EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

16 October 2019

THE CHOCOLATIERS DILEMMA

Ghana and the Ivory Coast is responsible for 60% of the world's cacao. From here this precious bean makes its way across the world to the master chocolatiers, most notably the chocolatiers in the United States, Germany, and Switzerland. Together these produce roughly $48 billion worth of the world's most loved commodity – chocolate. Although cacao-based chocolate is an important commodity, the cost of deforestation has led many customers to wonder about its sustainability. This, in turn, has also led to the pursuit of cacao alternatives, like the Middle Eastern carob. However, if you've tried some cacao alternatives you know they don't come close to matching the sweet taste.

And this leads to a dilemma for our master chocolatiers. Cacao-bean farmers are asking for price increases, from $2200 per tonne to $2600 per tonne. Although chocolatiers can forego some of their profit, the actual problem with raising the price of cacao beans is that higher prices cause greater levels of supply, which in turn leads to greater levels of deforestation. In the end, chocolate demand from environment-conscious consumers decreases. Here's the beautiful part of market-efficiencies. In the end, lower demand at higher prices mean chocolatiers still make the same profits but it also means that fewer trees will be sacrificed.

From chocolates to the the International Monetary Fund (IMF). The IMF recently released a report in which they warn of a possible global recession. Although we agree with the principle of an ensuing slowdown, we do not agree with the magnitude of their concern. Our base case is that certain developed markets will slow down below trend, enter the process of creative-destruction that leads to more efficient levels of resource allocation. However, this slowdown will not be like the 2008/09 global financial crash. Also, we believe that emerging economies will continue their growth-trajectories. Although a country like China is heading towards mature growth around 5%, other large emerging economies, like India, Brazil and Russia, can pick up the slack. Even some smaller players like Indonesia, Nigeria, Bangladesh and the Philippines have a great deal of upside. This change in momentum will favour sentiment towards emerging economies and their markets, which can alleviate some US-dollar pressure and aid local companies and their stock prices.

Lastly, let's look at South Africa. One thing is clear about South Africa's President, Cyril Ramaphosa, he is relentless in his pursuit in bolstering investor confidence towards South Africa. He recently teamed up with other African countries to create better trade relations and the possibility of investment opportunities between our closest partners. But he has been relentless in both local and international media to convince investors about the upside of investing in South Africa. Agreeing with some of the points raised by Finance Minister Tito Mboweni, in his economic plan, the President addressed seven areas to encourage investment in South Africa: energy, data, immigration reform, land, industry development, trade, and debt. These are not new issues, but we hope that by continuously raising them they will translate into accountable action in government.

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