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ECONOMIC COMMENTARY - By Francois Stofberg

The South African Reserve Bank (SARB) decided not to increase interest rates this week, a decision which we support. Usually, we believe that “when in doubt, raise interest rates”. But, in these circumstances where we are plagued by many short-term uncertainties, it was best to wait for more information before making such crucial decisions. This is especially true when considering interest rate decisions because they have a larger impact on the medium- to longer-term (1-3 years) than on the short-term (<1 year).

Remember, as the Governor of the SARB said so “eloquently”, their mandate is price stability (keeping inflation between 3% and 6%, which indirectly includes protecting the Rand). Food and oil prices, as well as the Rand, will most likely have the largest impact on inflation this year (the short term) - and the rate at which inflation declines will determine what will happen to interest rates in 2017. Although we still hold the opinion that inflation will average below 6% this year, food prices will be driven by weather uncertainties, oil prices by global output uncertainties, and the Rand by a whole lot of local and global uncertainties. So, rather give the over-indebted households of SA some more breathing room (at the cost of net savers of course), which should support the struggling demand side of our economy.

The Dow Jones Industrial Index reached a record high this week, 20 000 points! All on the back of positive sentiment towards Donald Trump’s proposed policy changes. These changes include lower corporate taxes and government-funded infrastructure spending, which markets believe can lead to a new era of prosperity and high growth in the US. This index represents the 30 largest companies in the US, according to their market capitalisation. And, although the index is “flawed” in that it weights companies according to their prices, it is in many instances the favoured index when it comes to performance-reporting. We would, however, warn against the optimism, markets have a tendency of overreacting and can just as easily pull back, should any of the expectations not be met.