



OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot July 2022

LOCAL ECONOMIC INDICATORS

- All-Share Index end of Jul: +-68,000
- All-Share YTD return: - 7.57%
- Market PE ratio: 10.59
- USD/ZAR currently at R16.63/\$,
- South Africa 10Y Government Bond yield: Current 10.445%

(Data: Bloomberg; Sharenet ; www.tradingeconomics.com)

NEWS

- Wheat prices have dropped to pre-war levels after Ukraine struck a deal.
- The government has announced formal plans to take over part of Eskoms R396-billion debt, stating the power utility is 'too big to fail'.
- Monkeypox was declared a global health emergency by the World health organisation. The classification is the highest alert that can be issued by the WHO.
- The South African Reserve bank increased the repo rate by 75 basis points to 5.5%, making it the fifth straight increase in a row.

Who was this Volcker?

We are slowly heading to the 3-year anniversary of when the Covid news broke for the first time. Much has happened, and it feels to me like the world is sighing a collective “Are we there yet?” as we wait to see how the current chapter plays out.

Since the American Federal Reserve announced their intention to stem inflation in early January and sent most asset prices into a tailspin, we have watched the story unfold in a slow-motion-esque fashion.

Central banks tried to give the market clarity on the pathways ahead, but the last few months have seen more hawkish phrases like 'interest shocks' being used and names like 'Paul Volcker' being invoked. This makes sense given that inflation in America was reported at 9.1% in the last month, the largest 12-month increase since November 1981. So, who was this Paul Volcker and why is he being mentioned now?

Paul Volcker was born in America in 1927, became an economist and ended up as the 12th chairman of the Federal Reserve (1979 to 1987). The period of his appointment coincided with unprecedented inflation that battered the American economy for most of the 70's. The 'Fed' had unsuccessfully tried a series of small rate increases to tame inflation.

Then Volcker stepped up to the plate, called a surprise meeting in October 1979, and proceeded to almost double the 'federal funds rate' from an average of 11.2% in 1979 to a peak of 20% in June 1981. He used two surprise shocks to do so. His first move swiftly led to a recession in 1980, but inflation increased again. The second 'Volcker shock' caused an even deeper recession in 1982, with the unfortunate side-effect of an unemployment rate of greater than 10%. The impact was severe enough to cause civil unrest, but the easing of the rates from 1982 onwards jumpstarted the American economy again and caused healthy economic growth. Inflation was down to 3.4% when he left office and never rose to high levels since. Until now.

The human cost of the Volcker moves was severe, but luckily, we are currently seeing some green shoots coming through that may yet avoid a Volcker seance. The lower commodity prices and ships full of grain allowed to leave the Ukrainian harbours will hopefully save our bacon, literally.

GRAPH OF THE MONTH: - The man himself



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