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This is the third report for 2021.

POLITICS.

- It seems as if ex-president Jacob Zuma is having second thoughts about his wish to rather go to jail than giving evidence before the Zondo commission? It is strange how the reality of wearing an orange suit day in and day out, and not being able to have tea parties with your political friends, makes you think twice!
- I wonder how relaxed the on-vacation minister of health Is presently?
- In the meantime the current president apparently has decided that it is time to make some decisions without first convening a study group or committee or inter-governmental study group or whatever. So one is now allowed to generate up to 100 MW of electricity without having to go through all the red tape to get official permission to do so and Transnet harbours will become a little bit more independent from Transnet.
- The president also attended the G-7 meeting in Great(?) Britain and requested (begged?) for assistance in providing South Africa and Africa with some vaccines. Apparently we have spent —wasted — our money on other projects and cannot currently ask the Guptas for financial assistance.
- The Biden administration is trying to smooth all international feathers that were ruffled during the Trump administrations' tenure. President Joe Biden also spent some time with the Russian president without any indication that the latter will change his view on anything!
- It is therefore anticipated that Russian president Vladimir Putin is likely to pursue his strategy of resurrecting the late Soviet Union empire until at least 2036 when his presidency could come to an end and he will be 84 years old. It could cause some political disturbances during this period.
- Xi Jinping, General Secretary of the Chinese Communist Party and President of the People's Republic of China made it very clear at the celebration of the Communist Party's hundredth birthday party that no one would be allowed to bully him or his country, unless they wanted their heads bashed against an steel wall! Quite a statement made by a lifetime president of a People's republic with increased censorship, mass surveillance and deteriorating human rights.
- Hong Kong democracy is also faltering with increased censorship by the Chinese appointed authorities, while the last independent newspaper has been closed down and the top journalists safely put away in jail.
- The question to be asked is whether Taiwan will be the next target of the current Chinese

leadership, emboldened by its economic and expanding military power? And if Taiwan is swallowed into the bigger China, which country will be next?

- Tensions are rising between the European Union and mr Brexit Boris Johnson's UK about the implementation of the exit agreement between these two entities.
- Middle East tensions remain while It seems more unlikely that Iranian sanctions will be lifted within the foreseeable future. At the same time more and more people are leaving Afghanistan as the Taliban expands its military presence while the last US and allied soldiers leave the country.
- In Africa insurgents continue to cause problems in countries like Burkina Faso, Mali, Niger, northern Mozambique. Profitable abductions continue in Nigeria. Given the current uprising in Ethiopia, it remains to be seen whether the country will survive as one entity? And Eswatini?
- Venezuela managed to cut its inflation rate to only 2719.50%, while the Zimbabwean inflation rate was cut to only 106.6%
- The Great Leader of North Korea, broke his silence and mentioned that his country faces some serious challenges. The question however remains whether it is famine or perhaps the Covid-19 virus? It could mean that there is less money to be spent on firing missiles.

INTERNATIONAL

- Latest unemployment figures in the major economies are: US 5.9%, UK 4.7%, Euro Area 7.9%, Germany 3.7%, Japan 3.0%, China 5.0%
- Latest inflation figures in these countries are: US 5.0%, UK 2.1%, Euro Area 1.9%, Germany 2.3%, Japan —0.1%, China 1.3%.
- Ten-year bonds on 2/07/2021 (compared to 4/06/21): US 1.4306% (1,55%), UK 0.7000% (0,7890%); Germany —0.2390% (—0,2150%), Japan 0.0430% (0,0850%), China 3.0890%,(3,1410%).
- In the past month the focus of the financial markets was on the higher than forecast US inflation rate as well as the statement of the Federal Reserve Board (Fed)that it is likely to raise US interest rates twice in 2023.
- This Fed statement took the financial markets by surprise as most participants operating within these markets were apparently anticipating short-term interest rate increases only in 2024. (I was of the opinion that US short-term interest rates could rise in 2023.)
- The Fed statement, the stronger than anticipated inflation increase as well as indications that the US economy is likely to grow by approximately 6.5% in 2021, resulted in long-term interest rates rising in anticipation of the tighter monetary policy to come into effect before the end of the year.
- The tighter monetary policy before year-end would be the result of tapering by the Fed when it would buy fewer bonds from the market whereby liquidity in the financial system would be cut.

- The financial markets are worried that the monetary stimulation by central banks added to the fiscal stimulus by governments would eventually result in stronger than forecast inflation rates in all the major developed economies. Inflation also rises due to higher commodity prices — food, energy and mining commodity prices. Stronger employment figures are also anticipated to indicate that salaries and wages are likely to rise more in coming months — however, the latest figures still indicate that US salary and wage increases are behaving fairly well.

- Forecasts still indicate that developed economies are likely to show strong positive growth of just less than 6% in 2021. Unemployment figures improve and inflation is rising — in some cases more than the 2% target rate. Notwithstanding all these factors it is anticipated that most developed economies' short-term interest rates are unlikely to rise before 2023. UK short-term interest rates could rise by the second half of 2022 while Euro Area and Japanese short-term interest rates are likely to rise even later than 2023.

- The Chinese central bank is currently tightening monetary conditions that could dampen growth in the second half of the year.

- Long-term interest rates are still moving mostly sideways. It is anticipated that as long as the Fed is of the opinion that the current strong inflation trend is of a transitory nature, these rates are likely to continue moving mostly sideways in the rest of the year.

- Many agricultural commodities have shown negative movements in the past month — notwithstanding the heat wave in the US and Canada that could adversely affect some crops. At the same time most mining commodities showed positive movements in the past month. It is anticipated that general commodity prices could find support in the rest of the year from positive economic growth while interest rates move mostly sideways.

