

# THE QUART 40IFO

OFFICIAL QUARTERLY NEWSLETTER OF THE OSRIN GROUP  
INCORPORATING OSRIN WEALTH & OSRIN ADVISORY

## Quarter 1 in Review

### Introduction – The Opening Gambit

Welcome to the first quarterly edition of The Quart, 2019.

It's been a real rollercoaster ride for investors since the inaugural edition of The Quart, which was an annual review covering 2018. Many thanks to all of you who submitted positive and constructive feedback. It is much appreciated. Hopefully, we will be able to take your suggestions on board and continue to improve the style and content of The Quart going forward.

### Breaking Practice News from The Osrin Group:

- The pending launch of a new website, covering information and updates for both Osrin Advisory and Osrin Wealth. The website will also host The Quart (past and current editions). We will advise of web login details and the launch date as soon as we receive word from the developers.
- Osrin Wealth is pleased to advise that it has received an Independent Financial Services licence from the Financial Sector Conduct Authority of South Africa (FSCA).
- Linda Chetty's receipt of the Investec Financial Advisor Assistant Award, an award for excellence in administration services. Linda is Tania Garvin's administrator. Many congratulations Linda!
- The launch of the 'H2O Investment Risk Index'. Every 'Quart', you are welcome to submit to any member of the Osrin Group team, a number between 0 and 10, where 0 equates to NO global investment risk and 10 equates to EXTREMELY HIGH global investment risk akin to that experienced in the 2008 financial crisis. We will publish your feedback in the 'H2O Risk Index' in the next edition of The Quart.

**[A QUART]** Def; A unit of liquid measure of capacity, equal to one fourth of a gallon, or 57.749 cubic inches (0.946 liter) in the U.S. and 69.355 cubic inches (1.136 liters) in Great Britain. Or a unit of dry measure of capacity, equal to one eighth of a peck, or 67.201 cubic inches (1.101 liters).

- The launch of the 'H2O Investment Risk Index = 6'. This Index has been compiled by the Osrin Group. The main variable in determining the index level is the most recent output of the US Federal Reserve advising markets of a disinclination to raise rates in 2019.

Since the receipt of our IFS licence, Marina, Leigh-Anne and I, after 20 years of discussing our clients' offshore affairs (ex-SA), find ourselves being approached by clients to assist them with portfolio structuring, estate planning and investment advice pertaining to their onshore (local) affairs as well. We welcome the opportunity to assist on a more holistic basis.

## Topics of interest:

Bernard, Tania, Marina and I have been discussing some of the principal concerns that our clients express on a regular basis. The two issues which we have mainly to address with clients are (in no particular order):

1. Estate Planning; and
2. Portfolio Management.

These are obviously both very important aspects of financial planning and each can be a subject of its own newsletter.

**1. Estate Planning:** we find ourselves assisting clients on a number of levels ranging from assistance with preparation and/or updating of local wills and local trusts as well as assistance with 'letters of wishes', which form an important part of an offshore discretionary trust. We are also actively engaged in assisting families with the education and inclusion of families' next generation, where and when prudent to do so. In today's environment it is necessary to carefully consider the tax implications of local and offshore estate planning. In this regard, both Bernard and I are fortunate enough to have built long-term relationships with local and foreign independent tax specialists in the US, UK, Australia, Canada and Israel. We have a tremendous amount of local and offshore experience that we believe we can offer our clients in this area.

**2. Portfolio Management:** the ability to sit with an individual and/ or family client to ascertain investment objectives and requirements, is of paramount importance in assisting that client provide for future expenditure, retirement planning and rainy-day events. The local and offshore markets today offer a myriad investment options and opportunities from which clients can choose. Many feel lost at the prospect of having to embark on portfolio construction that needs to span a range of asset classes, currencies and geographical opportunities on an onshore and offshore basis. Many of our clients are faced with having to cater for families who may reside in many different parts of the world. Once again, the tax efficiency of certain investments needs to be taken into consideration when making holistic investment decisions as part of a diversified investment portfolio.

