ECONOMIC COMMENTARY - By Francois Stofberg

7 October 2019

SOME IMPORTANT POINTS

Monetary policy in the United States (US), although still accommodative, seems to be less dovish than initially anticipated. During September the US Federal Reserve (Fed) cut interest rates for the second time in more than a decade. In a unanimous vote, the monetary policy committee decided to decrease interest rates again by 0.25% to a new target range of 1.75% to 2.00%. The Fed's tone and new dot plot, seem to suggest that there will be no more interest rate cuts during 2019, and possibly even 2020. In a gross-overreaction market participants initially believed that there would be three more interest rate cuts during this period. These rate cuts would support a slowdown in the US economy and the impact of a potential global slowdown on US markets. Global economic data has however, continued to achieve levels greater than expected. Japanese firms are cash-strong. Barring some bad apples, Europe is muddling along; Germany even avoided a recession. Nothing will probably ever come of Brexit so it's business as usual. China simply pulls more levers to keep them on their growth trajectory; the current favourite is the reserve ratio banks are required to hold, and some currency manipulation to keep things interesting. But most importantly, the US economy is still strong, and we've even seen some much-anticipated inflation. The US is strong because the US consumer is still strong, and if new job entrants find employment the current expansionary cycle will continue unattested, aided by lower interest rates.

As markets calmed down, realising that an imminent crash was not likely, the US 10-year yield recovered from lows around 1.5% to levels closer to 1.7%. As a result, capital that fled markets, and were considered less safe, are slowly starting to retrace their steps. However, a lot of the concern is still tied to fears of the eventual impact of the trade war on global growth. But we've explained that these fears are unfounded, hard data simply doesn't support a bubonic-type recession caused by a trade war. What the trade war is doing, is to emphasise the structural slowdown of both the US and Chinese economies, which was foreshadowed by less investment expenditure in these countries. The trade war is not pushing the global economy off a cliff, but simply reminding us that we are in late cycle and that the necessary process of creative destruction is coming closer. The trade war is also fuelling the discontent of investors towards emerging markets. This has kept the JSE and the rand under a lot of pressure. It is also worth noting that the poor performance of JSE-listed companies relative to US-based companies play a larger role in reducing long-term valuations. Our baseline is that the trade war will be resolved before voting season kicks off in the US in 2020, and that the US, and possibly some other global economic giants, will enter a period of contraction. As the decade-long golden era in the developed world starts fading, emerging markets will appear relatively healthier, which in turn, will support their markets and currencies.

In South Africa, not much has changed internally, but external factors and investor sentiment have weighed heavily on our local market and currency. As these external factors start to lift, a relative improvement should do much to undo the current negative sentiment: Eskom is still in shambles, labour relations are still poor, and in-fighting is still raging in the ANC. Yes, the economic plan Finance Minister, Tito Mboweni, released won't find any real support and nothing came from the various independent inquiries into corruption, and we've all but forgotten about Ramaphosa. But it's worth noting that we haven't heard about any more damning corruption scandals. No new Nkandla's have been built. No more ministers were wrongfully dismissed. No more smoke and mirrors have been put up to mask the rust of an inefficient government. The government's wage bill might just be shrinking. Unlike a few years ago, politicians and bureaucrats are somehow being kept in line by some invisible hand in society.

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