DIE STRANDLOPER

This is the seventh report for 2020.

POLITICS.

- The record US Covid-19 pandemic infection and death figures as well as the record negative second quarter growth rate indicate that president Donald Trump is likely to lose the November presidential election. But keep in mind that he wasn't given a chance to win the 2016 presidential election as well and the economy is expected to perform better in the rest of the year.
- Fortunately presidents Xi Jinping and Vladimir Putin, don't have to fight another election during their political careers — because the first mentioned is leader for the rest of his life and the latter until 2036. Everything remains very stable and democratic!
- I am unfortunately not quite sure about the position of the Great Leader of North Korea, but given the pictures of a somewhat overweight leader and news about the first coronavirus infection in his country an even life-long leadership could be a very short-term period.
- Given the sharp rise of local infections, even the current de-facto leader of South Africa could give a weight-losing programme some thought.
- What is happening to coronavirus infections in the rest of the African continent? Currently it is anybody's guess, but given the poor state of the health facilities in many, many countries, it is likely that the death toll could rise sharply in coming weeks and months. Or is the continent's ongoing fight against malaria and other infections helping the fight against the coronavirus as well?
- At the same time one remains worried about the security situation in many countries — not the least about the situation in northern Mozambique and our porous borders with our neighbour(s).
- The Zimbabwean crisis situation is deteriorating even further. Fortunately for the Zimbabweans fleeing their unbearable situation, the fence erected at our Limpopo border, has been cut sufficiently to allow easy access to South Africa. Although the jobs in South Africa are disappearing very quickly, people who are prepared to work will always find something to do — even if it is to smuggle some illegal cigarettes across the border.
- Once again, keep in mind: the safest way to handle the coronavirus is to wash your hands, wear a mask even if driving in your car with only your wife/husband as passenger and staying away from all family and friends — visit only your enemies, even if they are only declared enemies. I suppose this will also apply to the December holidays, but please, not everybody should try and spend the holidays with the current de-facto president.

INTERNATIONAL

- Indications are that the second quarter of 2020 was the trough of the current downswing of the world economy due to the health pandemic that swept through the whole world. It is anticipated that the second half of 2020, could show improved growth.
- At the same time anxiety exists about the possibility that a second wave of infections could adversely affect world economic performance by further lockdowns before a vaccine is developed to control this ever mutating virus.
- Central banks counteracted the negative impact of the Covid-19 pandemic by lowering interest rates even further as well as by their actions in the financial markets by buying for example government bonds. At the same time governments embarked on spending large amounts of money or by cutting tax rates. In the longer run this implies that the debt situation of many countries will deteriorate sharply, unless they manage to eventually limit government expenditure or to stimulate strong economic recovery.
- Forecasts indicate that the global economy is likely to shrink in 2020 by just more than 4% and grow by approximately 5% in 2021. Latest forecasts indicate that the US economy could show negative growth of more than 5% in 2020, the UK negative growth of almost 9%, the Euro Area negative growth of approximately 6.5%, Germany negative growth of just less than 5%, Japan negative growth of just more than 6%. China is forecast to show positive growth of approximately 2.5% in 2020.
- At the same time forecasts indicate that all of these above mentioned economies will show positive growth in 2021 and in the case of China it may even be more than 8%.
- US unemployment is currently at 10.2%, but is likely to decline modestly in coming months. It is however, anticipated that it will take a long time before the pre-Covid-19 unemployment levels of 3.5% will be reached. Although unemployment did not rise to the same extent in other developed countries, unemployment remains a worrying aspect in many. Latest unemployment figures are: US 10.2%, UK 3.9%, Euro Area 7.8%, Germany 4.2%, Japan 2.8%, China 5.7%
- At the same time it is anticipated that inflation rates will rise only modestly in the rest of the year in all of the developed countries and is unlikely to become a serious problem in the next two years — or even longer. Latest inflation rates are: US 0.6%, UK 0.6%, Euro Area 0.4%, Germany —0.10%, Japan 0.10%, China 2.5%.
- Given the poor growth performance for 2020, worrying unemployment levels and low inflation levels for an extended period of time, it is likely that current very low short-term interest rates will stay at these levels for at least the next two years.
- The same applies for long-term interest rates which are forecast by many commentators to move sideways at current levels even for the next two years. On 31/7/2020 US ten-year government bonds were trading at

