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ECONOMIC COMMENTARY

- By Francois Stofberg

The rand and the hype

The rand took a bit of a beating over the past week, depreciating back to levels around R12.60 against the US Dollar. For once, this depreciation has nothing to do with negative political sentiment. It was largely driven by a strengthening dollar. An additional factor that has added some pressure to the rand, was the substantially larger trade deficit. According to the South African Revenue Services (SARS), the year-to-date trade balance is R18.6 billion, much higher than last year's deficit of R4.2 billion. A higher trade deficit fuels suspicions of a higher than anticipated current-account deficit, which in turn implies a greater demand for foreign capital. Higher demand results in higher prices (the US Dollar), or in this case, a weaker rand.

Until recently, many globally renowned analysts employed by the major institutions, that markets listen to for guidance, were punishing President Trump (and by implication the US Dollar) for his hard rules against the Chinese. This is true, even though previous attempts at obtaining more favourable relations with the Chinese have failed miserably.

One of the very few things economists can agree on is that less trade is bad for everyone. President Trump never said he wanted less trade, he just said he wanted trade that favours average Americans. He also said that he would no longer allow China to dictate trade policy, in which they force technology transfers from their trade partners to ultimately benefit themselves at the cost of the rest of the world. Everyone knew the Chinese were bullying companies, and by implication countries, into handing over their hard-earned intellectual property. Companies (countries) were hoping that, through this short-term unfavourable relationship, they would gain access to a large untouched client base and ultimately be able to change China into something that resembles the free markets they are used to. The Chinese have, however, held out on these promises, misusing global relations to enrich themselves and simply cutting relations once they've extracted all possible benefits. Their unified attack has been fierce and leads to them becoming a global powerhouse. However, the verdict is out on their approach and it has estranged them from the western world.

And then, almost overnight, these same analysts started realising that the Chinese would be much worse off, should a full-out trade war occur. Because they stand to lose more because the US is still the dominating global power (economically and, especially, politically). The US still holds the stick and Donald Trump knows that the only way to deal with a bully, is to beat them with that stick. So, the dollar strengthened from levels around \$1.25 against the Euro to around \$1.18.

Another interesting story: the Hyperloop-hype has not subsided yet. What started out only as an idea a couple of years ago when Elon Musk was, once again, stuck in San Francisco's traffic, has now advanced considerably. Cities worldwide are now attempting to attract researchers to test these super high-speed trains in their own backyards. Governments have not yet bought into this fancy idea, as it will ultimately benefit the "few" who use them much more than the masses who will only benefit indirectly from them. Cities like Limoges in France, are hoping that when their governments see these trains in action, they will be swayed to invest in them. For this reason, Limoges, the same city that invented France's current high-speed train system and the Concord, has started to set aside the land which will be needed to conduct high-speed tests, and later the trains themselves.