UlrichJoubert
economist & advisor

DIE STRANDLOPER

This is the fourth report for 2020.

POLITICS.

- The international and domestic political scene is still dominated by the Covid-19 pandemic and the reaction of governments on the virus which escapes every lockdown, but apparently obeys social distancing.
- According to South African rules and regulations, you are not allowed to visit family and friends, but I suppose you could visit your enemies during the lockdown period!
- Airlines across the world are in very serious financial trouble and it is anticipated that many will not survive the current lockdown. However, our minister of public enterprises cannot accept the fact that the state succeeded to run SAA into the ground by bad management. He therefore wants to resurrect SAA from the ashes while no-one is allowed to fly, with money supposedly falling from heaven into a renewed ash pile of bad debt?
- The Covid-19 pandemic with its devastating impact on US employment and growth figures could not have happened at a worse period than this time of the year for president Donald Trump who wants to be re-elected on 3 November as president of the US.
- Iran is still a hot-spot in the Middle East.
- The Great North Korean Leader disappeared for some time and then re-appeared with indications that he will continue with his ambitious missile launching program, while poverty persists in his country.
- Zimbabwe faces serious famine. This indicates that more people will try to seek better living circumstances in the RSA notwithstanding the little fence that was erected on the banks of the Limpopo-river.
- Currently it is unclear where the hungry Venezuelans still left in the bankrupt country, will go.
- It is still unlikely that the closure of European borders will stop the emigration from many African countries into Europe.
- In the meantime it seems as if the Brexit negotiations are also in a state of lockdown, while a December agreement between the European Union (EU) and the UK seems more and more unlikely.

INTERNATIONAL

- The disruptions of the world economy caused by the invisible corona virus, continue and the intense impact thereof will be felt even more in the second than in the first quarter of 2020. It leaves no doubt that the first half of 2020 will see very negative growth rates — even more so than during the financial crisis of 2008/9.
- For 2020 negative growth rates of almost 5% are forecast for the world economy, approximately 6.5% for the US, 8% for the UK, about 7% for the EU, more than 6.5% for Germany, more than 8% for Japan and

positive growth of just more than 1% for China.

- To limit the disruptive impact of the corona virus on the individual economies, central banks have cut interest rates, while pumping massive liquidity into the financial system. At the same time, governments have announced massive stimuli by way of tax cuts as well as large spending programs to support sectors of the various economies. All these efforts are an attempt to limit the damage caused by the lockdowns following the outbreak of the Covid-19 epidemic and to prevent economies from falling apart and the world economy from tumbling from a very deep recession into a lengthy depression.
- As countries feel more comfortable that the pandemic subsides, the lockdown of economies is eased and growth improves.
- In the US the impact of the pandemic is largely visible in the massive job losses, while in Europe companies received support to protect labour and prevent unemployment from going through the roof.
- Given the large financial support for economies, the fear exists that inflation could rise sharply in coming months. I am however of the opinion that inflation is unlikely to rise sharply. Firstly, the sharp increase in US unemployment is unlikely to disappear soon, while unemployment is likely to rise in other countries as well, or employees have had to accept cuts in remuneration. Secondly, the virus is unlikely to disappear in the foreseeable future and while no vaccine exists to combat the virus consumers are likely to be very cautious to enter shopping malls or even ordinary shops in the rest of the year or even in 2021. It is furthermore assumed that many companies are unlikely to survive the lockdown periods which will add to the poor performance of the economies shortly after lockdown periods have ended.
- Consumer spending which was the driving force of growth of the world economy in recent years, is unlikely to show an overnight strong recovery in 2020 or in 2021. Added to the relatively modest consumer spending recovery, it is also anticipated that energy prices are unlikely to show a sharp recovery in the next twelve to eighteen months.
- Although the world economy is forecast to show a recovery of approximately 6% in 2021, it will be from a very low base.
- Latest unemployment rates are: US 14.7% for April compared with the 4.4% in March, UK 4%, Euro Area 7.4%, Germany 3.5%, Japan 2.5%, China 5.9%. The April US unemployment figure is a record high in the current series and reflects the 20.5 million people who lost their jobs because of the Covid-19 pandemic.
- The latest inflation figures are still at low levels with the US and UK rates at 1.5%, the Euro Area at 0.4%, Germany at 0.8%, Japan at 0.4% and China at 4.3%.
- Short-term interest rates are at very low levels in most of the industrialised countries and leave little room for further cuts. At the same time no increase in these rates is foreseen in the next twelve to eighteen month period given the outlook for the world

economy, unemployment and inflation trends.

