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"All progress takes place outside the comfort zone."
- Michael John Bobak

ECONOMIC COMMENTARY - By Francois Stofberg

Over the last couple of weeks, a lot has been said by economists with regards to the elections and the Rand's appreciation. With that, we are receiving numerous questions on the topics from our clients, so I thought I would navigate you through all the noise.

As we expected, elections were peaceful with no dramatic changes. What these peaceful elections signalled to markets, is that SA's democracy is healthy and working; which is saying a lot for a developing country, and helps to ease sentiment after ministers were fired and castles with non-security features were built. Even though there were no "dramatic" changes in the results, the DA was able to acquire some key municipalities like Cape Town, Tshwane, and Nelson Mandela Bay, some of which were won for the first time. This was most likely positively interpreted by markets, seeing as the DA is more pro-market than the ANC. A final point on how positive sentiment from the elections helped to appreciate the Rand, was how these positive signals came just at the right time, as the global appetite for higher yields soared.

After the Brexit announcement foreign investors were no longer able to obtain decent returns on their investments in most of the developed world; yields on government bonds in the developed world, as an example, are very close to zero, or even negative. For this reason, investors have had to turn back to emerging markets, willing to take on more risk. This flow of capital continues to do much to appreciate the Rand.

All in all, I believe the recent appreciation in the Rand has been overplayed, just like the depreciation was after December 2015. In all likelihood the Rand will lose some steam and stabilize at levels around R14 to the US\$. From here we can expect the Rand to depreciate on average by 5.5% annually, against the US\$.