DIE STRANDLOPER

This is the eighth report for 2020.

POLITICS.

- Is there a real effort to get corruption within the ruling party under control? Can we hope to see some results before the end of the year? Will this effort lead to a split within the ruling party? Unfortunately corruption is currently part of general society and perceived as acceptable as we have not seen anyone wearing an orange suit due to a conviction because of corruption. As corruption has been ingrained as part of society, I am of the opinion that it will take years to change the mindset of many people regarding this evil which is undermining the growth prospects of the country.
- The US presidential election players have been identified and we can now sit and watch this drama playing out on the world stage until election date, 3 November. Currently mr. Joe Biden has the edge in this race, but it would be a big mistake to underestimate Donald Trump.
- Political tensions between the US and China continue.
- The coronavirus is still causing all sorts of problems. The Irish born European Union (EU) trade commissioner, Phil Hogan, resigned following a visit to his home country and attending a parliamentary golf society dinner meeting. On arrival in Ireland from Brussels he tested negative for the virus, and should have limited his movements for 14 days —which he did not do. 80 people attended the dinner the day after the Irish government changed its rules limiting attendance to 6 people instead of 50. The 80 people were in two separate rooms, but apparently 10 people were seated at the dinner tables instead of only 6. So mr. Hogan resigned. Would that happen in South Africa?
- Angela Merkel's Germany is taking care of the poisoned political opponent of the Russian president, but has to keep in mind that Germany still needs some future energy supplies flowing from Russia.
- The prime minister of Japan, resigned due to ill health and a new leader is expected to be elected by mid-September.
- India is currently the real virus hotspot.
- Mali experienced a coup d'état in the midst of fighting Islamic insurgents. It is however not the only country on the continent facing Islamic insurgents. Closer to home, it seems as if the Islamic insurgents continue to control larger parts of northern Mozambique. Who will stop them?
- Zimbabwe is sliding deeper into the abyss of poverty, unemployment and hunger. It seems unlikely that the present leadership is able to reverse this situation.
- Venezuela decided that some of their people will be prepared to serve as guinea-pigs for the Russian so-called Sputnik 5

vaccine against the coronavirus. Given the extremely dire Venezuelan situation, it is perhaps easier not to survive the experiment?

- Lebanon has a new political leader. Hopefully he can save something of the devastated country.
- The Great Leader of North Korea is very quiet — I wonder why?
- We are now allowed to visit family and friends while wearing a mask and washing our hands. But will we be able to keep our social distance? It was so much easier to visit your enemies!

INTERNATIONAL

- The most noteworthy development in the past month was that the Federal Reserve Board announced that it would tolerate an average inflation rate of 2%. This means it would accept that inflation could mildly overshoot its target of 2% following a period of less than 2% inflation.
- This indicates that US short-term interest will remain lower for even longer. Perhaps three or even five years? No-one knows!
- At the same time it is still anticipated that UK, European and Japanese short-term interest rates will also remain at current low levels until at least the end of 2021, but most likely longer than that.
- Latest global economy forecasts indicate negative growth of 4% in 2020 followed by positive growth of 5% in 2021.
- Currently it is estimated that in 2020 the US will show negative growth of just more than 4%, the Euro Area negative growth of approximately 4.5%, the UK negative growth of just less than 9%, Germany negative growth of 4.5%, Japan negative growth of about 5.5%. The only major country to show positive growth of approximately 2.5% in 2020, is China. Currently it is estimated that the global economy will show positive growth of approximately 5% in 2021.
- Employment levels are improving, given the better growth performance of economies following the deep downturn of the second quarter in most countries. It is however anticipated that employment will take time to regain the levels of before the onset of the coronavirus. Unemployment levels are: US 10.2%, UK 3.9%, Euro Area 7.8%, Germany 4.2%, Japan 2.8%, China 5.7%.
- Inflation remains at low levels in most industrialised countries. The latest figures are: US 1.0%; UK 1.0%, Euro Area 0.4%, Germany 0.0% Japan 0.3%, China 2.7%. It is anticipated that inflation will remain at low levels in the next twelve to eighteen months.
- Long-term interest rates rose from month ago levels. On 1/9/2020 US ten-year government bonds were trading at 0.72% (0.54% on 31/7/20), UK ten-year bonds were trading at 0.33% (0.11% on 31/7/20), German ten-year bonds were trading at —0.40% (—0.53% on 31/7/20), Japanese ten-year bonds were trading at 0.05% (0.02% on 31/7/20), Chinese ten-year bonds were trading at 3.05% (2.98% on 31/7/20). However most of these rates are at more of less the same level as at the beginning of July. It is still

assumed that these rates, like short-term interest rates, are likely to move sideways in the next two years.

- General commodity prices moved higher in the past month as indications of improved growth in most industrialised countries came to the fore. Rhodium rose by 37.1%, iron ore by 12.1%, zinc by 11.7%, nickel by 10.4%, palladium by 10,1%, aluminium by 5.6%, copper by 3.5%. Over the past year rhodium showed an increase of 144.0%, palladium 49.9%, iron ore 40.5%, zinc 14.9%, copper 19.9%. At the same time coal declined by 18.9% over the past twelve months. If the global economy continues to improve in the rest of the year, it is assumed that general commodity prices are likely to reflect that improvement by price increases.
- Gold declined by 0.38% over the past month, but showed a rise of 28.5% over the past year. It still benefits from low international interest rates, ample liquidity in financial markets, a weaker dollar, continued political tensions between the US and China. It is assumed that these supporting gold price factors are likely to remain present until at least the end of the year and also in most of 2021.
- The Brent oil price rose by 4.5% in the past month, but showed a decline of 21.3% over the past year. It found some support from the damage the hurricanes moving through the Gulf of Mexico and some US states caused, some indications that stock levels in the US are declining, as well as the weaker dollar. Some forecasters were however surprised that the hurricanes did not result in stronger increases of the oil price, indicating that overall demand for oil is not that buoyant. It is still assumed that the international oil price could weaken somewhat towards the end of the year, depending on the supply of oil coming from the OPEC countries plus Russia in coming months. Many OPEC countries need the oil income to balance their budgets, while renewable energy is expected to play a more important future role.