- Long-term interest rates are also at very low levels and in many cases at negative levels. Some commentators are still of the opinion that these rates could soften even further in coming months. On 1 May ten-year US government bonds were trading at 0.61% (0.65% on 30/3/20), UK ten-year government bonds at 0.25% (0.32% on 30/3/20), German bonds at —0.58% (—0.53% on 30/3/20), Japanese bonds at —0.02% (—0.01% on 30/3/20) and Chinese bonds at 2.51% (2.7% on 30/3/20).

- The performance of general commodities was a rather mixed bag during the past month. Copper rose by 5.4%, steel by 2.8%, nickel by 6%, aluminium by 1.3%, tin by 5.8%, zinc by 4.2%, iron ore by 3.7% and manganese by 24%. At the same time coal fell by 10.8%, palladium by 13.8%, rhodium by 22.4%. The outlook for general commodities improved as the Chinese economy improved following the easing of the lockdown period. At the same time uncertainty remains in this market as it is unclear how deep the current recession will be and how long it will last. It is also unclear how strong the expected 2021 recovery will be and to what extent it will support demand for general commodities.

- Gold fluctuates around the $1700 per fine ounce price. Although it has risen by more than 32% over the past twelve months, it only rose by 1.16% in the past month. It benefits from current low and declining international interest rates, the large volumes of liquidity pumped into financial markets and the expectations that this increased liquidity will result in inflation rising strongly in the next twelve to eighteen months. Platinum rose by 2.94% in the past month, but showed a drop of 9% over the past twelve months. It is assumed that platinum — and palladium and rhodium —could remain weak in coming months as the world car market has weakened sharply during the lockdown period and is unlikely to show a strong recovery in the near future.

- Oil prices showed some recovery in the latest week. It recovered on indications that countries are easing their lockdown restrictions and that US oil production will be cut as the number of US oil rigs fell to a historic low of 374 in the week ending 8 May. Over the past twelve months Brent crude prices have fallen by more than 56%. Although crude oil prices are recovering, it is anticipated that it will remain a slow recovery given the outlook for the world economy in the next twelve to eighteen months.

DOMESTIC

- Current forecasts indicate a negative growth rate of between 6% and 16% for the RSA economy in 2020. It is anticipated that positive growth of 5% could be achieved in 2021.

- However, uncertainties abound making forecasts in current circumstances meaningless. These uncertainties are linked to the length of the current lockdown period, the severity of the lockdown, how many companies, small medium and large, will survive the lockdown, how many people will lose their jobs during the lockdown period, how many companies will survive the situation following the lockdown? Currently there are no answers to the above mentioned questions.

- We can however, say the longer the current restrictions on the economy are implemented, the deeper the recession will be, the more people will lose their jobs, the bigger the impact on consumer wealth and expenditure. Unfortunately there are no indications that ministers taking the decisions on the lockdown restrictions have any feel for the ordinary person on the street and his/her needs. Many of the rules and regulations also make no sense in terms of how they will protect people from the virus.

