Week of drama around Covid-19, lock down relieve and economic stimulation.

Last week was characterised by the drama around global oil prices and worries that the Covid-19 infection rate will flare up again among a lot of countries. Financial markets and exchange rates in reaction moved volatile and uncertain with a stronger dollar and sharp increases in the price of Gold Bullion and a collapse in oil prices.

Domestically, the drama continued as President Ramaphosa on Tuesday announced the Covid-19 economic and social package, stimulating the economy with another “R500 billion”. The highlights of the package are the R50 billion awarded to new and increased social grants for a period of 6 months. This is 3% of the national budget. Tax relieve for companies of R70 billion was announced and R100 billion to save and create new jobs. The controversy remains the R200 billion that will be available for businesses to borrow from either the IDC or from commercial banks to help protecting 700 000 jobs. Most of this money will be made available from loans from the IMF ($4.2Bn), World Bank ($60 million) and$1bn from the New Development Bank (BRICS). Finance Minister Tito Mboweni at a press conference on Friday stressed that these loans would come with no conditionality’s as normally are the case. The questions still remains if the government will get access to these loan facilities at a very cheap rate (around 2.0%) and that businesses will pay back these loans at a much higher rate (around 7%) hereby collecting more income for the treasury. Is this then nothing else than a tax on the companies?

On Thursday evening the President followed up on the social economic package with the announcement of the phasing out of the total lock down (phase 5) from 1 May 2020. The whole country will start of on phase 4, which implies the opening of a few sectors, mostly agriculture, mining, financial and professional services, more retail outlets including the selling of cigarettes, IT and postal and communication services. Further announcements will be done on a sector to sector and province by province basis as differentiated phasing out towards phase 1 (no lock down) will take place in months to come.

The big uncertainty on the new economic package as well as the phasing out of the lock down remains the ultimate effect on the economy and on the debt level of the national government. The Reserve Bank (And now also Moody’s) expects the economy to grow this year by -6.0% and taking into account the additional pressure on treasury to finance the effects of Covid-19, it is expected that South Africa’s debt to GDP may increase by more than 40% to a level near 90% of GDP.

Stocks in the US moved volatile during last week as investors assessed the latest company earnings, efforts to open the economy again and the oil price saga. Most bourses however moved strongly yesterday as more confidence on the opening of economic activities and the effect of the various stimulus packages started to show.

Domestically, financial markets were a bit indifferent on the week’s political interventions and equities, bonds and the Rand exchange rate traded in a narrow band, as most of the announcements, seemed to be already being discounted for in the markets. The ALSI on the JSE gained a mere 392 (0.7%) with three days negative and two days of positive movements. Given a strong rally in commodity prices the Resources 10 index had shot up by 4.6%, with almost all the other indices moving sideways. Listed property unfortunately gave back almost all its winnings of the last two weeks as the index lost almost 12%. This morning the JSE followed world equity markets as it tested the 50 000 level and started to trade around 1.0%higher than the close on Friday.

The Rand/$US was once again weaker during last week with 14 cents (0.7%) at the close on Friday, trading at R18.98/$ against R18.84/$ the previous Friday. Against Pound Sterling the currency was stronger with 13 cents, trading Friday at R23.41 and against the Euro the Rand remained unchanged over the week to trade on R20.50. The R186 government bond also moved sideways, trading Friday at 9.24% against 9.10% the previous Friday. Both the Rand/exchange rate and bonds opened this week stronger as investors awaits the implementation of the governments rescue package and more news on the phased in opening of various economic sectors.

This coming week investors' attention will concentrate on South Africa's government bond market and the Rand exchange rate. South African government bonds will be excluded from the World Government Bond index from Friday 1 May 2020. It is expected that strong outflow of capital from the selling of these bonds by institutions will put pressure on bond rates and the Rand exchange rates during the next two weeks.

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Dr Chris Harmse completed his doctorate degree in Economics at the University of Pretoria. Prior to entering the financial services industry, he was a lecturer and professor at the Department of Economics of the University of Pretoria between 1986 and 2005. Dr Harmse was awarded an extraordinary professorship at the School of Economics of the University of Pretoria in January 2006. He served on various Investment Committees and is extensively involved in economic research and asset management.

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