We and our team members are available to discuss these important areas of financial well-being with you in greater detail, should you like to do so.

The inaugural edition of The Quart was released mid-December 2018, and was so powerful it managed to stem the most dramatic quarterly sell-off in global markets since 1946! Writing this cover note at the end of Q1 2019, we look back at one of the strongest global market performances for a first quarter since 2009. Where do the markets go from here? The following pages provided by 'the Judge' will endeavour to summarise the last quarter as well as shed some light on global macro market conditions for Q2 2019.

We would like to take the opportunity to wish all our clients and associates a happy Easter and Passover break in mid-April. We hope you enjoy this edition of The Quart. All the best from all of us at the Osrin Group.

*Jonathan Osrin*

*Bernard Osrin*

**OSRIN WEALTH and OSRIN ADVISORY**

# The Quart is in Session – A Brief Warm-up

The first quarter (Q1) has been marked by a very broad-based recovery in global equities. This tells us that investors have been far more willing to take on risk than they were until mid-December last year.

As at end-March, the Dow Jones Industrial Average is up by 11.2%, the S&P500 13.1% (biggest quarterly gain since 1998) and the Nasdaq 16.50% YTD (year-to-date). Higher risk appetite plays out well in EM's (emerging markets). After a dreadful 2018, YTD the MSCI EM Index has risen 9.69% in US Dollar terms, while the FTSE/JSE TOP 40 is better by 7.6% and the FTSE/JSE Alsi by 7%, both in Rand terms. The Rand is off 0.7% vs. the USD YTD, so the gains are a bit worse in USD terms. SA has lagged Russia so far in 2019, but has topped India and Brazil.

Improved sentiment came about largely as a result of the Federal Reserve (the Fed) starting to use very moderate language, stressing that with inflation subdued it would be patient and not rush to raise rates. This soothing discourse allayed fears that it would tighten financial conditions (raise rates) unduly. When the Fed uses such language, it has the effect of easing financial conditions and stabilising falling prices of assets like shares, even in the absence of any rate cut.

More recently however, global central banks have been downgrading growth forecasts, raising fears that while interest rates and inflation are low, there might not be any growth underpin for businesses in 2019. So, lately we have seen a small reversal in equities, and in oil prices, the rise of which is premised on growth, with investors seeking refuge in US Treasuries, driving the yield on the 10-year bond to around 2.3%, its lowest since 2017. Still, oil has had its best quarter since 2009.

In circumstances of elevated risk, gold as well as the Japanese yen provide investors with safe havens to park their capital. Since late September 2018, when market fears began to rise, gold has moved from US\$1,174/oz to a present US\$1,298.50/oz after getting above US\$1,325. The yen meanwhile has appreciated just under 2% to the USD during that time, a period marked by general dollar strength.

**So even in the short space of a quarter we have seen quite pronounced shifts in investor sentiment.**

## Quarterly Themes

### 1. US Growth Outlook and The Fed – The Downswing.

The US economy grew at 2.9% in 2018, and is in a 'good place' according to the Fed. It has been helped by the tailwind of President Trump's tax cuts. The Fed's preferred inflation gauge has not been above 1.9%, and fell to 1.8%

in January, i.e. below the Fed inflation objective of 2%. Wage inflation is over 3%, but because gains are being enjoyed mainly by lower skilled workers, wage inflation is restrained given the current pace of growth. The Fed thinks inflationary pressures are 'muted'.

From this year, every Fed meeting will be followed by a press conference so as to communicate policy more clearly after the market reversals of last year. On January 30, rates were kept on hold and the Federal Open Market Committee (FOMC) said it would be 'patient' in determining future policy moves. The introduction of this word was meant to assuage market concerns after those reversals.

On March 20, the FOMC again kept rates on hold. The word 'patient' was retained. Powell explained – "patient means that we see no need to rush to judgment. It may be some time before the outlook calls clearly for a change in policy".

