



## Economy Watch Namibia – May 2016

### The two sides of low oil prices Maize and wheat prices at record levels

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#### The two sides of low oil prices

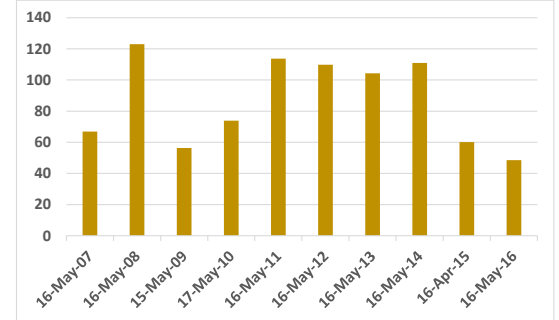
Oil prices dropped drastically during 2015 from USD111 per barrel in May 2014 to USD60 per barrel in May 2015 and USD48 per barrel on 16 May 2016. Oil prices have declined by 56 percent since 16 May 2014 and 25 percent since May 2015. Namibian consumers have not reaped the full benefit of the price decline because of the strong depreciation of the Namibia dollar against the US dollar that wiped out some of the benefits in particular during the latter part of 2015. In NAD terms, oil prices are currently 2 percent below May 2015 price levels and 35 percent below May 2014 price levels. This has benefited motorists and producers relying strongly on oil and oil products in their production process, such as the fishing industry. Although oil prices in USD and NAD per barrel have increased by about 32 per cent since the beginning of 2016, petrol and diesel prices have continued dropping by 4.6 and 9.7 percent respectively. Petrol prices were 18 and 26 percent lower in May 2016 than in May 2014. Fuel prices have not declined as sharply as oil prices since some levies and the dealer margins were increased over the past two years.

Oil prices briefly touched the psychological barrier of USD50 per barrel on 26 May 2016 due to fears of supply interruptions from Nigeria and Canada, which is fighting huge wildfires, and lower output from US producers caused by low prices. While US oil production rose by 7.9 percent in 2015 it is expected to decline by 3.1 percent in 2016 compared to 2015. The number of US rigs declined from 1,862 in 2014 to 977 at the beginning of 2015 and further to 436 in April 2016. Overall, non-OPEC supply is expected to drop by 1.3 percent in 2016 against an increase by 2.6 percent in 2015.

On the other hand, some OPEC members have increased output, such as Iran, which has reached pre-sanction levels, and Iraq. A move to agree output reductions led by Saudi Arabia and other major producers strongly affected by low oil prices, such as Venezuela and non-OPEC Russia, have not resulted in any concrete action. Saudi Arabia is reportedly even increasing its output in order to maintain its market share, increase revenue and put further pressure on US producers in particular. It remains to be seen whether OPEC will change its current output levels at its next meeting scheduled for 2 June. Overall, global demand is expected to rise by 1.2 million barrel per day (mb/d) in 2016 to 94.2 mb/d. Non-OPEC supply is expected to decline by 0.6 mb/d to 62.7 mb/d, whereas OPEC supply is expected to increase by 1.8 mb/d. During the first quarter of 2016 supply exceeded demand by 2.3 mb/d. Furthermore, OECD oil stocks as well as 'oil on water' increased over the years. The trend continued in the first quarter of 2016 when OECD stocks grew by 0.8 percent to 4,639 mb and 'oil on water' by 3.7 percent to 1,077 mb respectively. Given the oversupply, current oil stocks and a stronger USD in 2016, it is unlikely that there will be much upward pressure on the oil price.

Back home, the depreciation of the Namibia dollar against the USD contributed to the first fuel price increase (in June 2016) since June 2015 (for petrol) and since July 2015 (for diesel). Prices are up by NAD0.60 and NAD0.70 per litre for petrol and diesel respectively as of 1 June 2016. While petrol prices are slightly up by 0.9 percent compared to 1 January 2016 and remain on par with June

