DIE STRANDLOPER

This is the second report for 2021. Following the donation in Windhoek and then a cell phone donation in Pretopria, my wife, Brigitte, donated her purse with some cash, all her bank and other cards as well as her driver's license and ID card to some unknown person here in Hermanus. Hopefully this will be the last donation for 2021.

POLITICS.

- I anticipate that the South African minister of health currently has some health problems due to high stress levels.
- Fortunately the state president indicated that the land policy of the ruling party does not include custodianship of land. Unfortunately he is still not indicating that the policy of land redistribution without compensation is not the policy of his party — therefore the uncertainty regarding property ownership continues with all its negative implications for fixed investments.
- Following the hijacking of an international civil aviation flight over Belorussia, certain sanctions have been imposed against president Aleksandr Lukashenko's government, driving him more and more into the arms of a welcoming president Vladimir Putin of Russia — the latter still dreaming about the resurrection of the old Soviet Union, while he puts all opposition safely into prison before elections to be held later in 2021.
- In the meantime the Biden administration is apparently determined to spend more tax payers' money in an effort to stimulate the booming US economy in not only the next twelve months, but in the next decade.
- The British prime minister, Brexit Boris Johnson recently got married, but didn't go on honeymoon —maybe his budget is a bit tight?
- Could it be that the sitting Africa Union parliamentarians decided that a stand-up fight would be good to relieve some high blood pressure? Hopefully Africa can someday solve some of its problems without a fight! But in Mali the second coup within twelve months took place because some people did not like to be left out of the cabinet. Will there ever be real peace in Africa — Mozambique, DRC, Burkina Faso, Libya, Somalia, etc — that can support investments and growth?
- The abduction of Nigerian children continues as it remains a well-paid business when the ransom money is paid.
- Fortunately the Israel/Palestinian fighting has come to an end, but it seems as if the long-serving Israel prime minister Benjamin Netanyahu is set to lose his job after twelve years. Perhaps a good omen for peace?
- Currently it is doubtful if Iranian sanctions will be lifted by August 2021.
- At the same time the Syrian president apparently remains very popular in his country with more than 90% of the voters that voted, happy to keep him in power for another seven years for a total of 28 years. It is clear that he has won the brutal civil war!

- In South America Columbia still has its political problems, Brazil its severe drought and Venezuela its inflation rate of just less than 3000%. In Zimbabwe the inflation rate is only 162%.
- The Great Leader of North Korea remains very quiet. This became boring, but fortunately he has now stated that for example Western hairstyles are undermining the character of the North Korean people!

INTERNATIONAL

- Latest unemployment figures in the major economies are: US 5.8%, UK 4.8%, Euro Area 8.0%, Germany 4.4%, Japan 2.8%, China 5.1%
- Latest inflation figures in these countries are: US 4.2%, UK 1.5%, Euro Area 2.0%, Germany 2.5%, Japan —0.4%, China 0.9%.
- Ten-year bonds on 4/06/2021 (compared to 4/05/21): US 1.55% (1,58%), UK 0.7890% (0,8070%); Germany —0.2150% (—0,2030%), Japan 0.0850% (0,0890%), China 3.1410%,(3,1950%).
- Indications are still that the world economy could show real growth of approximately 6.5% in 2021. Emerging economies are forecast to show real growth of almost 7.5% and developed economies just less than 6%.
- Growth is stimulated by strong government expenditure and therefore, in most cases, large and rising budget deficits while monetary policies of low interest rates and added liquidity to financial markets play a supportive role.
- Given the strong forecast recovery of the US economy — possibly more than 6.5% — it is anticipated that the Federal Reserve Board (Fed) is likely to cut back the liquidity added to the financial system by the third quarter of 2021. Notwithstanding higher than forecast inflation, US short-term interest rates are still forecast to rise only by 2023 — or perhaps late 2022?
- In the Euro area with a forecast real growth rate of approximately 5% — Germany less than 4% — indications are that the European Central Bank will continue its policy of adding liquidity to the financial system although inflation rose to 2.0% and in Germany to 2.5%. It is assumed that fiscal policy will play a lesser role in the Euro area due to mainly the reluctance of a country like Germany to embark on an unregulated spending spree by government. Short-term interest rates are forecast to rise not before 2023.
- In the UK it is anticipated that real growth could rebound from its very negative 9.8% growth suffered in 2020 to a level of more than 8% in 2021. Latest inflation figures indicate that it remains well under control while forecasts still indicate that short-term interest rates could rise only in the second half of 2022.
- In Japan real growth of less than 3% is forecast for 2021, while inflation currently remains negative. The government continues with its fiscal stimulus while forecasts indicate that short-term interest rates will rise not before 2023.

