

Crude Awakening: Iran, Oil & South Africa's Fuel Crunch

Key risks

- With oil having spiked and South Africa's pricing fully import-parity based, there is no fiscal buffer. Diesel raises the entire cost base. This is structurally inflationary at the firm level, not cyclical.
- Imported input scarcity, particularly through the petrochemical channel. Asian production cuts (10-30%) imply that plastics, resins, coatings, and industrial inputs may become unavailable, not just more expensive.
- Fixed-price contracts signed before March 2026 are now systematically mispriced.
- Cash flow compression is the binding constraint, particularly for SMEs. Rising input costs are immediate, but revenue adjustments lag due to client resistance and fixed payment cycles.
- A combination of higher oil and a weaker rand feed into inflation, constrains monetary easing, and dampens demand.
- The reopening of the Strait of Hormuz remains uncertain. Prepare for prolonged supply disruption, with oil potentially sustaining \$120-130/bbl or higher through 2026.

Actions

- Firms should treat this as a balance sheet and contract management problem first, and an operational problem second.
- All fixed-price exposure should be audited immediately. Where possible, renegotiate contracts to include fuel and input escalation clauses. New business should shift decisively to cost-plus or index-linked pricing.
- Firms should target a minimum 60-90 day operating buffer, recognising that payment cycles will not adjust as quickly as costs. This requires tightening debtor terms, accelerating collections where feasible, and deferring non-essential capital expenditure.
- On procurement, the objective is risk diversification, not cost minimisation. Identify the top input dependencies and secure alternative suppliers.
- Operationally, firms need to rebase cost structures. Diesel intensity should be explicitly modelled at different price points (e.g. \$85, \$100, \$120 oil scenarios), with clear thresholds for scaling back or repricing production.
- At a strategic level, management teams should activate a formal crisis protocol. This includes real-time monitoring of three indicators: Brent crude, the rand/dollar exchange rate, and shipping conditions through Hormuz. Decisions should be triggered by pre-defined thresholds.
- Early engagement with clients and suppliers is essential to preserve commercial relationships while adjusting terms. In this environment, delayed communication compounds financial risk.