#### Oil price in USD per barrel over past decade on 16 May



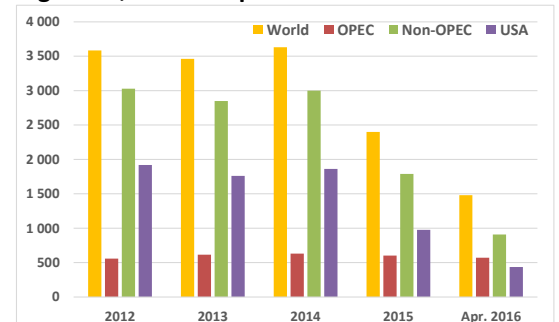
Source: EIA, daily data

#### Oil price in NAD per barrel over past decade on 16 May



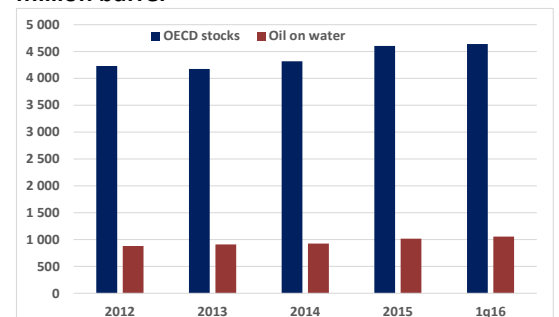
Source: EIA, daily data converted into NAD using SARB daily exchange rates

#### Rig count, 2012 to April 2016



Source: OPEC, MOMR May 2016

#### OECD stocks and oil on water, 2012 to 1q2016, in million barrel



Source: OPEC, MOMR May 2016

2015 prices, diesel prices remain 3.2 and 4.1 percent lower respectively. The environmentally friendlier Diesel 50ppm remains NAD0.10 per litre more expensive than Diesel 500ppm. The Ministry of Mines and Energy could consider providing incentives for consumers to switch to cleaner diesel by swapping the price difference.

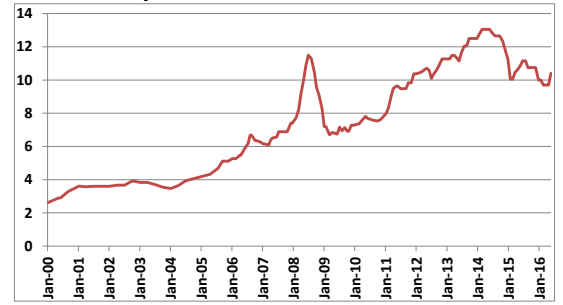
Lower fuel prices throughout 2015 compared to 2014 led to negative inflation rates in the category 'transport' in 2015 with the exception of January 2015. Since transport items carry the third highest weight, with 14.3 percent, in the consumption basket, the price declines in this category helped to contain overall inflation at 3.4 percent in 2015 - the lowest level in over a decade. This trend has since reversed in 2016 because of the low base of fuel prices in 2015. However, those relying on public transport, mainly the poor and low-income earners who cannot afford their own vehicles, have not benefited from the price declines. Costs of public transport rose by 3.1 percent in 2015.

While the low oil and fuel prices have had a positive impact on producers and motorists, the overall economic impacts are not as clear-cut. Even for net-oil importing countries such as Namibia, there are downside effects that are becoming more and more obvious. Globally, low energy prices (not only oil prices but also gas and other fuel prices) have resulted in substantial declines in investment in exploration, new rigs (the number of total rigs dropped substantially from 3,631 in 2014 to 2,389 in 2015 and 1,480 in April 2016) and other equipment. This in turn affects the demand for other commodities. It even had spill-over impacts on the financial sector amidst fears that energy and mining companies will not be able to honour their loan obligations, which in turn forces financial institutions to make provision for adjustments to their loan books and perhaps even write off some of debts. Share prices of some financial institutions subsequently declined.

Obviously, the decline in oil revenue resulted in the declining purchasing power of oil-exporting countries and that affects the demand for goods and services globally, including the demand for luxuries. Namibia is feeling the pinch too, because of the importance of the Angolan market. Exports to Angola decreased from NAD4.7 billion in 2014 to NAD2.6bn in 2015. While Angola was still ranked as the fifth most important export market for Namibia in 2015, the country did not feature among the ten most important export destinations in the first quarter of 2016. Reportedly, shopping tourism by Angolans, which has benefited Windhoek's shopping malls in particular, has also declined. The impact, however, extends beyond the exports of goods to our neighbouring country. The service sector is affected as well. Tertiary education institutions have to cope with a drop-off in demand from Angolans. In addition, fewer Angolans are visiting Namibia's health facilities. This also has an impact on accommodation facilities where they used to stay. Last but not least, the Walvis Bay harbour is currently operating well below its capacity of 350,000 twenty-foot-equivalent units (containers), although not only because of the contraction in Angolan demand. The ripple effects will be felt in the economy this year. The lower demand from Angolans, combined with the ongoing drought, a reduction in government spending, and less disposable income for households because of rising interest and inflation rates, will result in lower economic growth and consequently in fewer jobs being created.