- Precious metals weakened in the past month. They were adversely affected by the fear that higher inflation and tighter monetary conditions would lead to higher interest rates. A stronger dollar also adversely affected these prices.

- International oil prices continued to rise further in the past month. Lately they rose further as OPEC and Russia could not reach an agreement to increase production in the rest of the year while economic growth improves and inventories decline. Currently it is not anticipated that US fracking production will increase substantially in the second half of the year. Oil prices could find further support if Iranian sanctions are not lifted before year-end.

- Underlying to all the above mentioned trends, and especially growth forecasts, is the assumption that the vaccination of people will continue and cover about two-thirds of populations. Those countries, like South Africa, that are slow in vaccinating the population, will miss out on forecast growth and on the assumed recovery of the international tourism industry.

DOMESTIC

- South Africa showed a record trade surplus of R54.6 billion in May following the surplus of R51.26 billion in April. This brings the total trade surplus in the first five months of the year to R202.6 billion compared to R10.6 billion in the corresponding period of 2020. May exports were 62% higher than in May 2020 while imports were 26% higher than last year. May exports rose 1.5% compared to April while imports declined by 0.9% in the same period. While exports of mineral products and precious metals and stones declined, exports of vehicles and transport equipment and vegetables and chemical products offset these declines. These figures indicate that South Africa is likely to show another healthy surplus on its current account of the balance of payments in 2021 and will therefore not be depended on the inflow of short-term foreign capital to finance any balance of payments deficits.

- The good performance of the foreign trade, indicates that the domestic economy could show healthy growth in 2021. But whereas forecasts indicated real growth of between 4% and 5% in 2021, these forecasts could be cut in the light of the renewed restrictions imposed on the economy as a result of the higher and rising Covid-19 infection rates.
- Once again it is mostly the hospitality, wine and tourism sectors that are adversely affected by the current restrictions. The longer it takes to vaccinate a large percentage of the population and the longer the current restrictions remain in place, the larger the adverse impact will be on the economy. Especially the small and medium enterprises in these sectors will be affected and many more are likely to be forced to close down with an adverse impact on employment and tax revenues.
- It is currently anticipated that unemployment will continue to rise in the rest of the year. If bold adjustments to government economic and labour policies are not forthcoming, it is anticipated that unemployment and therefore civil unrest will rise further in coming years.
- Given the current uncertain economic outlook, plus the still vulnerable government finances, it remains of the utmost importance that the public sector will be very conservative in granting any salary and wage increases in the current round of negotiations. At the same time no corruption, wastage or misappropriation of funds can be allowed. (This of course also applies to the private sector.) In the current financial year, there is unfortunately still no light in the financial tunnel of most municipalities notwithstanding healthy increases of their taxes and tariffs.
- May inflation rose to 5.2% from 4.4% in April. It is the highest inflation rate since November 2018 and reflects strong rises in transport prices mainly due to sharp year-on-year fuel price as well as food price increases. Forecasts however still indicate that the average inflation rate should remain below the target rate of 4.5%. The Reserve Bank is considering a lower inflation target band than the current 3% to 6%. If it is decided to lower the band it will not come into effect before 2022.
- Short-term interest rates are still forecast to remain unchanged in the rest of the year.
- Long-term interest rates rose from 8.7850% on 4/06/2021 to 8.9050% on 2/07/2021 for ten-year government bonds. These rates could come under upward pressure in coming months if political uncertainties and tensions prevail. At the same time the strong demand for long-term funding by the public sector also indicates that these rates could come under upward pressure in coming months.
- In the past month the volatile rand weakened against all major currencies. The underlying problems are rising Covid-19 infections and resultant restrictions, political uncertainties, the continued threat of land redistribution without compensation, the persistent threat of the implementation of the unaffordable National Health Insurance Scheme, the persisting risk of saving public sector jobs and enterprises like SAA,, the dire financial and service provision problems of local authorities, rising public sector debt levels which could lead to further credit downgrades in the longer term, and the strength of the dollar as well as weakness of developing countries' currencies. The rand finds support from the rising vaccination controlling the impact of the coronavirus on

the world economy and a resultant improved growth outlook for the world economy and especially for commodity markets in 2021, the differential between local and international interest rates as well as the stable and well-functioning local financial system. However, the rand remains volatile and in the longer term weakens against all major international currencies.

INVESTMENT ENVIRONMENT

- The dollar found support in the last month from stronger US economic growth than in most other major developed economies as well as indications that US short-term interest rates are likely to rise before those of countries like Japan and the Euro Area.
- Sterling also weakened against the dollar, but UK growth is expected to be strong and short-term interest rates could rise before those in the US.
- International long-term interest rates are once again expected to move mostly sideways in the rest of the year.
- General commodity prices still benefit from the forecast stronger growth of the world and especially Chinese economy in 2021. Agricultural commodity prices are influenced by the strong Chinese demand as well as serious drought conditions. Commodities are influenced by the specific demand and supply situation of every commodity.
- The gold price is adversely affected by the current strength of the dollar as well as the view that the current high inflation rate is of a transitory nature.
- The international oil price finds support from lower inventories as well as no agreement by OPEC and Russia to increase production while growth of the world economy improves. In the longer term cheaper renewable energy sources could undermine the oil price.
- Most international stock exchanges rose further in the past month with US stock exchanges reaching new record levels. They find support from stable interest rates, ample liquidity and an improved economic growth outlook and resultant improved profits and dividends.
- Local short-term interest rates remain stable.
- Local long-term interest rates remain mostly stable, but face the risk of a rising trend in the longer term.
- The local stock exchange weakened in the last month and is adversely affected by the rising Covid-19 infection rate and resultant restrictions of the economy.
- The rand remains volatile and is likely to weaken in the longer term against all major currencies.

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