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ECONOMIC COMMENTARY - By Francois Stofberg

The first bit of good news came from Moody's when they announced that South Africa (SA) only has a one in three chance of being downgraded to sub-investment grade (junk-bond status). We've long since held that the chances are much higher, so we don't want to be too optimistic about the news yet. The simple fact is that SA is still plagued by the same factors which drew the credit agencies attention in the first place. Our GDP growth is too low to support job creation and higher levels of GDP per capita (which increases societal pressures, i.e. student unrest and wage disputes), our debt to GDP is set to reach 52% (its highest level ever), and our deficit to GDP is struggling to creep back below 4.5% of GDP. Add a lot of political uncertainty and infighting, and we've entered into the realm of sub-investment grade. Nevertheless, the announcement helps to boost investors-, and even consumer-confidence (Rand strengthens)!

In a somewhat expected announcement, the Fed (the Federal Reserve Bank, America's Central Bank) decided to keep interest rates unchanged, for the sixth consecutive meeting. They once again emphasised that rates will be hiked "next time", i.e. December. But, markets are growing tired of the central banker's smoke screen, their long speeches and indecisiveness, and have ultimately started to doubt the effectiveness of their interventions. Nevertheless, the announcement fuelled emerging market sentiment and the Rand strengthened further.

Then, back in SA, inflation crept ever lower, reaching its new low for 2016, 5.9%. Inflation has been a good surprize this year, initially we thought annual inflation will reach 6.8%, but now estimates have been reduced to around 6%. Inflation expectations for 2017 have also been reduced, which lead to the South African Reserve Bank's (SARB) decision not to increase interest rates. We still believe, however, that interest rates will be hiked by 0.25% at the end of the year. Although higher rates hurt our pockets, it lifts the potential for long term growth.