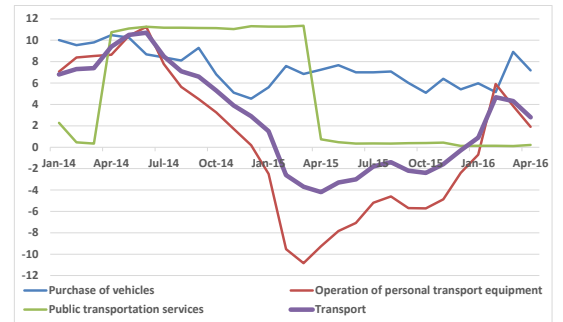
In a nutshell, low oil prices are not simply good news for Namibia - they also affect global demand and hence prices for Namibian exports as well as the general investor mood. Economic growth forecasts for Namibia of 4.3 percent in 2016 might therefore be optimistic.

**Diesel (500ppm) prices for Windhoek in NAD, Jan 2000 to May 2016**



Source: Ministry of Mines and Energy, monthly data

**Inflation rates for the various components of the category 'Transport' in percent, Jan 2011 to April 2016**



Source: Namibia Statistics Agency.

## Namibia dollar weakened further in 2016

The Namibia dollar (NAD) has weakened substantially during 2015 closing the year 34, 28 and 22 percent lower vis-à-vis the US dollar (USD), British pound (GBP) and Euro (EUR). The trend has continued into the year 2016. However, at the end of the first five months, the NAD gained some ground again compared to February when it was trading at almost NAD17 to the USD. The NAD appreciated slightly against the GBP (0.2 percent) so far this year, but weakened by 1.4 and 3.4 percent vis-à-vis the USD and EUR by end of May. The strengthening of the NAD against the GBP can in part be explained by the upcoming 'Brexit' referendum in the United Kingdom. UK citizens will vote on 23 June 2016 to either remain in or leave the EU. The uncertainties surrounding the outcome of the referendum has weakened the GBP and economic growth prospects for the UK. The recent gains against the USD will be short lived if the US Federal Reserve Bank decides on an interest rate hike in June or July. While an increase was seen as being rather unlikely a few weeks ago, because of global economic uncertainties including the outcome of the Brexit referendum and poorer than expected labour market data in the US, stronger economic growth in the US including upward revisions of the first quarter growth data and a strong statement by the Chairperson of the Reserve Bank could hint at a rate hike in June or July. If the Federal Reserve Bank decides to increase interest rates, it will attract financial investment in USD and strengthen the currency. Moreover, a possible downgrading of South Africa's credit rating will exert substantial pressure on the ZAR and therefore on the NAD as well.

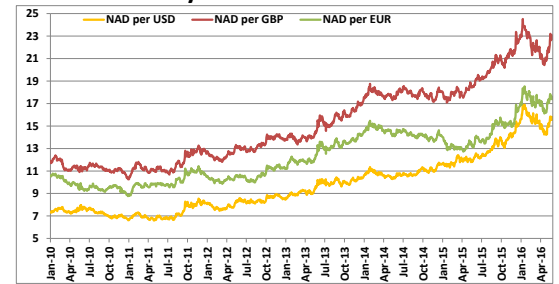
## Commodity prices have improved

Most commodity prices relevant for Namibia have improved since the beginning of the year. Gold has been one of the best performers since prices not only rose by 15 percent this year, but improved also by 3 percent compared to end of May 2015. Gold was trading at USD1,237 per ounce on 24 May 2016 compared to USD1,082 and USD1,204 on 4 January 2016 and 24 May 2015 respectively. However, the bullion lost some ground in recent days as the likelihood of a US interest rate hike in June grows and consequently the attractiveness of investment in USD increases. Although oil prices have shown the strongest recovery so far this year (32 percent), they are still 25 percent lower than in May 2015 (see above).

Uranium prices, at the other end of the spectrum, kept on falling compared to the beginning of 2016 and a year ago. At USD28.50 per pound the price is 17 percent lower than in January 2016 and 19 percent below the price end of May 2015. Current price levels have had a negative impact on production and employment. The positive expectations created by the 2008 'uranium rush' have not materialised. From 2008 to 2010, the export of metal ores including uranium exceeded the export value of diamonds. Uranium was poised to become Namibia's most important export product owing to the prospects for a number of new uranium mine developments. One of these developments has materialised, in the form of the Husab Uranium Mine, which is expected to reach full production in 2017. Since the company is developing the most significant uranium deposit so far in Namibia, the value of uranium ore is likely to overtake diamonds as the leading export product and propel Namibia to third or even second place globally in terms of uranium production. It, however, remains to be seen whether production plans will go ahead as planned if prices remain subdued.