Economic growth slowed from a 'solid' rate in Q4 2018, and Fed voiced concerns that 2019 growth would slow more than previously thought, amid unresolved policy issues such as Brexit and ongoing trade negotiations. New updated FOMC member economic projections showed a US 2019 GDP growth forecast for 2019 of 2.1% from a prior 2.3%. The White House's economic advisor still predicts another near-3% year of expansion in 2019. In my view, this is understandable, but misplaced optimism.

The middle view of FOMC members regarding where the fed funds rate will be at end-2019, was taken to a level implying no more rate hikes at all this year, and only a single modest hike until 2022.

**Markets deduced that with the Fed committing to virtually no future rate rises, its take on the outlook was quite negative. Was this a case of a bad back-pass?**

The 10-year Treasury yield fell below yields on short-dated Treasury Bills, a phenomenon known as 'yield curve inversion'. Historically, this has heralded future recessions and its previous occurrence was in 2008. But it is not a sure-fire signal. Across the globe, yields declined from already low levels. In Australia they got to record lows and volumes in Treasury futures were more than double the norm.

What of a future recession? In days past, if you wanted to know about the timing of a recession you asked an economist, who would describe the role of economic/business cycles. But it has never been that simple. The 2001 and 2008/09 recessions (the latter a global financial crisis) came about as a result of toxic assets. In 08/09, these were widely-held derivatives based on sub-prime mortgages. Other recessions have been caused by exogenous price shocks such as the oil price surge in the mid-70's. The role of monetary policy has been identified as the root cause of the recession following the Great Depression, which persisted despite the New

Deal until World War II. Recessions can be limited geographically, but when they hit the US, which is the global growth driver, the recession globalises.

Barring exogenous shocks which by definition are unpredictable, identifying a toxic asset would provide a clue. Is a whole equity class chronically overvalued as in the 'Dotcom bubble'? I do not think so. With inflation constrained even in EM's and an abundance of liquidity supporting asset prices, it would take a very marked slowdown in economic activity to usher in a contraction. My guess is that there is only a 20%-25% chance of a business cycle-type recession in the US, a few years hence.

I would put the H2O Investment Risk Index at a level of 6 right now.

## 2. The China/US Trade Deal – The Thin Edge of Rory's Wedge.

In Q1, some of the basis for USD and equity strength appeared to be a successful outcome of US/ China trade talks, with a potential Xi/ Trump Summit being spoken about for March.

An agreement could boost US exports to China, helping to balance its huge trade deficit currently running at over US\$300 billion p/a with China alone. Such a deal would improve US economic fundamentals, lower its costs of borrowing and have a positive impact on jobs and growth. It seemed quite a simple matter because China holds about US\$2 trillion in USD-denominated assets, the vast bulk being Treasuries, so it has already paid for over 10 years of US exports at the current rate.

But talks hit an impasse in March and plans for a Summit were postponed. One of China's Vice-Premiers, Liu He, paid an unscheduled visit to Washington, which signalled that the talks were in difficulty. Liu is one of the architects of Chinese economic policy, the man who famously said last year, that China did not want a trade war with the US. The impasse saw the Dow retrace over 200 points.

President Trump would probably be happy with promises of increased agricultural exports to China, but his team at the urging of US business, is ensuring that this is not just a question of the trade surplus, but a matter of Chinese business practices – intellectual property theft, forced technology transfers, state subsidies for Chinese firms, and the extent to which Chinese companies do the bidding of the state, which is to say the Chinese Communist Party. The latter concerns are well illustrated by the cases launched against telecoms firm, Huawei, which promises cheap 5G networking technology that many western countries think could be used to snoop for the Chinese government.

China could promise some new regulation of IP, and even offer concessions on technology transfer. But these issues are seen by the Chinese as ancillary. They are unconvinced that the US will eliminate tariffs after an agreement. Trump recently said that tariffs would be in place for a 'long time'.

Reining in China is important for Trump because it was a key campaign promise, so he will be keen to get something done. But the security establishment has a different agenda. A delayed (post-June) or non-deal will be a drag on markets, as will the President taking his trade crusade to the EU and India. The China imbroglio might only be the proverbial thin edge of the trade wedge. Already differences between the Trump administration and Turkey on foreign policy are affecting the trade relationship between the countries, causing another run on the Turkish lira, with possible broader EM effects.

