EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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G7, TRADE, AND INTEREST RATES

President Ramaphosa is on a trip to Biarritz, France, for this year's G7 summit after being invited to join by French President Emmanuel Macron. G7 is a collective term used to refer to the group of the seven largest economies in the world. The invitation came because the theme for this year's summit will focus on eliminating social, economic and environmental inequalities, all of which are rife in Africa. After the G7 summit the President is set to join global diplomats at the Tokyo International Conference. His hopes are to convince global investors about the validity of investing in South Africa. During his speech at the G7 President Ramaphosa explained that Africa is the new frontier for economic growth, something the dignitaries are aware off. Unfortunately, the growth President Ramaphosa is referring to is often offered at risk levels that are unacceptable for conservative global leaders. However, trade is taking centre stage at the G7 summit.

On Friday, 23 August, China announced new tariffs between 5% and 10% on $75 billion worth of US imports. Shortly thereafter, US President Donald Trump retaliated by imposing an additional 5% tariffs on $550 billion worth of imports from China, threatening to impose even more tariffs. Then on Sunday China reached out to the US negotiators asking to reopen trade talks with the US. This all happened whilst UK Prime Minister Boris Johnson was working his way into Trump's good graces. Also, Trump and the Japanese Prime Minister, Shinzo Abe, reached an initial agreement for trade between the two countries. Markets have yet to price in any good news however, it seems investors are taking a "wait and see" approach. Unfortunately for us, this means more pressure on the JSE and the rand. Our view is that Trump will work towards a deal with China before Christmas (and the buying season in the US kicks off). Our base case is still for Trump to finalise a deal before the US elections kick off in 2020: beating the Chinese is a sure-fire way to secure an election victory.

In SA, Statistics South Africa (StatsSA) released July's inflation figures. Inflation fell back to 4.0%, down from 4.5% in June. The largest contributor to the contractions was the fall in the petrol price, compared to July 2018. Unfortunately, the rand's recent fall against major currencies means that imports (most notably oil) are once again more expensive. Luckily though, the oil price has remained muted and has fallen below $60 a barrel. On the one hand, fears of a global slowdown supress our local markets and currency. On the other hand, they help to keep oil prices low. At these levels there is enough room for the South African Reserve Bank (SARB) to reduce interest rates again during their next meeting between 17 and 19 September. Their meeting coincides with the US Federal Reserve (Fed) meeting that will be from 17 to 18 September. Markets are pricing in three, possibly four more rate cuts in the US over the next year. Consequently, reducing interest rates in SA will not lead to a loss of global competitiveness, in which case capital will most likely not flow out of SA if interest rates are reduced. We expect the SARB to reduce interest rates by 0.25%, but the Fed can reduce interest rates by as much as 0.50%.