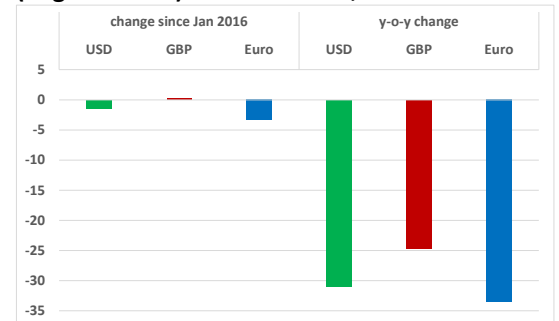
Zinc has performed better than copper this year with prices increasing by 19 percent since the start of 2016, but they remain 14 percent below prices a year ago. Copper prices rose by 0.5 percent, but are 23 percent down compared to

## Exchange rates in NAD per USD, GBP and EUR, Jan 2010 to May 2016



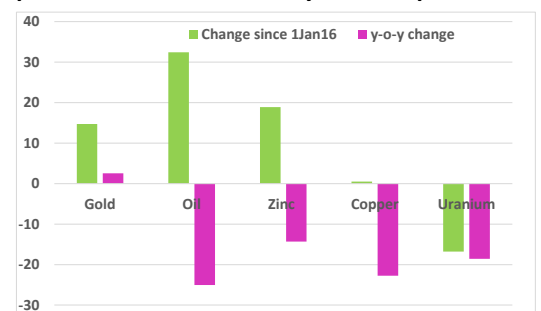
Source: South African Reserve Bank (SARB), daily data

## Appreciation (positive area) and depreciation (negative area) of NAD vs USD, GBP & EUR



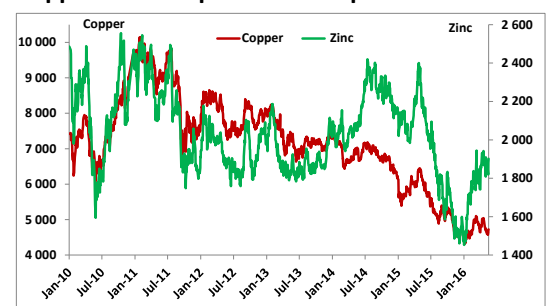
Source: Authors' calculation based on SARB daily data

## Trend in the price of selected commodities compared to Jan 2016 and May 2015, in percent

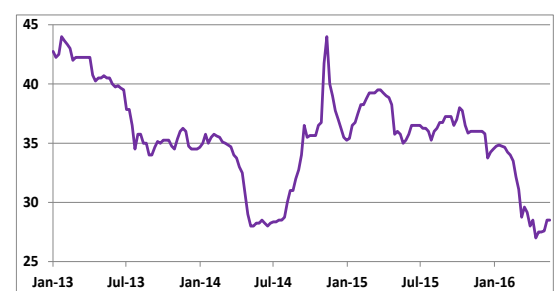


Source: Authors' calculation based on World Gold Council, EIA, LME and Ux Company daily data.

## Copper and zinc prices in USD per tonne



Source: London Metal Exchange (LME), daily data.



last May. Prospects for a substantial change in the trend are rather weak unless more mines close, since China's shift from export-led growth and a construction boom to growing the service sector and stimulating domestic demand implies a reduction in the demand for commodities. Zinc and copper were trading at USD1,902 and USD4,725 per tonne respectively end of May.

**Crop prices have reached top levels**

White maize prices recorded dramatic increases of 120 percent during 2015 rising from NAD2,121 per metric tonne (to) to 4,661 per metric tonne. Wheat prices rose by 26 percent from NAD3,911 to NAD4,923 per tonne over the same period. Prices increased rather moderately so far this year by 7.9 and 5.0 percent respectively, but exceed prices a year ago by 87 and 35 percent. Consequently, prices for both crops reached record levels in 2016. White maize prices topped NAD5,280 per tonne on 20 January 2016, but white maize was trading lower at NAD5,030 per tonne on 30 May 2016. Wheat prices climbed to NAD5,171 on the same day. Further price increases are likely in the third quarter 2016. The price increases are caused by the severe drought that is affecting most parts of southern Africa. Globally, the situation looks different. According to the global supply and demand estimates of the US Department of Agriculture, world wheat production is expected to decline slightly from an estimated record harvest during the 2015/16 season of 734 million tonnes to 727 million tonnes projected for the 2016/17 season. The decline in production will, however, be offset by existing stocks and result in record supplies. Global maize production is projected to be 1,011 million tonnes for the 2016/17 season, up from 969 million tonnes. The projections are almost at the level of the previous record harvest in 2014/15 of 1,014 million tonnes. Interestingly, maize production projections assume a rebound in production in South Africa that would move the country from a net-importer to a net-exporter in the 2016/17 season. The increasing global demand for both crops is expected to be met by production and existing stocks.