- Given the Chinese forecast real growth of approximately 9% in 2021, a somewhat tighter monetary policy is already in play although inflation remains well under control notwithstanding the sharp rise in commodity prices. A currently stronger yuan currency also plays a role in controlling inflation.
- In general, central banks of the developed countries assume that the current higher inflation rate is of a transitory nature and should generally remain under control in the longer run. This view is based on the strong rise of agricultural and energy prices in recent months, compared to the low level of these prices in the corresponding period last year. Inflation could however surprise on the upside if the short-supply of commodities or labour persists in the longer term and these price increases persist and do not stabilise.
- Currently long-term interest rates are moving sideways. If inflation continues to surprise on the upside, it is assumed that these interest rates would come under upward pressure in coming months.
- Many agricultural commodities showed negative price movements in the past month. Some exceptions, like coffee, that are influenced by the drought in countries like Brazil however, rose in the past month. Mining commodities showed a mixed bag of movements with some rising further while others like rhodium, showed sharp price declines. Overall it is assumed that the continued recovery of the world economy and the healthy Chinese food demand — due to the rebuilding of their pig herds — should support agricultural and mining commodities in the rest of the year. Some agricultural commodities are currently influenced by drought conditions in South and North America.
- Gold still finds support from the anticipated rise in world inflation, while interest rates remain at low levels. It also finds support from a weak dollar and political tension in parts of the world. Platinum, palladium and rhodium prices all weakened in the past month.
- The international oil price continued rising in the last month. It reflects the OPEC view that demand for energy will remain buoyant in the rest of the year, as well as the uncertainty whether the supply of Iranian oil will materialise before the end of the year. At the same time OPEC and Russia decided to increase the supply of oil in a managed way in coming months. In the longer run the International Energy Agency is of the opinion that the demand for oil will be limited as the world embarks on a policy of less pollution by burning fewer fossil fuels while focusing on the development of clean energy.
- All the above mentioned forecasts and assumptions could be turned upside down if a fourth and fifth coronavirus wave hits countries and forces them into another lock-down period. Hopefully this does not happen!

DOMESTIC

- Lately more forecasts indicate a positive real RSA growth rate of between 4% and 5% in 2021. These positive forecasts are based on the strong rise in income the RSA derives from the improvement in mining commodity prices as well as the better than expected performance of the economy in the first quarter of 2021.
- However the 2021 growth rate remains uneven for the different sectors of the economy. The mining and agricultural sectors benefit from the rise in international commodity prices. The tourism and hospitality sectors remain in dire straits as the international tourism industry is very slow in recovering while restaurants are once again adversely affected by the stricter restrictions due to the earlier curfew. Hopefully the vaccination of South Africans accelerates in coming weeks making the country more

accessible to international tourists and less serious restrictions have to be imposed on the economy — especially on the hospitality sector.

