EFFICIENT GROUP

Weekly Economic Newsletter

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ECONOMIC COMMENTARY - By Francois Stofberg

Don't panic, the institutions are still strong

The big news last week was, of course, the president's decision to reshuffle some of his cabinet members, and we are all quite familiar with the short-term effect of this decision. Luckily, for the reasons mentioned in the previous newsletters, the rand has been relatively resilient. There has been no spiral to R15/$1 and we continue to believe that the rand will remain at levels of R13/$1. What is always most important is not to make rash decisions after getting over emotional in times of excessive volatility (markets are a long-term game; short-term volatility should simply be navigated through). A good investment manager would already have diversified your portfolio overweight abroad – and regular meetings with your financial advisor are always sensible in these times.

Both politically and economically, the story has not run its course. It is also clear that we are nearing that place where extremes occur. Either the president centralises even more power and has run-on state finances over the next two years (unlikely), or he's voted out (increasingly more likely). Centralising power is starting to cost the president dearly as the calls for a vote of no confidence are gathering momentum. And all the while, the populous is starting to connect the dots: "If number one intervenes, the economy struggles, then jobs aren't created, and I remain poor." Economically, the extremes remain: either the economy slumps further and we're downgraded, or we limp on and avoid being downgraded. Although both are currently viable, the credit agencies would already have reacted if they were phased by what has been happening in South Africa. It is also true that as South Africans we often choose the more pessimistic view, just like most of us were calling for a downgrade last year until Moody's announced that SA's chance of a downgrade is only about one in three (roughly 33%). Furthermore, the South African Reserve Bank (SARB) recently increased their initial GDP forecast from 1.1% to 1.2%, which is close to our expectation of 1.5%. Both these forecasts are higher than the credit agencies' 1% requirement. Furthermore, should the rand remain at levels of roughly R13 to the US$ (and even vary by a rand), we should still be able to protect the purchasing power of our residents – another requirement of the credit agencies.

Our sense of the matter is still that it's not over for South Africa, it might be tough, but we've seen mountains being moved in the past, and we'll see it happen again. Our institutions, the – jurisdiction, regulatory bodies, constitution, media & press, and religion, to name but a few, all remain strong and continue to push back against the demise of South Africa.