DOMESTIC

- The domestic economy gave a sigh of relief when the country moved to lockdown level 2. Unfortunately some sectors like tourism are still adversely affected by the current lockdown. The August Purchasers Managers' Index moved into higher positive territory of 57.3, indicating further improvement of the manufacturing industry. The latest index reflects an improvement of economic activity in the country, but also indicated an improvement of the international environment as export orders rose. It is however still anticipated that it will still be a long time before activity reaches the same levels as before the lockdown was imposed at end of March.
- It is still assumed that the recovery of the economy will be a slow process as many consumers have either lost their jobs or have a diminished income. At the same time government must limit its expenditure given the dire situation of government finances.
- The July trade account showed the second largest trade surplus of R37.4 billion following the R45.7 billion June surplus. Exports rose by 6.1% month-on-month (mom), while imports rose by 22.1% mom. As the domestic lockdown eases, it is anticipated that imports will continue to show strong growth but limited by a weak economic recovery in the rest of the year. Exports should continue to benefit from the international global recovery — especially from positive Chinese trends. It seems as if the current account of the balance of payments will need only a small amount of international financing, or could even show a small surplus in 2020.

- Unfortunately the fiscal picture is not that positive. In the first four months of the current fiscal year revenue declined by 21% year-over-year (yoy), while expenditure rose by 2.7% yoy. This left the budget deficit at R245 billion in this period which was R100 billion more than in the corresponding period of the previous fiscal year. It indicates the gigantic effort required from government to bring its financial situation under control and to prevent government debt from rising above 100% of the gross domestic product (GDP). On top of this is the dire financial situation of local authorities. Unfortunately it seems, with a few exceptions, as if there are no short-term solutions for the financial problems of municipalities. If these problems are not brought under control, it limits the growth potential of the domestic economy. On top of these problems, the economy also faces more load shedding in coming months and years.

- Unemployment is expected to continue rising in the next year to eighteen months.

- Inflation rose to 3.2% in July from 2.2% in June. It is still assumed that average inflation will rise to just above 3% in 2020 and remain below the 4.5% target of the Reserve Bank in 2021.

- It is anticipated that, given the poor state of the economy, the unacceptable unemployment levels as well as the forecast low inflation rate, short-term interest rates will move mostly sideways until the end of 2021. The risk is that short-term interest rates could decline somewhat in this period.

- Long-term interest rates continue to move sideways and actually softened slightly over the past month. On 1/9/2020 the ten-year government bond traded at 9.15% (9.25% on 31/7/20). It is still possible that these rates could come under upward pressure in coming months as a result of the massive financing requirements of the public sector as well as possible further credit downgrades. Any upward movement of these rates will however be limited by the poor performance of the economy as well as the well-behaved inflation rate.

- The rand strengthened in the past month against the generally weaker dollar. It also found some support from indications that the ruling party could be serious in combating corruption within its own ranks. However the value of the rand is undermined by the problems of political uncertainty (position of the state president), the possibility of land restitution without compensation, the possibility of the implementation of the unaffordable National Health Insurance System, the poor performance of government finances, the rising public sector debt, the possibility of further credit downgrades before year-end, any strength of the dollar, any weakness of developing countries' currencies, as well as the poor performance of local authorities. The rand finds some support from higher local interest rates compared with international interest rates as well as the well-functioning local financial system. The rand however remains volatile and in the longer term weakens against all major international currencies.

INVESTMENT ENVIRONMENT

- Currently it is accepted that the global economy's turning point of the current recession happened in the second quarter of 2020. A slow recovery is anticipated in the rest of the year as well as in 2021.

- It is however forecast that international short-term and long-term interest rates will remain at low levels for an extended period of time — at least until the end of 2021 and most likely beyond the end of 2021.

- Ample liquidity in international financial markets, as well as low interest rates, support international stock exchanges as well as general commodity prices. These markets also find support from indications that the global economy is improving. Commodity prices are still influenced by the specific demand and supply situation of every commodity.

- The gold price finds support from a weak dollar, low international interest rates, ample liquidity as well as political tensions, especially between the US and China.
- The international oil price finds support from production disruptions and limitations, declining stock levels, ample financial liquidity and weakness of the dollar. Price increases are limited by slow economic recovery, supply increases, renewable energy becoming more competitive
- Currently the dollar weakens against most currencies as it is forecast that US short-term interest rates will remain lower for longer than was previously anticipated. US interest rates are however higher than in most other important industrialised countries. Dollar sentiments currently remain negative.
- Local short-term interest rates are likely to move sideways until the end of 2021 with some risk of a further interest rate cut before year-end.
- Local long-term interest rates are moving sideways, but could come under upward pressure if further credit downgrades occur before year-end. Massive funding needs of the public sector could exert upward pressure on these rates in coming months.
- The local stock exchange reflects the poor state of the domestic economy, as well as political uncertainties. Low interest rates as well as indications of a slow economic recovery, can support stock exchange prices in coming months.
- The rand remains volatile and is likely to weaken against all major currencies in the longer term.

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