

ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE

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THE END OF EASY MONETARY POLICY

In global markets: This past month has been all about the war in the Ukraine and its impact on the global economy. The war has almost caused investors to forget about the long-term shift in monetary policy that finally started when the United States (US) Federal Reserve (Fed) increased its interest rates. Although we doubt it, many experts believe that the Fed will increase its interest rates by another 1.65% in 2022 to try and curb record-high inflation in the US. The war's impact on the global economy will mostly be felt in the short term, with some lingering effects that might remain in the medium term. One example is oil and grain prices that might spike in the short term but should decrease again once the dust settles. But changing a more than a decade long trend of easy money that caused interest rates to fall into negative territories, balance sheets of central banks to explode, and debt levels and asset prices to skyrocket, will probably hurt a lot more for a lot longer. In this way, the war might be the spark that sets any one of these growing global concerns aflame.

I have explained for quite some time now that having run this experiment of easy monetary policy over such an extended period will undoubtedly leave the world with a severe hangover; you simply do not get over a decade-long addiction. And the hurt of initially having to pay near zero interest rates, to maybe paying 1.9%, is not something that an American household's budget can ignore. Some argue that we might have stagflation, that is, high inflation coupled with below-average economic growth for a prolonged period. Others foresee a major recession and a slow recovery; yield curves in the US that are slowly starting to invert are a worrying sign of a possible recession. Whatever the case may be, we advise our clients to adjust their strategies toward the long term and to use corrections as buying opportunities; this is not something that should be feared. With this outlook, you need not concern yourself with short-term uncertainty or volatility. We have learnt that trying to time the market, or even a recession, is not something worth attempting. There is a lot more value that can be created by being patient and investing through the short-term volatility.

In South Africa (SA): What might have appeared to be an early April Fools' joke, simply because it was too good to be true, turned out to be very good news for South Africans. Initially, we thought the petrol price would increase somewhere between R1.73 and R1.81, and the diesel price between R2.97 and R3.12, but then government intervened and announced that they would cut the fuel levy by R1.50. Even more clever was their decision to sell R6 billion worth of government strategic oil reserves to fund the tax cut, which means that government's debt will not increase because of the cut. Other plans that government has will further decrease the fuel price by about R0.13. Our base case is still that the oil price will gradually decline whilst the rand remains strong, meaning that the fuel price should, on average, continue to decrease over the short and medium term. As we have shown, even in a worst-case scenario where the oil price sustains levels around \$185 a barrel, and the rand depreciates and remains around R15.50, consumer prices should remain below 8%, and is, therefore, not something to be too concerned about. We did, however, encourage our clients to speak to their financial advisors to plan for potential interest rate increases, which many believe can still increase by another 1% to 1.5% over the next 12 months.

Nevertheless, what I found astonishing about government's recent announcement is that they are, once again, acting on SA's needs. In the past, government was plagued by big ideas that lacked execution. But since President Ramaphosa took office, I have not heard about big plans, but have rather seen action and accountability. Government acted on the many corruption scandals by axing big political players. Government acted on and privatised South African Airways, and now they are set to do the same to Transnet and portions of Eskom. They also reduced civil servant wage increases. The next step is to improve the ease of doing business in SA, which includes labour laws that do not exclude and that make it easier to hire and fire.