## 3. The Mueller Report – Anti-doping Violations?

Special Counsel Mueller's 22-month investigation into possible Trump and Trump campaign collusion with Russia to affect the outcome of the 2016 elections, has concluded. The investigation to date has generated 37 indictments, seven guilty pleas and one conviction. According to the four-page summary of principal findings made public by the US Attorney-General, no additional indictments were recommended and no finding that either Trump or his campaign specifically conspired or coordinated with the Russian government, was made. On possible obstruction of justice, the AG said the report was inconclusive. In sum, and at the time of writing, the Mueller report does not conclude that the President committed any crime, but neither does it specifically exonerate him.

It is Department of Justice policy not to indict a sitting President, anyway. Impeachment is the manner in which evidence of a 'high crime or misdemeanour' is dealt with by Congress. House Speaker Nancy Pelosi has, however, ruled out impeachment, saying it would be too divisive a process. Nevertheless, House Committees have subpoenaed witnesses and documents in separate Trump probes, and have called for full disclosure of the Mueller report. This will happen in a few weeks, but probably not before the document, based largely on a counter-intelligence operation, is severely redacted.

The President's problems do not end there amid ongoing investigations at federal and state levels into his financial, tax and business dealings, alleged unconstitutional gifts and campaign finance violations. He was implicated in the latter by his former lawyer, Michael Cohen, in Congressional testimony.

I am not going to speculate on outcomes, but it is worth noting that the phrase 'high crimes and misdemeanours' does include perjury, suborning perjury, witness tampering and the obstruction of justice. US stocks did not get a boost from the Mueller findings and the prospect of a negative outcome in any future investigations/ trials are too distant to affect asset prices in the here and now.

## 4. Brexit Fun and Games – Fergie Time

Q1 was dominated by considerable parliamentary debate on multiple Brexit motions. The UK is dithering and businesses have to cope with terrible uncertainty. This is



more difficult for manufacturers since to relocate they have to move plant and machinery, but for the bulk of services' firms, relocation means simply renting an office and moving software and brains. So, the British economy has held up with annual GDP growth of 1.4% to end-January, because most services' firms have stayed put. March data showed that services were contracting for the first time in over a year.

In talks with the EU, Prime Minister May crafted an exit deal. The deal has morphed over time and has been rejected three times in Parliament, the first time by 230 votes, the second by 149 and the third on March 29, by 60. So, there has been 'progress' if you like. With the help of the Europeans, she tried to incentivize support for her deal by setting a Brexit date for May 22, a day before scheduled European elections that Leavers wish to avoid. May also promised to resign once Brexit was delivered (yes, the end of May could be the proverbial end of May).

So, the vote was closer, with some of the more fervent Leavers supporting May, because they see an opportunity for a party takeover. She only received support from five Labour MPs and three independents. May's junior partner in Parliament, the Democratic Unionist Party (DUP), rejected the deal. The Europeans will doubtfully budge. They have confirmed that if the UK wants to leave, this is the best deal it will ever get.

May succeeded in getting an extension of the Brexit timeline from March 29 to April 12. She also received some assurances on the so-called Irish backstop, which is the principal sticking point not just for the DUP, but most Leavers. The backstop is intended to keep the border between Northern Ireland and the Republic open, as per the Good Friday Agreement, and create a hard border rather in the Irish Sea. A soft border requires that the North be subject to EU trade and broader economic rules, a situation set to subsist for as long as the EU requires. Britain won't be able to unilaterally terminate it.

No matter the deficiencies of May's deal, and there are many, it is mostly a transitional arrangement to tide the UK over until the country can reconstruct its economic relationships with the EU and the rest of the world. Britain gets to save on EU membership fees, will no longer at any time in future be part of the Common Agricultural Policy and Common Fisheries Policy, and will be able to limit inward migration. The movement of goods will not be impaired. However, Britain's large services sector (80% of the economy) will not enjoy preferential access to Europe, and firms in financial services (15% of UK GDP) will lose passporting rights, the right to trade in euros in Europe from London.

