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'FIRST IMPACT OF A DONALD TRUMP VICTORY IN U.S. PRESIDENTIAL ELECTIONS IS SIGNIFICANTLY HEIGHTENED GLOBAL ECONOMIC UNCERTAINTY', SAYS NWU SCHOOL OF BUSINESS AND GOVERNANCE PROF RAYMOND PARSONS

The negative reaction in most financial markets to a Trump victory is not surprising, as the markets accepted recent voter surveys indicating that Hilary Clinton was likely to win the U.S. Presidential election. The first consequence of a Trump Presidency which has not been anticipated by most markets is significantly heightened global economic uncertainty. The economic impact on an emerging economy like SA of a Trump Presidency will ultimately generate cross currents the strength of which which cannot yet be predicted with accuracy. We must also take into account the new composition of the U.S. Congress in assessing which parts of Trump's agenda will indeed be implemented.

In the short term the uncertainty arising from a Trump victory is good for the gold price. The gold price has already strengthened. The rand will benefit from a weaker dollar and vice-versa, as there is a well-known reciprocal relationship between the dollar and the SA currency. It will inevitably be a period of renewed high volatility for rand. All this will no doubt feature in the MPC's next decision on interest rates when it meets again later this month. The course of US economic data and interest rates over the next few months will be significant for both global economic trends and for SA's growth prospects. There will be both risks and opportunities. Once things have settled down a Trump fiscal policy may even promote US economic growth.

In the longer term what becomes important is whether Donald Trump's strongly protectionist and inward looking attitudes will be damaging to world trade growth and hence to a small open economy like SA. SA must also assess what new geopolitical risks may arise in the event of a more confrontational Trump foreign policy towards countries like China or Russia, with whom SA has important economic commitments. It is however likely that the specific trade preferences which SA enjoys in the U.S. market under AGOA will remain intact until their sunset date in 2025, as they are enshrined in legislation and not under threat.

The latest developments in U.S. politics emphasizes again why SA must do what is necessary to get its house in order and avert a credit rating downgrade at the end of the year. A bigger, stronger and better economy is what SA must now be secured by addressing its vulnerabilities. Junk status will complicate the new challenges faced by SA. Given the heightened uncertainties in the global economic outlook strengthens the need for SA to reduce domestic policy uncertainty by urgently implementing the necessary structural reforms and improving its growth prospects as soon as possible.