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UNIVERSITY OF THE WITWATERSRAND
FACULTY OF HUMANITIES
DEPARTMENT OF JOURNALISM AND MEDIA STUDIES

Media coverage of South Africa Reserve Bank Monetary policy committee work: A case study of CNBC Africa 2014-2017

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A research report summited in partial fulfilment of the requirements for the degree of the University of Witwatersrand's Master's by Coursework and Research Report in Journalism and Media Studies.

Johannesburg, March 2019

Declaration

I declare that this research report is my own unaided work. It is submitted for the degree of Masters of Arts by Coursework and Research Report in the Department of Journalism, at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination at any other university.

Arnold Segawa

March, 2019

To Konrad Adenauer Stiftung, Christoph Plate, Brigitte Read and Bob Wekesa
Words can't sum up my gratitude…

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List of tables

Table 1: CNBC Africa interviewees and Quota Sample Response Rates 62
Table 2: Summation of mention of 'Key words in context' —Inflation and Interest rates.....69

Table 3: CNBC Africa production team Questionnaire responses 71

Table of Contents

ABSTRACT 9
CHAPTER ONE 11
INTRODUCTION 11
Outline of the thesis 11
What is monetary policy? 12
Policy decisions 13
The economic outlook 14
The path of future policy rates 14
Monetary policy: A brief history 15
CONTEXTUAL BACKGROUND 19
Types of Monetary Policy 20
Monetary Policy Tools 25
What is the role of the South Africa Reserve Bank? 27
Central bank communication strategy 28
Objectives and Aim of the study 31
Research objectives 31
Research questions 32
Rationale 33
Media and Monetary Policy 35
The selection of CNBC Africa 38
CHAPTER THREE 39
Theoretical framework 39
Step one of the theoretical framework 40
Step two of the theoretical framework 42
CHAPTER FOUR 44
LITERATURE REVIEW 44
Media Framing 45
Agenda Setting 54
Production of Media Debate 56
CHAPTER FIVE 60
Methodology 60
Quantitative research 61

Qualitative research ... 65
CHAPTER SIX ... 70
Results, analysis and Discussions ... 70
Results ... 71
Video results ... 71
Questionaire and interview results ... 74
Data Analysis ... 75
'Key words in context' —Inflation and Interest rates ... 76
Salience in the third Quarter Graphics ... 77
Decisions to invite panelists —Sociology versus psychology ... 78
SARB and CNBC Africa frame deviations ... 80
Monetary policy and the Media —bridging the gap ... 81
Unit of Analysis and Limitations ... 82
CONCLUSION ... 83
BIBLIOGRAPHY ... 85
APPENDIX 1 ... 97
Master's thesis Questionnaire ... 97
APPENDIX 2 ... 99
Third quarter graphic analysis of CNBC Africa MPC panel discussion ... 99
APPENDIX 3 ... 106
TRANSCRIBED CNBC AFRICA MPC PANEL DISCUSSION VIDEOS ... 106
CNBC AFRICA MPC Panel video- 27th March 2014 ... 106
CNBC AFRICA MPC Panel video- 22nd May 2014 ... 117
CNBC AFRICA MPC Panel video-18th September 2014 ... 125
CNBC AFRICA MPC Panel video- 20th November 2014 ... 146
CNBC AFRICA MPC Panel video-29th January 2015 ... 155
CNBC AFRICA MPC Panel video-26th March 2015 ... 160
CNBC AFRICA MPC Panel video-21st May 2015 ... 168
CNBC AFRICA MPC Panel video- 23rd July 2015 ... 177
CNBC AFRICA MPC Panel video- 21st July 2016 ... 187
CNBC AFRICA MPC Panel video- 24th January 2017 ... 197
CNBC AFRICA MPC Panel video- 20th July 2017 ... 204
CNBC AFRICA MPC Panel video- 21st September 2017 ... 210

APPENDIX 4..... 220

ABSTRACT

This thesis examines how the media, particularly CNBC Africa covers the work of the South African Reserve Bank (SARB). The thesis takes a two-pronged approach to explore this with one arm inspecting the sociological and psychological aspects of engaging guests in the CNBC Africa Monetary Policy Committee (MPC) panel discussions and the other, looking at what CNBC Africa holds salient when covering the MPC panel discussions. By examining MPC panel discussion data from 2014 to 2017, the thesis contrasts both quantitative and qualitative methods to arrive at a quantitative dataset that shows what CNBC Africa holds salient during their coverage posing questions on whether this aligns with the SARB mandate. On the other hand, the thesis explores the sociological and psychological aspects of news and debate production, particularly how MPC panelists for the special broadcast are selected. The thesis aims to contribute to the scarce literature on monetary policy communication and media engagement as the adoption of inflation targeting has fast-fostered transparency in central banks in the past three decades. The thesis applies theories of Agenda Setting by McCombs and Shaw (1972) to examine the salient aspects of the CNBC Africa MPC panel discussion. In addition, it explores Tversky and Kahneman's (1992) revolutionary work on dual process theory to inspect the psychological aspects of inviting panelists. The thesis finds that during the CNBC Africa MPC discussion, 'interest rates' as a key word in context dominates the conversation over and above any other topic and a closer examination of the data reveals a strong frequency of interest rates in a 'global context' further asserting South Africa's exposure to global headwinds and external shocks. Furthermore, this shows a deviation between SARB's mandate and CNBC Africa's MPC panel discussions in regards to salience. This is because SARB pushes to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa through achieving price stability by setting an inflation target that serves as a yardstick against which price stability is measured. With this mandate, price stability and, therefore, inflation are the core focus of the SARB with interest rates being a mere tool to achieve price stability. The deviation of CNBC Africa's and SARB's frames is further illustrated in the data as 'interest rates' dominate the conversation during the CNBC Africa MPC panel discussion at the expense of 'inflation.'

