Weekly Economic Newsletter

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ECONOMIC COMMENTARY - By Francois Stofberg

Local Currency Ratings and Oil Prices

South Africa is still making headlines at global news stations, unfortunately though, still for the wrong reasons. On Friday Fitch also decided to downgrade South Africa (nothing unexpected), but instead of leaving it at our foreign bonds like S&P Global did, they also downgraded our local bonds to sub-investment or "junk-bond" status (unexpected). The reason this is important is because a country's debt instruments are removed from the global bond index if two of the three major credit agencies downgrade that country's local currency bonds to junk. Once removed from the global bond index, major foreign pension funds and institutional investors are no longer allowed to invest in South African bonds. In these instances, capital is drained from South Africa, liquidity dries up and the rand takes a substantial knock.

The rand is, however, remaining quite firm – for the reasons elaborated on in previous newsletters. Markets are also, still waiting for the result of the vote of no confidence against president Jacob Zuma. The open vote will be held in parliament on 18 April 2017. Although "tens of thousands" of individuals marched against the president, it's a far cry from the odd 22 million who voted the ANC into power. The ANC has also closed-off ranks which make it highly unlikely that members will put their jobs on the line for the possibility of successfully impeaching the president. However, the cracks within the ANC are clear, and with a much weaker tri-partite alliance the likeliness of impeaching the president is ever increasing.

In global news: Although Syria's oil production is quite negligible, the US strike on the country has helped to keep international oil prices elevated at about $55 a barrel. Although, the real reason for the increase in prices is the decision from Russia to reduce their oil production by as much as 300 000 barrels a day. Russia has also announced that they are considering the extension of their reduction period. These output reduction decisions from OPEC and Russia have muted the price-positive impact of US record exports to China. A supply-record like this would have helped to reduce prices in normal instances.

Analysts still hold that fair-value of crude oil should remain around $55 a barrel, with the probability of reaching $60. In all likeliness petrol prices in SA should increase by about 30-60 cents, because of oil supply reductions and the recent depreciation of the rand, but then stabilise in the upcoming months.