**Inflation on the upward trend**

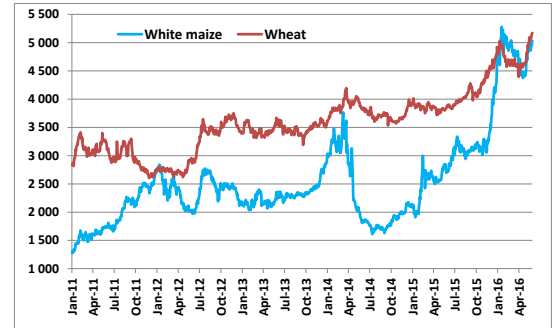
The inflation rate is on the increase owing in part to the base effect regarding transport inflation (declining fuel prices during 2015) and in part to the impacts of the drought on agricultural production and consequently prices. Food price inflation reached double-digit figures in April (11 percent) and transport inflation moved from negative territory into positive. Prices for housing, water and electricity increased much stronger during the first five months of 2016 than in 2015. Inflation for this category averaged 7.6 percent during 2016 compared to 2.7 percent in 2015. Costs for health services are also rising faster and above average this year – on average by 7.2 percent compared to 5.0 percent in 2015.

However, the average inflation rate is not a good indicator for the impact of price increases on households because of the huge income disparities and consequently quite different consumption patterns of different income groups. As indicated above, non-motorists have not benefitted from the lower fuel prices and hence their inflation rate was likely higher in 2015 than the inflation rate for motorists. Likewise, the current food price increases affect poor households more than wealthier households, since the latter spend a lower proportion of their total consumption on food. It is therefore necessary to complement the average inflation rate with inflation rates for low, middle and high-income groups. This would guide inflation-based salary adjustments for different income levels.

**Above: Uranium price in USD per pound, Jan. 2013 to May 2016**

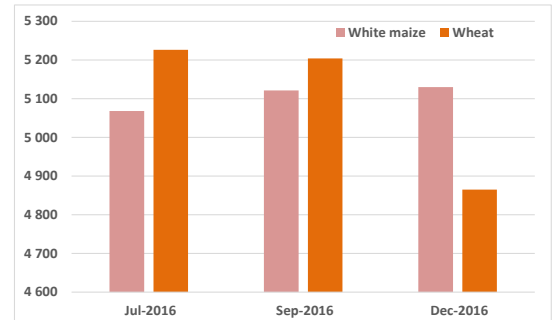
Source: Ux Company, weekly data

**White maize and wheat prices in NAD per tonne, Jan 2012 to May 2016**



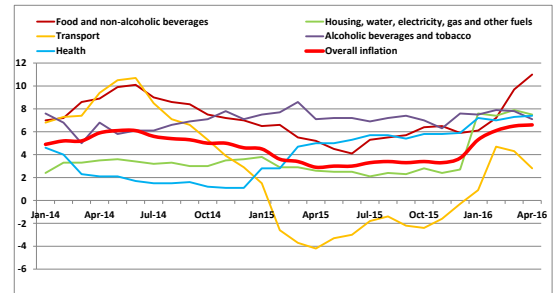
Source: Safex, daily data

**Future prices for white maize and wheat in NAD per tonne**



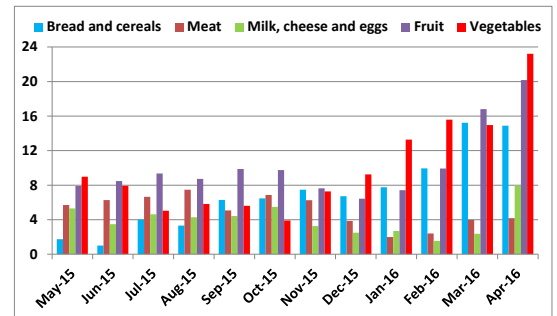
Source: Safex

**Inflation rates for selected categories in percent**



Source: Namibia Statistics Agency, monthly data

**Inflation rates for selected food products**



Source: Namibia Statistics Agency, monthly data

**Economy Watch Namibia is compiled by IPPR Research Associate Klaus Schade (economist@ippr.org.na) and is financially supported by the Hanns Seidel Foundation (HSF). Economy Watch can be downloaded from [www.ippr.org.na](http://www.ippr.org.na) or [www.hsf.org.na](http://www.hsf.org.na) and printed copies are available from the IPPR or HSF.**