- The possibility exists that more people could lose their lives due to the lockdown and the loss of any income, than from the health threat of the Covid-19 pandemic.
- The R500 billion support package announced by government will hopefully support some individuals and companies, although it seems as if there are problems in distributing the financial assistance to individuals and companies and that race and political affiliation play a role in receiving help.
- Government expenditure will rise with these assistance programs as well as the assistance of R400 million to Cuba, while tax income is under pressure. The impact of negative economic growth on tax revenue is further intensified by the prohibition of selling liquor or cigarettes. Therefore it is anticipated that the budget deficit is likely to rise sharply in the current fiscal year and government will have to borrow more funds to finance this deficit. Interest payments are likely to become more expensive due to the credit downgrades of the country to junk status, which indicates that higher commissions or fees will have to be paid on any public sector loans in coming months and years. A large portion of the budget deficit will have to be financed by the inflow of foreign capital, like loans from the IMF.
- Fortunately it is forecast that the deficit on the current account of the balance of payments will be much smaller than in previous years and should easily be covered by the inflow of short-term foreign capital in the current calendar year. In March the largest trade surplus since at least January 1957 was recorded namely R24.3 billion after the R13.7 billion that was recorded in February. Year-to-date the trade surplus stands at R34.93 billion compared with the deficit of R5.28 billion in the same year ago period.
- Unemployment will rise sharply in coming months as businesses fail and people become redundant. Unemployment is forecast to rise above 30% in coming months.
- Inflation is expected to remain well under control in 2020 and is likely to fall to levels of just more than 3% on average in 2020. It is also assumed that inflation will rise but to levels of below the 4.5% target of the Reserve Bank in 2021.
- Short-term interest rates are likely to be cut another 125 basis points in the next year. This will be a reflection of the poor state of the economy, low inflation as well as the high unemployment rate.
- It was feared that long-term interest could rise sharply once some international investors are not allowed to invest in local financial instruments when we fell out of the World Government Bond Index on 30 April 2020. At the same time the downgrade had been anticipated for quite some time and local and international speculators and investors had positioned themselves for the downgrade in the months before it happened.
- The rand remains volatile. It is currently affected by the uncertainty regarding the impact of the lockdown period on the economy, the uncertainty regarding developing economies' in general, the large and rising budget deficit and the resultant rising debt of the country and its impact on possible further credit downgrades, the impact of the recent credit downgrades on local financial markets, the strength or weakness of the dollar, political statements about land redistribution without compensation and the implementation of the unaffordable and unworkable national health insurance scheme. At the same time the rand still finds some support from interest rate differentials between local and

international markets as well as the well-functioning local financial system.

INVESTMENT ENVIRONMENT

- World economic growth rates, international financial and commodity markets are still disrupted by lockdowns to limit the Covid-19 pandemic. The pandemic will have a major impact on the first half of 2020, but could even disrupt economic growth, financial and commodity markets well into 2021.
- Given current uncertainties, funds still seek safe-havens like US, UK, German, Swiss, Japanese financial instruments.
- It is anticipated that long-term interest rates could decline even further from current very low interest rate levels in coming months.
- International short-term interest rates could be cut even further in coming weeks and months. These short-term interest rates are unlikely to rise before 2022.
- After the exodus of funds from stock exchanges in recent months, stock exchanges have stabilised largely in the past month. This is on the assumption that the easing of lockdowns will continue and that monetary easing will continue to support growth, profits and dividends in coming months.
- General commodity markets remain volatile. The outlook for the Chinese economy is improving and the worst of the pandemic is apparently over. The outlook for the world economy however remains bleak and it is anticipated that general commodity prices will only slowly recover in the rest of 2020. Specific demand and supply situations have to be kept in mind.
- Precious metals still find support from very low international interest rates, massive liquidity pumped into the financial system and the uncertainty caused by the pandemic in financial markets.
- The international oil price stabilised and recovered from its very low levels in the past month. Given the poor outlook for the world economy in the rest of 2020, it is likely that oil prices will continue to show only moderate increases in the rest of the year.
- Local short-term interest rates are to be cut further in the rest of 2020.
- Local long-term interest rates have declined during the past month, notwithstanding the credit downgrade to junk status. It actually indicates that most local and international investors and speculators had positioned themselves for this occurrence long before it happened. The large and rising public sector demand for long-term financing indicates that long-term interest rates could come under upward pressure in coming months. Low inflation and poor growth will limit any such upward movement.
- The local stock exchange stabilised and rose in the past month. Poor economic growth and political uncertainties are likely to limit any upward trends in the rest of the year.
- The rand remains volatile, but is likely to strengthen somewhat from its recent very poor levels. However, unless major economic policy changes are implemented during and following the lockdown period, it is assumed that the rand will continue to weaken against major currencies in the longer term

Ulrich Joubert

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Contact Information: ulrich.joubert@gmail.com or cell: 083 458 1370