EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE

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MAY ECONOMICS

As per usual, May was the volatile month that we have come to expect it to be and probably nowhere else was this truer than among cryptocurrencies. After a phenomenal run, which saw Bitcoin reach new all-time highs of around $60 000, the cryptocurrency plunged nearly 50% to a low of around $30 000 and has been struggling to recover ever since. Similar to the adage that when the United States (US) sneezes, the rest of the world catches a cold, when Bitcoin sneezes, the crypto world catches the flu. Since Bitcoin's descent, altcoins and other tokens have also been a bit under the weather. Two main events played a major role here: first, Chinese regulators intervened to stop the use of these unregulated currencies. Second, Elon Musk broke his initial promise to accept Bitcoin as a medium of exchange to purchase Tesla vehicles. This came shortly after Musk bought $1.5 billion worth of Bitcoin to facilitate these exchanges, which turned out to be Tesla's best investment yet, when they cashed out more than $100 million in profit just before the crash. Another possible hiccup might be heading towards the crypto world after US regulators from different agencies created a sprint task force to bring regulation quicker into crypto markets.

Inflation in the US has been causing similar headaches, albeit more so to the regulated financial environment. After a relatively tame March figure of 2.6%, April's print of inflation surprised everyone when it came in at 4.2%. Investors were startled, markets pulled back and US yields rose. It was the highest year-on-year increase since the 2008/2009 global financial crisis. Used car prices increased 10% month-on-month, the largest increase since starting to collect data in the 1950s. Although the US Federal Reserve (Fed) said that they would be happy with inflation higher than their upper bound of 2%, inflation in the 4% region would force their hand towards reducing accommodative monetary policy, which have made markets very nervous. The Fed is, however, adamant that these high inflation prints are only transitory, i.e. of a passing nature; 'transitory' was the financial world's buzzword in May. A weaker jobs report eased some concerns that the US economy was not recovering too quickly. Although the news has some nasty longer-term consequences, if US firms cannot attract the necessary talent, they will have to increase wages. This is, of course, welcome news for those middle-class families who have not seen wages increase sufficiently in the last 30 years, but it is not good news for inflation fearmongers.

In South Africa (SA), the Auditor-General reprimanded local authorities about their lack of basic accounting abilities. In her view, one that we share, it is unnecessary to outsource R900 million worth of accounting contracts because of local authorities' incompetence. Finance Minister Tito Mboweni announced that many public enterprises would need a cash injection, or they will be unable to meet their debt obligations. Poor management over multiple years has deteriorated these institutions, which finally caved in during the pandemic in 2020. Mboweni is of the opinion that this assistance will only be a short-term lifeline that will be replaced by structural reforms that can make the institutions more sustainable. We, however, believe that this is wishful thinking. In other local news, the rand has been on its best behaviour. Assisted by inflation fears in the first world and its impact on global developed markets, the shift towards emerging market yields, an enormous current account surplus and well-behaving local politicians, the rand reached levels as low as R13.75. The last time we saw the rand trading at these levels was in December 2001. The stronger currency helped Eskom to reduce their debt burden by almost R70 billion. Cost savings reduced their debt by another R13 billion, resulting in a total debt reduction from R484 billion to R401 billion.