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## ECONOMIC COMMENTARY

- By Francois Stofberg

### Local Uncertainty, Petrol Prices, and Prime Property

Some funny economic comments were made in South Africa (SA) last week. In his reaction to questions in the national council of provinces, Vice President Cyril Ramaphosa commented that South African Airways (SAA) is a "prized asset". He continued to explain that those who believe the airliner should not be bailed out, don't understand the full implications of such a decision. Firstly, a loss-making company that has almost never made a profit can never be viewed as a "prized asset". Secondly, just like any normal loss-making company, SAA should be placed under business rescue or sold to someone who can make a profit in this low-margin, high volatility industry. The airline industry is not an industry for the SA government, which has a long track record of inefficiencies and a lack of successful implementation.

In other local news, research done by the Bank of America Merrill Lynch, found that fund managers remain uncertain about SA's short- to medium-term prospects. On average, asset managers in SA are currently holding almost 15% of their clients' assets in cash, compared to international managers who only hold about 5% in cash. These managers are reluctant to invest extra cash, especially in listed companies. Almost half of local asset managers are underweight in equity. Most managers seem to be holding out to see what will happen in SA politics (during December's electoral conference) and government policies (February 2018's budget), and how these will impact on credit-agency sentiment.

Some unfortunate news for everyone driving down to the beaches this summer. It appears petrol prices are set to continue increasing over the next couple of months; expect at least another 50 cent increase in December. Political uncertainty and a lack of leadership in government finances have recently forced the rand ever lower. Globally, three major trends have also etched crude oil prices upwards. First, US oil reserves were lower than expected after a large export drive. The conflict between Iraqi forces and Kurdish militants have put a strain on Iraq's supply. Finally, both Saudi Arabia and Russia have voiced their support to continue with supply cuts over the short term. Together, a weak rand and supply shortages have increased local petrol prices and should continue to put pressure on prices over the next couple of months.

Prime property hotspots! New World Wealth has released their latest property barometer, listing the world's most exotic property destinations. Top of the list in Africa is Clifton and Bantry Bay in Cape Town, where properties (anywhere between 200 - 400 m<sup>2</sup> in size) reach average prices of R82 000 m<sup>2</sup>. Mauritius (Grand-Baie, Port-Louis) came in at second place, followed by Sandton, Umhlanga, and Luanda. Globally, the most exotic and exclusive properties can be found in Monaco, where prices can reach upwards of R678 000 m<sup>2</sup>. Second place is New York (R522 000 m<sup>2</sup>), followed by London (R494 000 m<sup>2</sup>) in third place.