Following failure in the third vote on March 29, which covered only the transitional aspects, the PM said she might try a fourth time. But for the whole deal to be voted upon, she has to convince the House Speaker that her new proposal is 'fundamentally' different from that presented before so that it can be moved in the same parliamentary session, or has to challenge or circumvent the Speaker's ruling. If May's deal passes at a fourth time of asking this ends the 'Brexit and her exit' phase. The 'get back in' phase of redrafting trade arrangements has then to begin. It will be long and arduous.

If May fails, there is almost certain to be a request for a longer Brexit delay with supporting reasons and some kind of plan setting out a proposed future relationship with the EU going forward. This is because there is simply no majority support now for any affirmative decision, so the only option is a kind of non-action, no-decision. On March 27, indicative (non-binding) votes on options like scrapping Article 50, another referendum, staying in a customs union, remaining in the single market, or entering into a free trade agreement like Norway, all failed.

But how long will any future Brexit delay be? Leading Leavers comprising 170 Tory MP's, want May to commit to a short delay on or soon after April 12. However, the decision is not one for May to make.

Leading Europeans like European Council head, Donald Tusk, support a delay until 2021, but for leave voters this will mean that five years will have passed before effect will have been given to the referendum outcome in 2016. Europe is possibly waiting for the political capital to be amassed in support of another vote, which many in Britain support. But any delay after May 22 will compel British participation in European elections, which is an anathema for most Brexiteers.

A consensus around a timeframe has to emerge before April 10, the date of the next European Summit, which the PM will attend, just two days before the scheduled Brexit. Once voted upon this or next week, May, if she is still Tory leader and I think she will be, will give effect to the vote by petitioning Europe for the agreed postponement. All European leaders have to concur, as does the European Council and European Parliament. The exact timeframe might take a while to crystallise and thereafter still has to be legislated.

Obviously, if no consensus is reached, theoretically the UK could be in for a hard Brexit on April 12. But this is highly unlikely. So too is a unilateral scrapping of Article 50, which would end Brexit. There is no majority House support for either option. If the requested delay is for 9 months or more, the UK outlook should improve a little. National elections are bound to be called soon after any decision.

**However, as long as the Brexit mode is not finalised, uncertainty will prevail and such uncertainty will affect market sentiment, not just in the UK, but everywhere.**

## 5. Euroland Travails – A Points Deduction

The euro area economy has specific problems. It is dominated by thrifty nations, with low consumption and high savings rates, economies dependent on exports, and it suffers from distortions as a single monetary policy area encompassing different economies with different policy needs.

Unlike in the UK, where the Bank of England has to talk up The Pound, the European Central Bank (ECB) has to

talk down The Euro. It is a form of reflatting the area's economy where Germany and the Netherlands will not do so by spending their surpluses. It relaxes financial conditions like a rate cut or fiscal spend. The poorer Euroland countries, more particularly Italy that has become a populist flashpoint, are helped by a weak Euro because they are essentially trading nations.

At the latest ECB meeting, Governor Draghi kept rates unchanged, and now expected them to stay at current levels until end-2019, not 'through the summer of 2019', as before. A new round of operations injecting cheap liquidity into the financial system will start September and end March 2021.

The Bank slashed the area's 2019 growth forecast to 1.1%, from a prior 1.7%. The downgrade came after other central banks saw a weakening at end-2018, and adjusted 2019 projections lower. But the ECB's revision was more radical. The euro plummeted. A cheaper currency should bring benchmark inflation closer to target and stimulate export-driven growth. We shall see.

## 6. China – Pumping the Accelerator

Chinese growth is moderating. 6.6% expansion in 2018 was the slowest rate for nearly 30 years. At the National People's Congress, a target range for 2019 of 6%-6.5% was set. Remember, while growth is slowing more than before, the Chinese economy, at nearly 20% of global GDP, is a whole lot bigger.

