Economic Snapshot June 2020

LOCAL HIGHLIGHTS & LOWLIGHTS	NEWS
• All-Share Index 53,295 (from 49,113 mid-May) , -9.31% over 12m. • USD/ZAR: R17.29/$ from R18.44/$ mid-May and R16.58/$ mid-March. • South Africa 10Y Government Bond yield: Current 9.16%, (10.81% mid April, 8.21% on January 2nd.) (Data: Bloomberg; Sharenet; http://www.worldgovernmentbonds.com)	- Coronavirus outbreak now surging in developing countries. Diagnosed cases surpass 7.15mil, deaths > 408,000. Pressure mounting on China as more and more evidence points to them misreporting data from the initial outbreak. - AstraZeneca (British-Swedish pharmaceutical co.) confident of Oxford University vaccine tests, already started production of vaccine for possible worldwide distribution from September (Link). - After global stock market surges through June's start, markets seem to be getting a reality check with strong downward moves mid-June. - World Bank: "*The bank's baseline forecast for global growth shows a 5.2% contraction in global GDP in 2020, using market exchange rate weights—the deepest global recession in decades,* ***despite the extraordinary efforts of governments to counter the downturn with fiscal and monetary policy support***." (Link) - Locally, SA economy re-opening and finding its footing in the new normal. World bank is projecting a 7.1% shrinking of the local economy.

GOING NEGATIVE TO BE POSITIVE

The quote from the World Bank (in bold in the news section above) points to the unprecedented era of government-led financial support measures that we are seeing across the globe. Governments & central banks are searching far and wide for solutions to stimulate their respective economies, or should I rather say, *revive* their economies, after various forms of lock-down were imposed and the economic wheels grinded to a sudden halt. Countries that did not impose lockdowns did not come through unscathed either.

To remedy the slowdown, governments basically have two main tools at their disposal: **(i) fiscal policy, which is how governments collects taxes and how it spends it, and (ii) monetary policy, referring to how central banks use interest rates to try and manage money-supply and inflation.** While fiscal and monetary policy decisions are normally communicated at predetermined points in time, the latest world developments have seen shots fired from the hip by many countries' central banks. For instance, in the United States significant emergency rate cuts occurred on March 3rd and then again on the 15th, the last one of 100bps being even larger than the 75bps rate cut of 2008.

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Alongside the record low rates, world markets have had to come to grips with a fresh wave of Quantitative Easing (QE) programmes that were introduced because of the 2007/2008 global financial crisis' effects. QE falls under monetary policy, and through it central banks buy longer term securities from banks or corporates. In effect, they are giving out cash at record low rates, and lending rates then fall further because the cost of money becomes less because, all of a sudden, there is more money. With low inflation, low interest rates, stagnating economic trade, we now face the unique era of rates being pushed *so low*, they go negative (like we've already seen in Europe and Japan).

With negative rates, the traditional working of debt is then turned on its head: both banks and depositors can be charged interest instead of earning interest. For those who borrow money on the other hand, the dynamics of easy lending at low rates and even receiving interest for taking out a loan (yes, you read that correctly!) is good news. One commentator summed it up perfectly with this quote: "It's like 'Opposite Day' from Calvin and Hobbes. Yes is no, up is down, debt is good, and saving is bad." (Link)

But let's remember, extra money supply is intended to cause economic growth through investment, accompanied by healthy inflation. Negative interest rates is the final push into the cold swimming pool of investment during a crisis, because it leaves no incentive to 'park' your money somewhere until the economic storm passes. The question now is if banks would rather pay "rent" money to keep their funds risk-free at the reserve banks, or if they would take the initiative to lend at lower rates. Let's trust this round of QE and low rates has the desired effect, and that the money that is spent is well spent!

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