OPPORTUNITY
PRIVATE CAPITAL

Economic Snapshot July 2020

LOCAL HIGHLIGHTS & LOWLIGHTS	NEWS
• All-Share Index 55,417 (from 49,113 mid-May), 0.33% over 12m. Market P/E ratio is 17.36. • USD/ZAR: R16.76/$ from R18.44/$ mid-May and R16.58/$ mid-March. • South Africa 10Y Government Bond yield: Current 9.5%, (10.81% mid April, 8.21% on January 2nd.) • Government debt to GDP: 62.2% (43.5% in 2000, 27.8% in 2008) (Data: Bloomberg; Sharenet; tradingeconomics.com)	- All signs point to the Chinese economy starting up again while the rest of the world starts-and-stutters from the Covid-19 outbreak. - USA jobless claims have risen by 1.3 million, reaching record highs. - Universities and schools across the world are reopening amidst a raft of health measures and policies. - Brent crude prices are back up above $40 with global demand strengthening and talks of supply shortages. - After World bank projected a 7.1% shrinking of the local economy, Treasury expects SA's GDP to contract by a record 7.2% in 2020. - From StatsSA: The agriculture, forestry and fishing industry increased by 27.8% and contributed 0.5 of a percentage point to GDP growth in the first quarter. The hardest hit industries were electricity, gas and water industry, which contracted by 5.6%. - Locally, the “booze-ban” was reinstated to free up hospital beds for Covid-19 patients as hospitals are set to be reaching capacity.

HOW ABOUT A JUBILEE?

The narrative of the newsletters over the last few months have centred around debt, the flight to safety assets and how central banks are reacting to the current economic slowdown. You may also recall the term ‘Quantitative Easing’ (QE from here) being mentioned. The overarching conversation now comes to a somewhat provocative conclusion in *this* newsletter as we examine an idea that may not be put into practice, but is nice to discuss around the braai or with a glass of good red wine in the hand. Let’s start off with the questions we should be asking as investors and global citizens.

With central banks currently maxing out the proverbial credit cards and taking on massive debt to stimulate their respective economies, we need to ask if **where** they are spending it is the best place? The debt structures used often have a very long lifetime and will affect the finances of more than one generation due to the sheer scope of what is currently needed, so they better be using it wisely. Secondly, is the plan to buy bonds from **large corporates** the best plan? Or, like in South Africa, to maybe purpose pension funds for **infrastructure spending**? Will the broader economies ultimately benefit from this? Or specifically, will those who are really central to keeping the broader economy afloat **feel it in their pockets**? Some say that currently the new money being printed is simply allocated to and ‘parked’ in existing assets, with those in control waiting for risk appetite to resurface.

The man and woman on the street are facing an unprecedented time as jobs dry up, spending is cut, and an unknown future awaits. All of this is happening after globalisation and connectedness were the buzz words of the current economic dispensation, and the economic ecosystem was built on easy access to debt.

A concept that has fallen away in modern times is the concept of a Debt Jubilee. The word "Jubilee" comes from the Hebrew word 'yobel', meaning trumpet. Mosaic Law determined that the shofar was blown by priests every 50 years to signal the Year of the Lord, and, importantly, mark the cancellation of all personal debts. This practice was not just limited to the Jews, new Kings and Emperors also employed it as they came into power or after natural disasters left people indebted to the powers that be. "Wait", you may say, "what about the creditors?" And you are right, we can't just wipe all the lenders out and reward those with bad spending habits. But what if the QE (*and the money for SAA's endless bailouts…*) were redirected to ordinary citizens?

Geoff Bertram (economist at Victoria University) stated the current practice is "*bailing out the rich and the creditors, whereas the problems that society and economies are facing lie with the debtors and the poor*." Economist Steve Keen proposes a fair solution to this in the form of a modern debt jubilee, where central banks pay equal and large amounts of money to everyone to pay off their debts, and even those with no debt. Simply put, "Those who are in debt reduce their debt levels. Those who didn't have debt in the first place, get a cash injection with which they can buy assets."

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