- Following the record March trade surplus of R52.8 billion, April showed another surprisingly healthy surplus of R51.2 billion. It once again reflected high international commodity prices. April exports declined by 3.9% month-on-month (mom) while imports declined by 4.6% mom. Following the surplus of R108.2 billion in 2020, the current large trade surpluses bode well for the current account of the balance of payments in 2021.
- These large trade surpluses are the result of a strong export performance, but also weak imports that reflect continued weakness in domestic demand of a poor performing domestic economy. Therefore, if it wasn't for the strong export performance, the domestic economy would not show a 4% to 5% growth rate in 2021.
- Government finances should benefit from the strong export performance and resultant higher tax revenues. But given the dire straits of government finances and the necessity to control government debt, the effort to limit expenditure, corruption and wasteful expenditures remains of the utmost importance. This applies to all levels of government, namely central, provincial and local government as well as state owned enterprises. It remains crucial that the wage and salary negotiations between central government and trade unions are successful in limiting wage and salary increases to the bare minimum. The possibility of rectifying the finances within the mostly dysfunctional local authorities remains a pipe dream at present. If the problems of local governments are not solved, it is unlikely that the economies of rural or metropolitan areas will prosper.
- On top of problems caused by many dysfunctional local authorities, South Africa also battles with the poor performance of state owned enterprises like Eskom and Transnet.
- In the long run, the biggest challenge remains the quality of our education and training system — especially given the fact that many schools lost a year of education due to the restrictions that were imposed on schools and training institutions in 2020. Will the school and training system be able to deliver people to the labour market that can compete with the labour and productivity of other countries?
- Unemployment rose to a new record level of 32.6% in the first quarter of 2021 while the expanded definition of unemployment showed 43.2%. Indications are that unemployment will rise further in coming months, reflecting the poor performance of the economy, poor education and training results as well as an inflexible labour dispensation.
- In April the inflation rate rose by 4.4% year-on-year (yoy) compared to the 3.2% in March. This was mainly due to the sharp increases in food prices (6.7% yoy) and fuel costs (21.4% yoy). Given the low level of inflation in the months of May and June last year, it is anticipated that the yoy inflation rate in the next two months can show further strong increases. It is however still forecast that the average inflation rate for 2021 will remain just below the central bank's target rate of 4.5%.
- Given the relatively poor performance of the domestic economy, the average inflation rate remaining just below the target rate and the unacceptable unemployment levels short-term interest rates are forecast to remain unchanged for the rest of the year.
- Long-term interest rates have declined from 9.18% on 4/05/2021 to 8.7850% on 4/06/2021 for ten-year government bonds. This is a

reflection of an inflow of foreign capital in the past month attracted by high local interest rates. These rates could come under upward pressure in coming months if the credit rating of the county is cut or political uncertainties and tensions prevail. At the same time the strong demand for long-term funding by the public sector is not disappearing and also indicates that these rates could come under upward pressure in coming months.

- In the past month the volatile rand strengthened even further against all major currencies. This once again happened notwithstanding the underlying problems of: political uncertainties, the continued threat of land redistribution without compensation, the persistent threat of the implementation of the unaffordable National Health Insurance Scheme, the risk of saving public sector jobs and public enterprises like SAA persists, the dire financial and service provision problems of local authorities, rising public sector debt levels, the possibility of further credit downgrades before year-end.. It 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

- Notwithstanding indications that the US economy is likely to show better growth than most other industrialised countries, the dollar once again weakened against most noteworthy currencies in the past month.
- The view is still that US short-term interest rates will rise earlier than those of most other industrialised countries with the possible exception of the UK. The US Fed's view is that these rates are unlikely to rise before 2023.
- US long-term interest rates remain higher than those in most other developed countries. This gap is to stay in coming months.
- 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 in South America as well as the US. Commodities are influenced by the specific demand and supply situation of every commodity.
- Gold benefits currently from low interest rates, ample liquidity and forecast higher inflation rates.
- The oil price still benefits from production limits imposed by OPEC and Russia as well as forecast stronger energy demand in the second half of the year.
- International stock markets benefit from an improved growth outlook, resultant better profits and dividends while interest ratesremain at current low levelsand liquidity in abundant supply.
- Local short-term interest rates are to move sideways until at least the end of 2021.
- Local long-term interest rates could come under upward pressure due to the strong demand for long-term financing from the public sector. Any upward movement will be limited by poor growth and inflation remaining under control.
- The local stock exchange is influenced by international economic and stock exchange trends, as well as an improved outlook for the domestic economy and its impact on company profits and dividends.
- The rand remains volatile, strengthened over the past year, but weakens in the longer term against all major currencies.

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