0.54% (0.68% on 1/7/20), UK ten-year bonds were trading at 0.11% (0.21% on1/7/20), German ten-year bonds were trading at —0. 53% (—0.39% on 1/7/20), Japanese bonds were trading at 0.02% (0.05% on 1/7/20) and Chinese bonds were trading at 2.98% (2.89% on 1/7/20).

- General commodity prices showed mostly some price gains in the past month. Zinc showed a rise of 13.4%, rhodium an increase of 11.25%, iron ore a rise of 11.1%, palladium 9.8% and even coal showed a modest rise of 0.2%. Indications that the global economy is improving and that the Chinese economy is recovering faster than initially anticipated, supports these general commodity prices.

- Gold is still shining brightly with a monthly increase of 11.52% and a rise of 36.55% rise for the past year. It finds support from a generally weaker dollar, ample liquidity in financial markets, rising political tension between the US and China as well as indications that international interest rates are likely to move sideways for the next two years. The uncertainty regarding the outcome of the US presidential election is also playing some part in the good performance of the gold price.

- In the past month the Brent crude oil price showed a modest rise of 3.8%. Over the past year the Brent oil price weakened by 27.9%. It found support from indications of improved growth of the global economy in the rest of the year, continued limitations of oil production by OPEC and Russia, the decline in US oil production. OPEC and Russia have however agreed to ease some of the production cuts from August onwards. This indicates that the international oil price could soften somewhat in the rest of the year.

DOMESTIC

- Many sectors of the domestic economy still remain locked down by government rules and regulations. It is still very difficult to determine the extent of the damage done to the overall economic growth rate these lockdowns will have as it is unclear when some of these restrictions will be lifted and how many businesses will survive these restrictions. It also remains very difficult to determine how many people will lose their jobs in small and medium enterprises in an effort by these businesses to survive financially. Furthermore the risk remains that a second wave of infections could result in more future economic lockdowns.

- Most forecasts vary between negative growth of 6% and 9% for 2020 and positive growth of between 2% and 4% for 2021.

- In June a record trade surplus of R46.63 billion was recorded. This reflected the decline of 32.8% y-o-y (year-on-year) in imports while exports rose by 9.8% y-o-y. This brings the surplus in the first six months of 2020 to R63.07 billion, compared to the R4.47 deficit recorded in the same 2019 period. The drop in imports reflects the recession in the domestic economy as well as the decline in oil prices. The rise in exports reflects the excellent gold price performance over the past year as well as some improvement of some other general commodity prices and indications of excellent citrus exports. Current indications are that the current account of the balance of payments could show a very small deficit or even a small surplus in 2020.

- Unfortunately the fiscal situation is not as positive as the balance of payments and a deficit of approximately 15% of gross domestic product (GDP) is expected in the current fiscal year. The effort to cut government expenditure in the current and subsequent years will depend to a large extent on the political will of the ruling party — especially in the light of the necessity to cut the salary and wage bill before the 2021 municipal elections. Whether government will succeed in controlling corruption and wastage, remains to be seen. Whether the financial and management challenges of the state owned enterprises can be handled in the next two to three years, is also uncertain. The biggest and almost unsolvable financial and management problems lie within the municipalities of the country and unfortunately there is almost no light to be seen in this tunnel.

