ECONOMIC COMMENTARY - By Dr. Francois Stofberg

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LESS ACCOMMODATIVE AND MORE GOOD NEWS

In the first week of May, the United States (US) posted some disappointing job figures. A survey of economists expected the US to create upwards of 1 million new jobs in April, up from March's 770,000 figure. But the US labour market only added 266,000 new jobs causing the unemployment figure to edge up towards 6.1% and further away from the coveted full employment status. Following the report, US President Joe Biden reminded Americans that the recovery would be a marathon, not a sprint and that the climb would be steep.

Although a weaker than expected jobs report may be slightly disappointing from an economic recovery standpoint, it does provide some welcome relief to the US Federal Reserve (Fed). An economy that recovers faster than expected would mean that they would have to unwind balance sheets and reduce their accommodative policies more abruptly; markets frankly are not ready for news of this nature. But we believe this will be a short-term relief. April's jobs slump was probably an anomaly, and we expect a much stronger jobs report in May. We will also hear more about inflation in this coming week. And once again, although inflation disappointed in March, coming in at 1.6%, economists expect this figure to jump to 2.3% in April, the highest levels since the coronavirus pandemic hit the US. From here, most are expecting inflation persistently to breach the Fed's upper limit of 2%, and at that point, it is anyone's guess about how long they will be able to withstand it. A similar expectation about less accommodative monetary policy is starting to unfold in the United Kingdom (UK). Last week the Bank of England (BoE) upgraded their 2021 growth forecasts from 5% to 7.25%, the highest rate of increase in nearly 70 years. By this estimate, the UK will return to pre-pandemic levels by the end of 2021. Better than expected growth, tied into higher than allowed inflation, has left analysts pricing in a reduction in quantitative easing, as well as a possible interest rate increase early in 2022. But for now, members of the monetary policy committee are holding firm, keeping quantitative easing high and interest rates at its record low of 0.1%.

Some good news for commodity producers; both iron ore and copper have reached record high prices. Copper climbed to $10 200 a ton, and iron ore breached a historic level of $200 per ton. Experts say that the persistently good growth among the world's largest economies has supported an ongoing recovery in commodity prices. So too have speculations about supply shortages. Many also believe that the trend (that will demand even more metals) will persist as countries and large corporations continue to drive decarbonization.

Better news for South Africans. A couple of years ago, when Cyril Ramapohsa became our new president, we wrote he cannot and will not be able to act swiftly in his attempt to fix the ANC and get South Africa back on track because this would have been a suicide mission. We explained that he would have to play a strategic game in the background, pulling the right strings and pushing ever so slightly when needed. Since then, he has done a miraculous job which has now accumulated into what will most likely be the last of Ace Magashule. As he continues to clean house accountability will improve, making it easier to realign South African policy towards growth initiatives. Good sentiment like this is always welcome news for our markets.

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