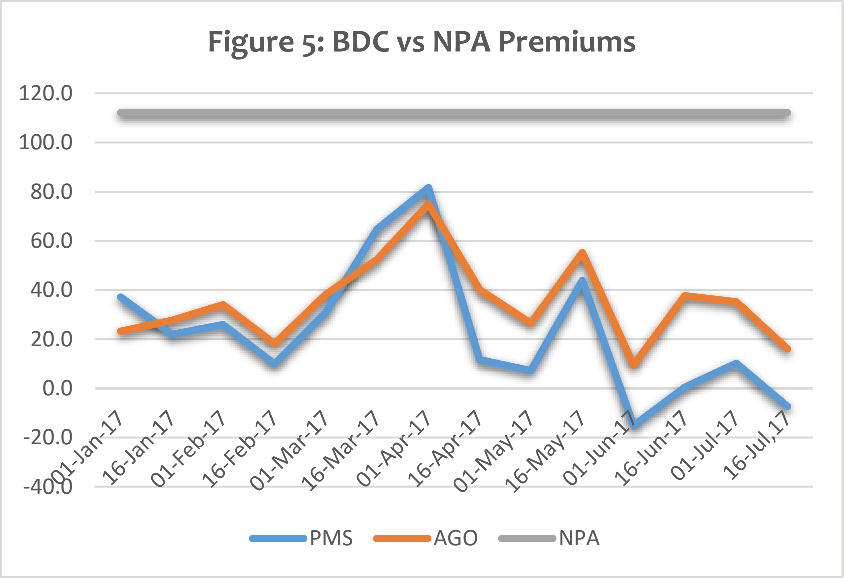
Source: CBOD

4.2 Evolving Trends

It is evolving that the top three OMCs (Goil, Total and Vivo Energy-Shell) with the largest market share (a combined 45.09%)[4] are benchmarking each other at par with equal pump prices over the period under review. This trend is at variance with observations in the first trimester of 2017 which showed some disparities in their pump prices.

The Top 3 OMCs also grew their market share despite being the highest priced OMCs in the top 10. In 2016, the top 3 OMCs accounted for 43.28% while the remaining 7 out of the top 10 OMCs accounted for 19.05% of the total OMC market share. Provisional data for half year 2017 indicates that, the total market share of the top 3 (Vivo Energy-Shell, Total and Goil) has increased to 45.09% despite remaining the highest priced among the Top 10 pack. This suggests that consumers are increasingly willing to pay a premium for service and product assurance other than just price. This trend if maintained, may yield a major shift in OMC strategy and increase focus on service quality.

5.0 BDC Premiums



The BDC premiums fell drastically over the period under review compared to previous months. The BDC premiums for the three months averaged $6.5/mt and $30/mt compared to $66.2/mt and $65.7/mt for gasoline and gasoil respectively in the 1st CBOD trimester report (2017). This represents 90% and 54% drop in BDC premiums from the 2017 1st trimester position and also marks 94% and 73% drop compared to the indicative NPA's premiums of $112.17/mt for gasoline and gasoil respectively. The declining BDC premiums over the period is due to the unhealthy competition in the industry and the influx of illegal petroleum products (export dumping and inward smuggling).

The dwindling premiums raise huge concerns over the commercial activities of the BDC trade and threatens the ability of BDCs to honour their financial obligations to their suppliers and banks.

[4] Data from the NPA shows that Goil, Vivo Energy and Total contributed 20.31%, 14% and 10.78% respectively of the total market share for the periods of January-May 2017

6.0 Outlook

The EIA forecasts a surge in crude oil production. As a result, we anticipate a marginal decrease in global crude oil prices and a consequential decrease in FOB prices of white products.

The anticipated issuance of the Ghs10bn Energy Bond is expected to shore-up the country's foreign reserves through the participation of foreign investors in its subscription. This will boost FX supply and provide adequate liquidity cushioning for the stability of the FX rate.

The enforcement of the new 50ppm standards (effective August 1, 2017) has rebased the pricing benchmark for diesel and the oil traders' premium for both products. This re-basing will lead to a comparative increase in the effective import price per litre thereby reversing the recent low oil traders premiums charged to BDCs.

The joint effect of the marginal increases in BDC premiums and the enforcement of the new 50ppm standards will push July ending pump prices of both gasoline and gasoil up by about 5% in the month of August 2017, after which comparative stability is expected.

7.0 Conclusion

The months under review saw consumers and OMCs benefit from lower-than-market ex-ref and ex-pump prices. This has been at the expense of BDCs who have had to trade at uneconomic to negative margins. This situation is unsustainable and poses a major risk to the viability of BDCs. The continuation of this margin trend poses a major threat to the financial sector as BDCs may be unable to meet repayment obligations to their financiers (Banks and Suppliers). It is imperative that industry and the regulators initiate steps to mitigate this evolving risk.