EFFICIENT GROUP

Weekly Economic Newsletter

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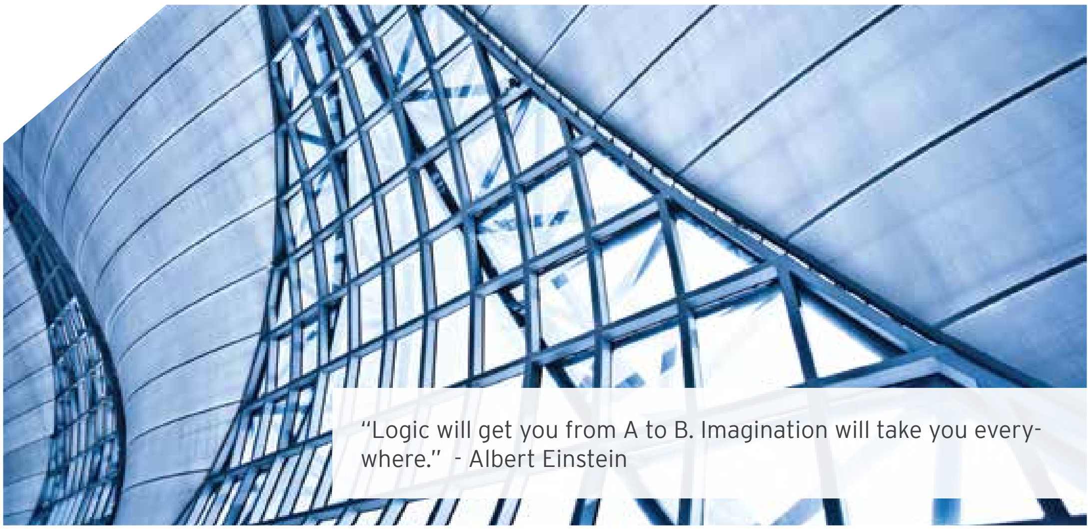

ECONOMIC COMMENTARY - By Francois Stofberg

This week the South African Reserve Bank's (SARB) monetary policy committee (MPC) decided to keep rates unchanged at 7%, again. Although the Bank increased rates twice earlier this year (by 0.5% and 0.25% respectfully), during their last two meetings they decided not to increase rates. They had to weigh the risk of inflation (which requires a rate increase) against GDP's contraction, and decided that keeping rates unchanged will give the economy some breathing room. With the latest inflation figure at just 6.3% (barely out of the SARB's target) and the Rand currently strengthening as investors worldwide are looking for growth and sending their capital to emerging markets, we believe that keeping rates unchanged was the right decision, for now. However, we are still expecting the Bank to increase rates at the end of the year, probably by 0.5%, largely because rates are still too low. For stable capital growth, fuelled by savings, the rule of thumb is to have a base interest rate (repurchase rate in SA's terminology) of CPI plus 2% or 3%. Higher savings also mean less spending, which can roughly be assumed to decrease inflation. We share the Bank's forecast that inflation will probably average 6.8% in 2016, interest rates should therefore, be between 8.8% and 9.8%.

On other trending topics, Pokémon Go was officially released in Japan, the origin of the franchise, and saw Nintendo's share price increase by another 5%; this comes after the initial 25% increase the firm experienced after the game was announced. Also, the International Monetary Fund (IMF) increased its forecast for Chinese growth to 6.6% in 2016. This came after the Chinese Premier said that the world should not expect China to pull it out of recession, as this places an unfair burden on their economy. The IMF also released their latest growth forecasts for Britain, 1.7% in 2016 and 1.3% in 2017; explaining that the UK will grow 0.2% slower this year and 0.7% slower next year, because of Brexit. They share our sentiment that Brexit's uncertainty will hamper confidence, which in turn reduces investments in Britain.