- It is anticipated that unemployment will continue rising in coming months and years. This is likely to result in higher levels of social disorder as well as increased crime. The current crisis in basic education is likely to contribute to further future unemployment increases.
- Inflation remains well under control with the latest figure of 2.2% in June. Current forecasts indicate that the average inflation rate could be just above 3% in 2020 and below 4% in 2021. One of the major factors contributing to these forecasts is the lower international oil price. At the same time food prices are also expected to be contained during this period.
- Given the inflation outlook, the poor economic growth outlook, as well as the unacceptable unemployment levels, short-term interest rates are likely to remain at current or even lower levels in the next twelve to eighteen months. At the same time the Reserve Bank will be very careful in lowering interest rates further given the uncertain fiscal outlook and the need for inflows of foreign capital to satisfy the large and rising public sector financing needs.
- Long-term interest rates moved sideways in the past month with ten-year government bonds trading at 9.25% on 31/7/20 compared with 9.21% on 1/7/20. The Reserve Bank is playing a role in stabilising these rates, but they are also influenced by the positive inflation trend as well as the fact that local long-term interest rates are at much higher levels than the same international interest rates. (Unfortunately the volatile rand exchange rate remains a risk for any international investor investing in the capital market.) These rates could come under upward pressure if the government is unsuccessful in controlling the budget deficit and the demand for long-term financing, especially from the public sector, continues to grow. Further credit downgrades, even before year-end, could also put these rates under upward pressure in coming months.
- The rand remains very volatile. It is still influenced by any uncertainty regarding developing economies, the performance of the dollar, the uncertainties caused by the lockdown of the economy, rising fiscal deficits and the resultant rising debt level and its risk of causing further credit downgrades, political uncertainties regarding land expropriation without compensation as well as the implementation of the unaffordable National Health Insurance System, the risk of further capital outflows. It still finds some limited support from the interest rate differential between local and international interest rates as well as the still well-functioning financial system.

INVESTMENT ENVIRONMENT

- Generally it is accepted that the trough of the current economic cycle was reached in the second quarter of 2020. Whether another trough is to be expected is still a guesstimate given the current rise in Covid-19 infections in many parts of the world.
- International financial and commodity markets are still affected by the uncertainties regarding the Covid-19 pandemic and its impact on the performance of the global economy and some specific countries.
- However developed countries' short-term interest rates are likely to move sideways for at least the next twelve to eighteen months.

If the economic recovery is modest and inflation remains under control, it could be that these rates could move sideways even longer than two years.

- Long-term interest rates in developed countries are also likely to move mostly sideways in the coming twelve to eighteen months given the outlook for modest growth, and low inflation.
- International stock exchanges are volatile due to the uncertainty regarding the development of the Covid-19 pandemic and its impact on global growth. Stock exchanges benefit from the current and forecast low interest rates. Certain sectors, like technological companies are of course showing record profits, while others like airlines and tourism remain in the doldrums and fight for financial survival.
- General commodity prices are influenced by indications of improved growth or by rising fears of higher coronavirus infections. Commodity prices are however affected by their specific demand and supply situations.
- The gold price still benefits from low and forecast low interest rate levels, ample liquidity in financial markets as well as international political tensions. These underlying factors are likely to remain present for quite some time, although profit taking is likely to happen given the recent strong rise of the gold price.
- The international oil price is also affected by the ebb and flow of the coronavirus pandemic limiting or supporting global economic growth. Some additional oil supplies expected from OPEC and Russia could limit any rise of the oil price in coming months.
- In the past month the dollar weakened against most major currencies on the outlook, for example that the Euro Area economy is likely to recover faster than the US economy in the second half of the year. Currently US interest rates are at higher levels than those in Europe
- Local short-term interest rates are forecast to move sideways until at least end of 2021. The risk would be further cuts in interest rates during this period.
- Local long-term interest rates moved sideways over the past month, but given the large financing requirements of the public sector, as well as the risk of further credit rating downgrades, could come under upward pressure in coming weeks and months. The poor performance of the economy as well as the well-contained inflation rate, will limit the upward pressure on these rates.
- The local stock exchange is influenced by international trends, developments regarding the Covid-19 pandemic, the poor performance of the domestic economy affecting company profits and dividends as well as political uncertainties. Stock prices find support from low interest rates and ample liquidity. The stock exchange showed some further recovery in the past month. The above mentioned trends are still likely to influence developments in coming months.
- The rand remains volatile with a softer long-term trend against all major currencies.

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