Trade is a worry. The January-February numbers were weak, and partly explicable by the Chinese New Year festivities. The trade surplus in February was the lowest since the surprise deficit in March 2018, and before that you have to go back to early 2017, and then to the commodity crash in 2014.

A trade deal with the US will negatively impact Chinese GDP, because its surplus will be trimmed, but increased import flows carry many secondary benefits. In any event, Chinese growth is not premised on exports as many believe, but rather on fiscal stimulus and corporate borrowing.

China might say it will not throw money at the economy, but with inflation under 2% it will, even if the mode of fiscal stimulus changes. Carefree spending on infrastructure will feature less and be replaced by tax cuts. Already VAT rates are being lowered as are bank reserve ratio requirements.

The willingness of the Chinese to reflate the economy, together with subdued global inflation, and low rates in the developed world are, in my opinion, a good combination for EM's. The combination should prop up Chinese demand for raw materials and will assist in allowing EM central banks to hold rates steady or even begin cutting. Analysts are predicting that Russia, Mexico and the Philippines will cut rates this year. India has already done so. In 2018, 35 EM reserve banks hiked rates, so this would be a very welcome trend reversal.

## 7. The Moody's Rating Review that Wasn't – Floodlight Failure

South African business confidence is falling. President Ramaphosa has initiated key personnel changes (the latest being at SARS) and allowed our democratic institutions to highlight and combat corruption and maladministration. The Nugent Commission found former SARS Commissioner, Tom Moyane, unfit to hold office. There are a further three Commissions underway (State Capture, PIC, and NPA).

However, the President's every move is being countered by populist and pro-Zuma factions within the ANC, and without. To the dismay of many, he has run with the populist agenda, which includes expropriation without compensation (EWC), and nationalising the Reserve Bank (SARB). On March 7, his comments on nationalisation saw a rand blowout. The argument goes that CR has to manage the populists because if he did not, they would manage him. Both issues are said to be 'red herrings'.

But investors do not think so. They hear EWC and nationalisation and think 'Venezuela'. It does not help either that Venezuela is a popular cause in government circles. Investors may be incorrect or misinformed, but our policymakers have to think like investors and inform them accordingly. It is no good having to rely on whispers, hearsay and vague promises.

Rating agency Moody's was expected to pronounce on SA's rand-denominated debt on March 29. As it turned out, and while a country review was undertaken, on March 30 the rating agency decided to postpone a rating. Moody's is entitled to do this, but waiting for Moody's engendered a lot of unease.

It was widely forecast that Moody's would only lower its SA outlook to 'negative' from 'stable', and not deliver a ratings downgrade. This would have still raised our borrowing costs. The agency still has SA Rand-denominated bonds at an investment grade rating of Baa3, while the other two major rating agencies, S&P and Fitch, downgraded these bonds to sub-investment grade (junk) back in 2017. If Moody's moved to junk this would have cost our bonds a place in the World Government Bond Index, precipitating an outflow possibly in excess of R100 billion, exerting a lot of downward pressure on the rand. Some leading economists were expecting a downgrade, and the rand was very volatile in March.

Nervousness was mainly due to Eskom. The entity's budget has been stripped, its maintenance and repair programme impaired, lost skills have made some difficult repairs impossible, and dodgy deals have resulted in project overruns, sub-grade coal, and plants unfit for purpose.

SA's gross public debt will now peak at over 60% of GDP in 2023/24, typically a rating agency red flag for EM economies. But this excludes parastatal debt, which if added takes the public debt to GDP ratio to around 95%. This is hazard territory. Eskom alone owes over R500 billion, which it cannot service.

