

Only Light Can Drive Out the Darkness

Greetings from one world champion to another. I was really hoping that we could bottle the euphoria and unity generated by the recent incredible game, along with the post-match interviews and picture feeds. Of course, there were those cynics who still had something to say about race, colonialism and all of the other topics used to divide our country. These individuals are trying so hard to spread their poisonous views, and it got me thinking about a presentation by PSG Asset Management that I saw last week. In this presentation, Mikhail Motala gave an interesting view on the good things in South Africa that currently receive no airtime and that are never discussed around the braaivleis fires or, heaven forbid, on Twitter or on Facebook.

Below is a table of the issues that we have, all of which get so much airtime that I am not going to discuss them in this article. Instead, we are going to focus more on the positives which receive very little airtime -

Domestic Environment Is Challenged

<i>Issues</i>	<i>Not Discussed as Much</i>
Eskom	Credible SARB
Failing Municipalities	Inflation Under Control
Emigration	Strong National Treasury
Corruption	Healthy Banking System
No Confidence	Health Government Maturities
No Growth	Limited Foreign Debt

Our Reserve Bank remains as a bastion of rationality and reason in a very trying political and economic environment. It is also important to note that it is not only our Reserve Bank that is under pressure from outside interference - Donald Trump in his infinite wisdom is often complaining about the restrictive policies of the US Fed.

Inflation can be a monster that drives up interest rates and causes havoc on exchange rates. Hyper-inflation (as seen next door), has a huge impact on the entire population and causes economic chaos. South African inflation is absolutely under control.

Like the Reserve Bank, the National Treasury has been exemplary in their refusal to buckle under immense pressure both with regards to budgetary allocation and implementation, as well as targeting irregular and unauthorised expenditure. Our banking system is among the best in the world. I often have to deal with banks in other countries and find that their inefficiencies and ineptitude never cease to amaze me. The health and strength of our banks was one of the main reasons why South Africans were not affected as badly as the rest of the world during the Global Financial Crisis.

Whilst our Government debt levels are higher than a few years ago, a very small percentage of our total debt is not denominated in Rands. South Africa also has the second highest debt maturity profile in the world. Both factors mean that it is a lot less likely that our debt repayments will become unmanageable. There is this mass hysteria about "junk status" in South Africa, which does not really make sense because the market has already priced us as "junk". Our bond yields are higher than Brazils, even though Brazil is already a couple of notches below "junk".

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If we see slightly more positive news flow coming through, or even a more positive sentiment, South African bonds could appreciate dramatically. If this happens, the Rand could also appreciate strongly, and those people on Twitter who thanked their “Oom” for the great advice of taking out as much as possible at R 15.20 to the USD may feel less euphoric.

While there is no doubt that there are problems in South Africa, and the “*Dark Forces*” (Eskom’s latest round of load shedding hasn’t helped) love spreading rumours and bad news - don’t be surprised if a slight turn to the positive in sentiment happens and that South Africa’s market and balance sheet improve substantially.

Kind regards,



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