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NEWSLETTER

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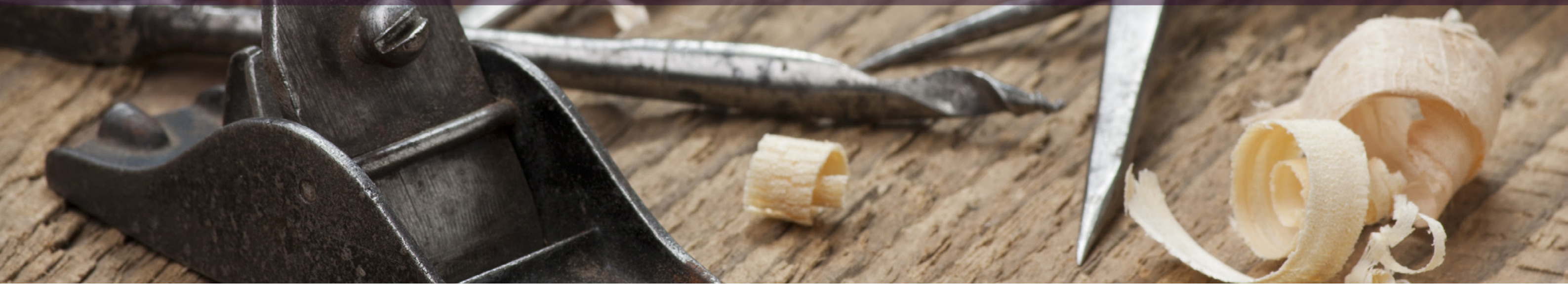

ECONOMIC COMMENTARY - By Francois Stofberg

June in Review

June started with a depressing bang when Statistics South Africa (StatsSA) released the dismal first quarter GDP figures for South Africa (SA). In a record-breaking quarterly contraction, SA's economy shrank by -2.2% quarter-on-quarter. Although a contraction in the mining, manufacturing, and retail sectors were expected, the historic -24.2% contraction in the Agricultural sector was not expected. Our hope is that these preliminary statistics will be adjusted upwards in the coming months (like they usually are). However, our 2018 GDP forecast will still be adjusted downward to somewhere around 1.3%. If anything, figures like these support the negative investor sentiment towards emerging markets, a recurring theme in the month of June.

Since the global financial crisis in 2008, most of the developed world underwent substantial structural changes to address fundamental issues to their economies. In the United States (US) Donald Trump was elected president by mostly average, middle-income, "left-behind" Americans. Trump has done everything expected from a controversial figure who goes against the establishment. He has also done wonders in terms of challenging the status-quo of how we think markets, politics, policy and even economies should work – we are yet to see if it will better the lives of everyday Americans. Similarly, in the United Kingdom (UK) the Brexit referendum happened. This very controversial decision was supported mostly by average, blue-collar, "left-behind" British voters. These "left-behinders" are those middle-class inhabitants who bore the cost of globalisation, while the pockets of the elite were being filled. Even in Europe many countries who previously lived lavish, exorbitant lives, most notably the Greeks and Italians, have been forced into the prudent, austerity-type living of the Germans.

Whilst the rich world was doing the seemingly impossible, poorer developing countries continued their ineffective, inefficient, and inappropriate paths towards what they believe will be development. State coffers are being looted (throughout the emerging world), the independence of central banks is being attacked (most notably in SA and Turkey), governments are moving towards authoritarian dictatorships (most notably Russia and China), fiscal policy is skewed towards distribution instead of wealth creation, and legislation supports labourers at the cost of enterprises. The result has been an outflow of funds from the emerging world to the rich world (particularly the US) where economic growth (and a plethora of other economic and market-related variables) is robust and sustainable. Following the negative sentiment and the outflow of funds from emerging markets, their currencies have come under severe strain.

Overall, June showed that the health of the global economy, as indicated by Bloomberg's twelve global economic indicators, is driven by the developed world. If one considers that the rich world spends 71% of global consumption, its good news for those developing countries who cannot take care of themselves. The Federal Reserve Bank (Fed) in the US was once again able to increase interest rates to 2.0%. Markets are also expecting a further two increases in the last 6 months of 2018 – economic indicators in the US continue to surprise to the upside. Even the European Central Bank (ECB) has started to give guidance towards ending quantitative easing by the end of 2018, and expectations are that we will see the first interest rate hike in the EU by mid-2019.

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