EFFICIENT GROUP Weekly Economic Newsletter

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ECONOMIC COMMENTARY - By Francois Stofberg

Continuing on our theme of "uncertainty and volatility", in the global context that I gave last week, we now turn to our initial views on South Africa's economy in 2017. We believe that 2017 will be a brief bright light, that will quickly wither away in the upcoming years.

The brief bright light we expect will most likely translate into GDP growth of 1.5% (quite high for what we've grown accustomed to), thanks, in large, to a recovering agricultural sector. This sector has contracted for 7 consecutive quarters and seen a total decline of 57.8%. It is, therefore, reasonable to believe that this sector can see an increase of at least 15% (especially if you consider expected grain output), which will translate into a GDP contribution of 0.4%. But, the success of this recovery will largely be determined by the amount of rain and heat slots available throughout 2017, making for quite a bumpy recovery. The growth will be short lived as no structural changes have been made to ensure longer term sustainable growth.

Considering our GDP expectations, we also don't see any cause for credit agencies to downgrade SA to sub-investment grade in 2017, this will most likely be left for 2018. This reiterates our belief that 2017 will be a brief bright light. These agencies have mentioned that SA should grow by at least 1% and see no real deterioration in the US$ livelihood of individuals, to avoid junk-bond status. And that brings us to our R/$ expectations – which we believe can strengthen to R13.00 levels by the end of 2017, which implies another recovering year for the Rand. In an attempt to win back some of the support they've lost in key municipalities, politicians should be on their best behaviour as the 2018 electoral race creeps closer. Volatility will creep in as the power-at-play fight over who will be the ANC's next champion. But, this should not be enough to offset the still undervalued nature of the Rand, which will be happy to start strengthening as the reality of higher GDP growth and a stable social environment become apparent.

Concerning interest rates, we don't believe the South African Reserve Bank (SARB) can start lowering interest rates just quite yet. Especially if we take into account 2016's inflation of 6.4%, and the still depreciated Rand that makes imports quite expensive – we might see another 0.25% increase before rates start decreasing in 2018.