In his budget speech Minister Mboweni said that R69 billion will be set aside over the three-year budget framework period to help recapitalise Eskom, with R150 billion pledged over ten years, which when amortized amounts to R230 billion. Eskom must cut R20 billion in costs per year until 2022, excluding the wage bill. Management largesse and bonuses during the last seven years or so have cost upward of R500 million. Eskom's board has been replaced, and the utility will be unbundled into distribution, generation and transmission units, with the transmission company set for establishment mid-year with a new, independent board. After a recent court ruling, the role of independent power producers should increase. Some localities might even go off-grid, lowering overall electricity demand. There are two questions to ask in assessing the possible negative impact of Eskom on our economy. One, is the cost of recapitalisation. The government guarantee framework has stretched to breaking point. It is no argument to say that because Eskom issued the debt it has to find a way of repaying it. These debts are a contingent sovereign liability. What of other SOE's like Transnet, SANRAL and Prasa?

The second is the extent of growth impairment. I think it conservative to estimate that outages can shave around 30 plus basis points off SA GDP in 2019, depending on duration. Power cuts will be keenly felt in the informal economy, but be difficult to measure there. Many big firms have generators, so lost output will be seen mainly in the small business sector and among the self-employed.

Why did Moody's avoid a rating now, and so late in the day? My guess is that the agency was given additional bailout details and a more nuanced plan for the Eskom breakup. In addition, it might have been told of any PIC/ other big asset manager intent to follow their now worthless investment in Eskom paper, and assist in the recapitalisation process. S&P will deliver a ratings' view on May 28 after the election, although it is still open to Moody's to take a position before then.

## 8. SA Growth and The SARB - Taking Each Game as it Comes

In 2018 the economy grew 0.8%, a bit better than expected, albeit that quarterly growth of 1.4% was a bit lower. Q3 growth was revised up, so the outcome was moderately satisfactory. Q4 saw an extension of the revival in manufacturing, while mining contracted sharply. The sector is dying and the implications for employment are severe. Q4 showed good consumer spending, after very poor prior quarters. The services sector remains quite robust. But let's not get carried away!

Gross fixed capital formation contracted 2.5%, its fourth successive quarterly decline. Q4 saw a 4.5% drop in major capital investment and a 0.9% fall in residential fixed investment. Consumers and businesses alike are not prepared to make capital commitments until the political situation evolves. It is far worse than an investment 'strike'. What we are witnessing is actual disinvestment.

For FY 2019, I have SA GDP growth capped at about 1.5%, but Eskom woes (see above) might take this lower.

Alternatively, post-election business investment, if it happens, could take it higher.

