# EFFICIENT GROUP Weekly Economic Newsletter


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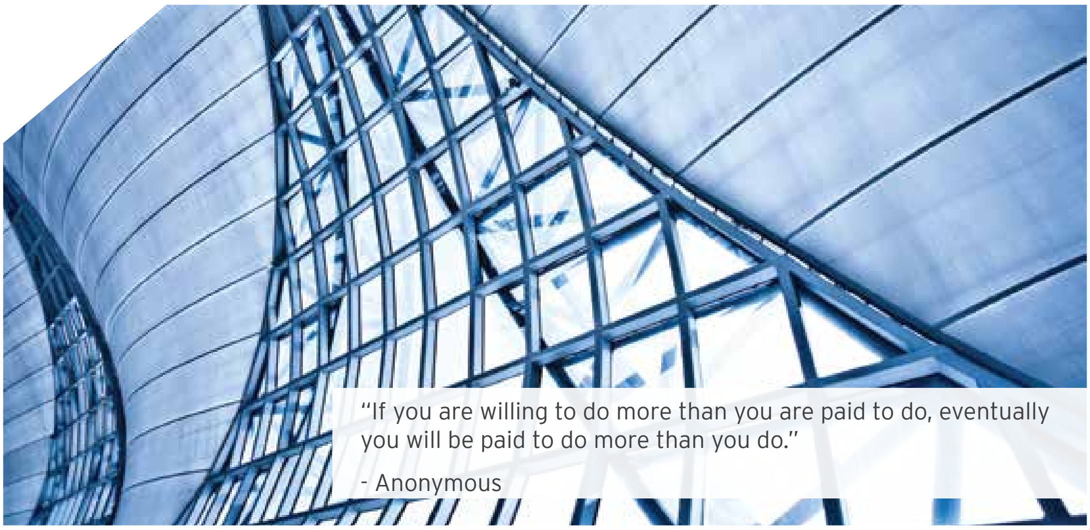


# ECONOMIC COMMENTARY - By Francois Stofberg

Markets are plummeting! The world is burning! That seems to be the attitude of many investors. So let me try and ease some of your concern. We all know financial markets are volatile, sometimes even excessively volatile, and then they recover again. This has been evident whenever markets took a knock, no matter the severity. Even in the worst-case scenario there are a couple of good opportunities that arise. Stock prices are very low and therefore, create the perfect buy opportunity; and a good recession (not that we are there yet) rinses scarce capital by allocating it away from inefficient companies to those who survive.

What we see happening. Volatility in the financial markets are aiding the gold price (and thereby gold related companies, the Anglo's and Ashanti's), as it usually does in times of excessive volatility when people run for gold's safety (go for gold!). We also see US markets doing very well, and will continue to do so; their economy is strong and the investment alternatives are drying up (up until now Britain and the EU were a favoured investments destinations for portfolio flows, but with the added uncertainty of Brexit ramifications, investors are heading to the US and buying US stocks).

What it means for SA's economy. We still hold that the Rand is too under-evaluated against the main currencies; R14.50 against the US$ is still a realistic end-year expectation. Only 3.5% of our total trade moves between ourselves and Britain, and we don't expect any changes; they will still demand our commodities and we will still import their technology and machines. The real problem is tangled up in capital flows; 46% of global foreign direct investment (FDI) into SA, flows through the UK, and roughly 30% of global portfolio investments. This is because London plays a central role in the world of financial services, and acts as a vocal point in the process of capital allocation. For one, traders use London's geographic location to access all of the tradable exchanges, within a single business day. Many of the largest banks and other financial institutions are therefore, headed in London. While Britain was in the EU, these financial institutions could service all their EU clients from Britain, this will no longer be the case. Now that Britain is no longer a member of the EU, these institutions will incur additional costs and some might want to move their offices, Brexit will therefore, hamper the flow capital. And that brings us to the most likely impact Brexit will have on SA; fewer or slower capital movements hamper potential economic growth.