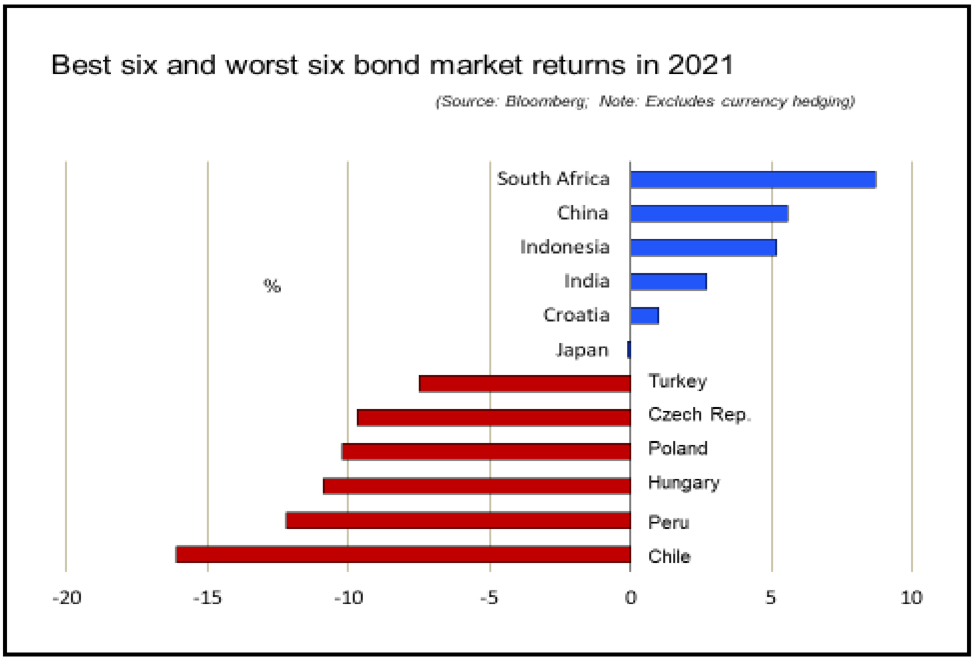
FESTIVE CAPITAL MARKET MOOD FOR SOUTH AFRICA

By Dr Roelof Botha, Joint Managing Director, GOPA Group SA (3 January 2022)

The Christmas season brought good capital market cheer to South Africa, with gifts galore from a weaker dollar and a sterling performance by the country's bonds.

According to Bloomberg's ranking of 46 global bond markets, South Africa won the gold medal in 2021, outperforming every country of noteworthy credit credentials.

Despite lingering fears over the US Federal Reserve's response to higher inflation and an imminent full recovery of the world's largest economy, several emerging markets managed to provide positive returns to bond investors during 2021, with South Africa tops with a net yield of almost 9%. Despite declines in values, coupons for some of these bonds guaranteed sound positive returns.



Boosted by this achievement and another solid export performance, the rand reacted positively by ending the year below the level of R16 to the US dollar, gaining 1.3% during December and outperforming most of its emerging market peers.

During the first eleven months of 2021, exports amounted to more than R1.5 trillion, representing an increase of 33% over the figure for 2020. As a result, the cumulative trade surplus between January and November 2021 more than doubled to a level of R316 billion.

Since the beginning of April 2020, when the global lockdown regulations were at their harshest, the rand has strengthened by more than 19% against the world's dominant currency. The Australian dollar and the Mexican peso are the only two currencies of note that have managed to outperform the rand over this period.

Fitch upgrading

Other good news is that Fitch Ratings has stolen a march on its competitors by recognising a marked improvement in a number of South Africa's fundamental macroeconomic indicators.

In a rare demonstration of objectivity, Fitch changed the outlook on the country's BB- rating from negative to stable. It nevertheless remains a mystery that the ratings agency does not acknowledge the fact that South Africa's public debt is mainly rand-denominated (Fitch's rating applies to foreign and local currency debt).

The change in sentiment by one of the three major ratings agencies comes a year earlier than National Treasury expected and will more than likely trigger similar upgrades by the other two agencies, Moody's Investors Service and S&P Global Ratings.

It is heartening that Fitch has managed to acknowledge the positive impact of a substantial reduction of the public debt/GDP ratio, namely from close to 90% to 78.1%, mainly as a result of a tax bonanza of R130 billion over the past two fiscal cycles and the revision of the composition of GDP. The latter is a standard global practice and reflects an estimation of new sectors of economic activity that emerge over time, especially due to technological advances.

Travel bans lifted

The year also ended on a positive note for the hospitality industry, with US President Joe Biden lifting travel restrictions on South Africa and seven other countries in Southern Africa. Importantly, the relevant proclamation noted that clarity on the impact of the Omicron Covid-19 variant had made travel restrictions unnecessary.

Earlier in December, the UK also lifted its hastily imposed travel ban on ten Southern African countries, noting that the Omicron variant had been detected across the world and conceding that travel bans served no purpose.

With some luck, the general health effects of current and future Covid-19 variants will also prove to be less severe than with earlier ones and the world may soon learn to live with the virus without harsh impediments to economic activity.

With South Africa's national income growing at a healthy rate and several indicators of business confidence in positive territory, the New Year seems poised for further growth and a consolidation of economic recovery.