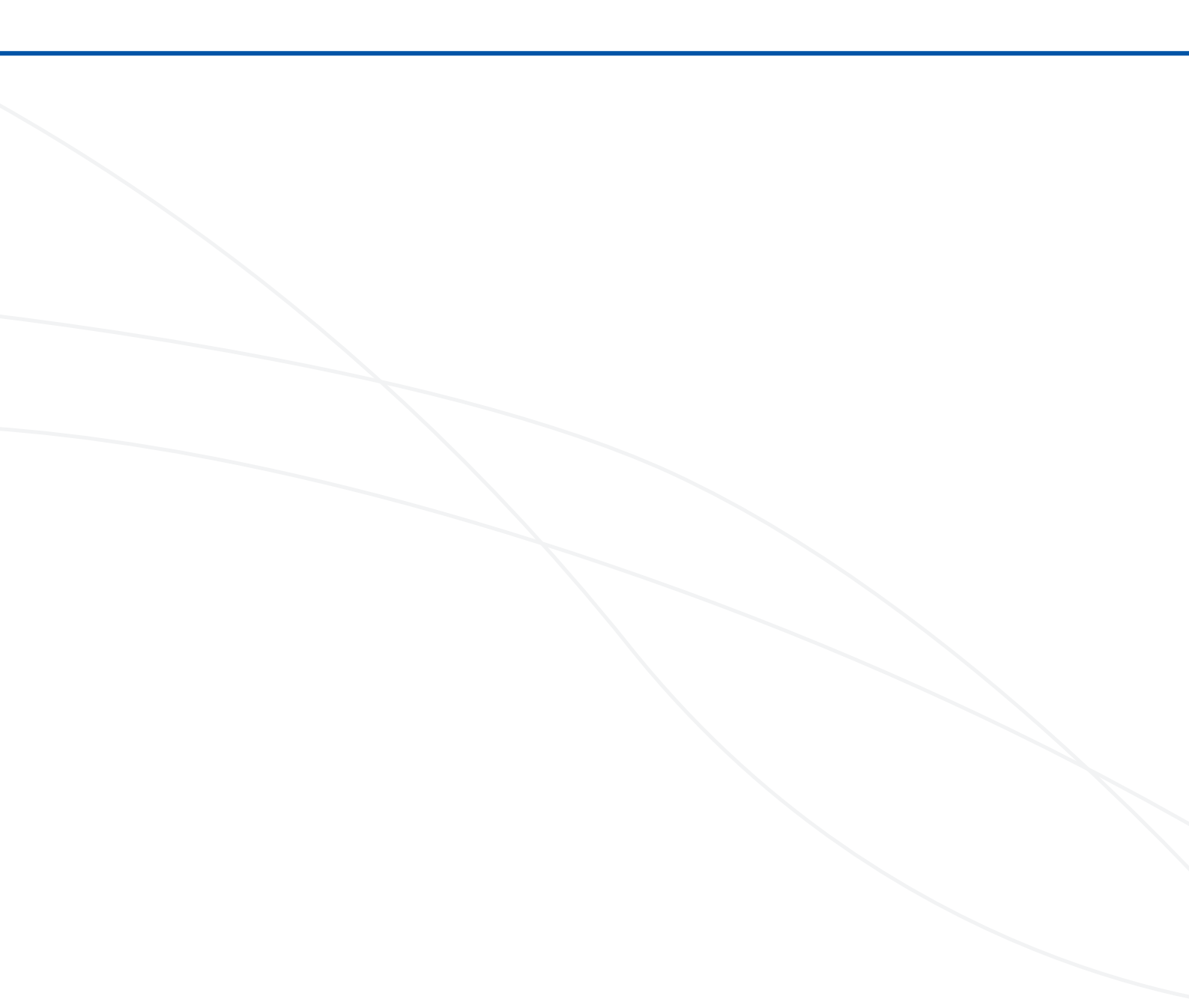
In late March, the SARB cut its outlook for 2019 GDP growth to 1.3% versus a prior 1.7%. It also trimmed projections for 2020 and 2021. Risks to the outlook were 'to the downside'. The Bank referenced the Eskom crisis. On inflation, it assessed overall risks to be 'more or less evenly balanced', not 'moderately to the upside', as before. The SARB did not name future risk events, but alluded to them saying that at quite a good time for EM economies and currencies, the rand had depreciated due to 'idiosyncratic factors' (i.e. factors peculiar to South Africa), such as domestic growth prospects, 'political developments' and policy settings.

## 9. The Elections – Different Tactics and a New Formation?

I am reluctant to speculate on possible outcomes now, and will know a lot more from late-April opinion polls. Ahead of the elections May 8, political utterances will doubtless become more populist and self-serving. This might negatively impact the rand.

We will produce a special election edition of The Quart looking at the economic impact of various electoral outcomes, just ahead of the vote.

**The Quart is adjourned.  
By order of the Judge (GPP)**



The views and opinions expressed in this article are those honestly and genuinely held by the author. They are based on an analysis of information available in public domain. They are not intended to be, neither should they be construed to be, financial advice of any kind, nor as a definitive analysis of any financial or related issue. Individuals must not rely on this information in order to make an investment, financial, trading or like decision. If they nevertheless choose to do so, they do so entirely at their own risk.

## **OSRIN GROUP**

9th Floor, No2 Long Street, Cape Town, South Africa  
PO Box 7256, Roggebaai, 8012, South Africa  
Tel +27 21 421 7110 Fax +27 21 421 7191 Email [info@osringroup.co.za](mailto:info@osringroup.co.za)

### **OSRIN WEALTH**

Authorised Financial Services Provider **FSP No. 49766**

### **OSRIN ADVISORY**

Authorised Financial Services Provider **FSP No. 32532**