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Dennis Dykes on the threat of "junk"



Dennis Dykes -Nedbank chief economist

Nedbank chief economist Dennis Dykes has given the Dolphin Bay Brief insight into the implications of our economy being downgraded to "junk" status - an eventuality that depends on political events.

Much depends on the outcome of the local government elections in August, he said. If the ANC lost ground to the Economic Freedom Fighters and Democratic Alliance, and responded by implementing positive changes to put the economy on a stable footing - including potential leadership changes - South Africa might keep its investment status.

If instead the ANC emerges unscathed from the elections, or responds with more interventionist and populist policies, without implementing the necessary changes, a downgrade will become highly likely.

"We certainly hope that Finance Minister Pravin Gordhan will not be dismissed or suspended beforehand, or subinvestment grade will be almost inevitable" Dennis said.

Comparisons have been made between what happened after Brazil's economy was downgraded to junk status, and the outlook for South Africa. In Brazil, investors "sold on the rumour, and bought on the news" of junk status, said Dennis, which prompted recovery in financial markets.

In South Africa, too, the markets have been predicting a downgrade in advance. The value of the rand, and of government bonds, has already been dropping in anticipation of the downgrade, Dennis said.

Some commentators have predicted that South Africa, like Brazil, might start to recover after a downgrade. However, the Brazilian recovery in markets has reflected the hope that the much-maligned president, who has mismanaged the economy through

micromanagement and interventionist policies, would be impeached. The outlook for South Africa, too, would depend on political developments.

However, a downgrade in this country would still be highly detrimental, Dennis predicted. US institutional investors hold many government bonds, and may be forced to sell large quantities of these after a downgrade, while some investors would be precluded from holding our debt at all. The upshot is that South Africa would be forced to pay far higher interest rates on government debt over a prolonged period.

History shows that it takes about five years for an economy to climb out of junk status.

Bertus thanked Dennis for the "extremely informative and interesting interview."

"Dolphin Bay brings these insights to our clients because we are committed to giving you all the information you need to ensure the financial sustainability of your business," he said.

"We are committed to providing you with this information in a helpful, streamlined way, and will continue to be on the lookout for all trends, in the financial arena and others, that affect our clients' businesses," he said.

Source : **Dolphin Bay Chemicals**