EFFICIENT GROUP

Weekly Economic Newsletter

Contact Us

81 Dely Road
Hazelwood
Pretoria
0081

+27 (12) 460 9580

info@efgroup.co.za

www.efgroup.co.za

ECONOMIC COMMENTARY - By Francois Stofberg

Inflation Expectations & Interest Rates

Last week was another quiet one in local economics – remember, in South Africa's case, no news is good news. There was, however, some pleasant news for SA consumers – for one, the price of petroleum products decreased, and second, it appears markets are starting to price in an interest rate decrease for this year. The major downside to this year's economic success is still political turmoil – a bubble many are expecting to burst in the coming months.

In a statement released last week, the Central Energy Fund (CEF) announced that petrol prices would be decreasing by 8c, diesel by 2c, and paraffin by 10c. As the Rand strengthened over the last month, with international crude prices remaining stable around $55 a barrel, consumers will now be paying a little less for their petroleum consumption. This will already start easing some inflationary pressure in local markets.

With these recent gains the Rand made against major currencies, together with falling inflation expectations, the governor of the South African Reserve Bank (SARB) may be able to decrease interest rates by the end of 2017 (or early 2018). This would be the first decrease since July 2012, when the then-governor Gill Marcus reduced the interest rate by 50 basis points to 5%. This comes after the governor's comments that we might have reached the end of the hiking cycle – a cycle that saw interest rates increase by 200 basis points in two years. The stronger Rand helps to reduce the cost of importing goods and thereby the cost of our current account deficit – which aids in inflation reduction. The recent rain in some of the larger farming areas across SA has also helped inflation forecasts by increasing yield expectations and thereby the forecast of many food prices. Food contributes a substantial weight to the inflation basket and any drop in grain/meat prices will help the South African consumer, especially the poorest among us.

In international economics, it appears markets are still holding their breaths regarding President Trump's roll-out of his suggested $1 trillion infrastructure drive and the tax cuts that go with it. The US president is yet to give clear guidance as to how he is going to push these large changes through their political maze. Markets reacted to these questions by shrugging some of the positive sentiment that has been building over the last couple of months. We, however, believe that he still has a couple of "Trump"-cards up his sleeve and that he can still "Make America great again". But, we'll have to wait and see.