



## ECONOMIC COMMENTARY - By Riaan Prinsloo, CFA

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#### BIG MACS, TESLA AND DION WIRED STORES

We are heading towards the end of January and many of us are actively enforcing our new year's resolutions. Some of us have been to the gym (at least once) while others have embarked on a Dry January or sworn off fast food. But, while many consumers are avoiding the drive-thru, the Economist magazine published its annual Big Mac index. Let's look at what this means for our markets.

Big Mac burgers are virtually the same around the world, whether they are enjoyed in Tokyo, Geneva, Cape Town or San Diego. Given that McDonalds has a presence on six continents, this creates an excellent way to study the purchasing power parity (or PPP) of a country. Relative purchasing power is important because it is a method through which we can determine whether a country's currency is over- or undervalued.

While President Putin consolidated his power in Russia, or as President Erdogan sent shock waves through the Turkish economy, the South African rand managed to beat both currencies as the most undervalued major currency in the world. A Big Mac costs R 31.00 in South Africa and \$ 5.67 in the United States (US). Therefore, according to burgeronomics, the rand should be trading at R 5.50 against the dollar, which implies that the rand is 62% undervalued.

On the other hand, the electric vehicle manufacturer Tesla, run by Pretoria born Elon Musk, doesn't appear to be undervalued at all. On the contrary, the Tesla share price has increased by more than a USD 100 over the past month after claiming continued success in the biggest electric car market in the world, China. The company's share price is currently trading at over USD 500 a share, meaning the company is worth more than USD 90 billion dollars. At its current valuation, Tesla's market capitalization exceeds the combined value of American motoring stalwarts Ford and General Motors.

The US earnings season has started. This means investors get a chance to peek behind the curtain of some of the world's biggest corporations. While only a few companies have reported, the US economy seems to be doing well. Banking behemoth JP Morgan had the most profitable year ever for a US bank. Judging by the company's share price performance, investors continue to bank on the US consumer.

Locally, some of our retailers also appear to have benefited from an increase in Black Friday sales. Mr Price and Foschini posted good results, but unfortunately Walmart (owned by Massmart) might be closing Dion Wired. Dion Wired stores are struggling to reach profitability, as the company faces e-commerce and a consumer with limited spending power. While further consolidation in the retail sector is likely, our overall market is up over 3% for the month, which could indicate that investors are making use of South Africa's cheap currency to access attractive investment opportunities.

