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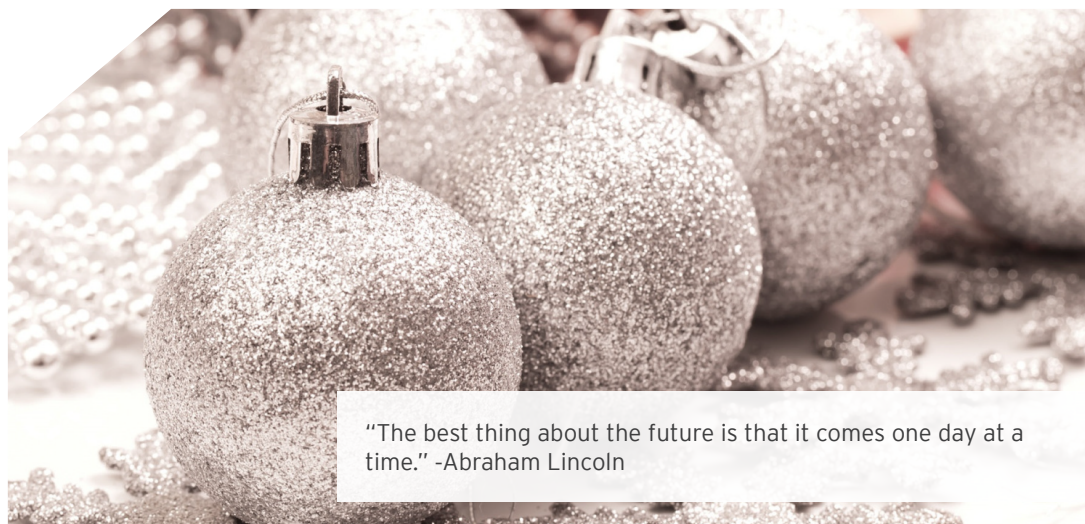
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“The best thing about the future is that it comes one day at a time.” -Abraham Lincoln

ECONOMIC COMMENTARY - By Francois Stofberg

This past year has been a tough one for emerging economies, South Africa's economy being no exception, as you well know. The global economy slowed, financial markets hinted towards a correction (something we'll see more of in 2016), local economies inflicted self-mutilation, commodity supply was in overdrive (and continues to be), the dollar strengthened, commodity prices fell, fiscal spending remained under pressure, some monetary authorities (like the SARB) increased interest rates, and inflation started climbing. Even some developed countries showed signs of weakness; Japan is still easing and faced by zombie-banks, -lending, and -consumers; and the Europeans hold firm that their even looser monetary policy will aid growth in the Eurozone. All the while social political risks like ISIS, Boko-Haram and sanctions on Russia intensify.

In all likelihood the US will hike interest rates in the very near future. We believe that the Fed's December meeting (15-16th) will be the perfect time to do so; Wall Street will be in a slumber, and consumers will be overwhelmed by Christmas carols and New Year's festivities, believing that 2016 will be more prosperous. Here, one of two broad directions might prevail: the US economy starts a long, slow process (2.4% annual average growth) aided by short term spurts when using the liquidity they'll drain to invest in future growth; or their economy can't handle the interest rate hike(s) and we see another recession (similar to 9 of the 12 historic interest rate hiking cycles), in the next 3 years. More than enough reason to ensure you and your financial advisor talk about your long term strategy.

Locally we're expecting the Rand to depreciate further against the Dollar, probably 5% annually for the foreseeable future. Except for importing inflation, food price inflation will add pressure on the basket causing a breach of the 6% upper-barrier in 2016. In the end the SARB will attempt to increase rates further (roughly 100 bp's in 2016) to curb some of the negative effects of higher inflation. Next year's growth is likely to remain depressed, 1.5% if we're lucky. The Minister of Finance will have his work cut out in the next couple of years. As elections creep forward "the alliance" will pressure him to increase wages by a greater amount than inflation, and slow growth will add downward pressure on revenue collections, inflate deficit and debt ratio's, something credit agencies are very unhappy about. If these factors persist, be sure to bring up the "junk-bond" issue at your next meeting with your financial advisor.

The reason we continue to expect a relative depressed South African economy (constantly growing slower than our pears, and even the global average), is because the same variables that got us into our current predicament remain: weak political leadership, contradictory policies, costly and inefficient state owned enterprises, weak policy implementation, strict labour policies, inefficient government spending (social- rather than economic-upliftment), to name but a few. The good news, however, is that as soon as government starts addressing either one of the above-mentioned issues effectively, the result will have a long-term net-positive impact on the economy.