The thesis submits that in order to merge the SARB's and CNBC Africa's frames, the latter need cover the MPC announcement in a three-pronged approach that encloses SARB's economic

outlook with emphasis on the forward-looking stance, path of future policy rates and cover policy decisions in their entirety.

Key words: Monetary policy, South Africa Reserve Bank, Central Bank communication, Media and Monetary policy, Central Bank rate, Repo rate, Agenda setting, Framing, Salience, Slow and fast thinking, Sociology of the news, Inflation, Inflation targeting, Interest rates.

CHAPTER ONE

INTRODUCTION

This chapter provides the basis for the thesis. It covers a background with an understanding of monetary policy and the various tools used to achieve monetary policy targets in modern economic policy. The chapter also looks at central banks' monetary policy committees, which are the pillar of modern central banking. In addition, the chapter examines the evolution of central banking and the emergence of inflation targeting which relies immensely on communication and the media to achieve its goals.

In the last 30 years, there has been extensive scholarly interest probing the role of the media in communicating the SARB decisions, policy and most importantly, the MPC decisions (Geanina, 2010; Mishkin, 2004).

Monetary policy is the process by which the central bank controls the supply of money, availability of money and cost of money to attain a set of objectives oriented towards the growth and stability of the economy (Geanina, 2010). Monetary policy, therefore, rests on the bond between the interest rates and the total supply of money at any given time in an economy.

Monetary theory provides insight into how to construct optimal monetary policy. This research examines CNBC Africa's coverage of the MPC decisions and critically inspects the choice of panelists for the CNBC AFRICA MPC special, which unpacks, and analyses pre-MPC decisions, which as a rule of thumb had special coverage leading up to the MPCs.

Outline of the thesis

The thesis is structured into six chapters. Chapter one introduces and examines the research subject and establishes its background, aims and objectives, rationale, analysis and limitations of the thesis. It also provides a summary of the frameworks of the research, including historical advances of monetary policy, communication and the media in South Africa. Other themes discussed in the chapter include an overview of MPC announcements and the role of the media in modern day inflation targeting frameworks. Chapter two explores the aim of the thesis, rationale and examines the role of the media in modern monetary policy economics. Chapter three discusses the theoretical bearings of the thesis as it positions dual process theory, production of media debate together with agenda setting in light of the panel discussion data.

Significant theories and concepts used in the thesis are defined in the conceptual framework as they set the ground for analysing the findings. In depth, consideration will be accorded to dual process theory and agenda setting. Chapter four focuses on a review of the literature in perspective to previous media and journalistic studies as chapter five explores the methods through which the quantitative and qualitative data was obtained for the thesis. Finally, chapter six reveals the results, further analyses them and lastly presents the discussions.

What is monetary policy?

Monetary policy is the process by which the government, central bank, or monetary authority of a country controls the supply of money, availability of money and cost of money or rate of interest to attain a set of objectives oriented towards the growth and stability of the economy (Licchetta, 2009). Through the manipulation of monetary policy, SARB can achieve its primary objective — maintaining price stability in the interest of sustainable and balanced economic development and growth.

Ideally, the economy's growth and survival does depend on the ability of the central bank to manipulate monetary aggregates to best suit growth. Monetary policy rests on the relationship between the rates of interest in an economy, that is the price at which money can be borrowed, and the total supply of money.

Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment (Lartey, 2007). The distinction between various types of monetary policy lies primarily with the set of instruments and target variables used by the monetary authority to achieve their goals. As Reid and Du Plessis (2011: 2) highlight,

> "The recognition of the multiple forward looking decision makers involved in the effective pursuit of monetary policy goals has introduced a strategic perspective to policy, where the strategy is to an important extent a communication strategy."

With the SARB's forward looking strategy, the media plays a crucial role in communicating the forward strategy of the SARB and how it intends to achieve it. Using interviews from 2014-2017,

the research explores if these three aspects (which are vital to monetary policy communication) are exhaustively tackled.

Policy decisions

Central banks have taken on an approach of informing the public about their monetary policy decisions on the day they are taken. The announcement is primarily a declaration of the rate at which the central bank lends to commercial banks (also known as the repo rate). This ensues after days of deliberations of the MPC which debates the variables needed to be considered to achieve price stability often in the near term and means to achieve the inflation target. It should, however, be noted that this was not always the case as monetary policy actions were often kept secret before 1989 (Geanina, 2010).

This notion of secrecy is illustrated by the United States of America Federal Reserve Bank (the Fed), which only commenced announcing changes in its target federal funds rate on the day of Federal Open Market Committee (FOMC) meetings in February 1994.

The actions of central banks on the MPC decision announcements, therefore, shows the relevance of communication and the media as it has a hand in the "signal-to-noise ratio", which is a monetary transmission mechanism. The media acts as a means to increase or decrease money supply as a central bank action, for example, the lowering of the central bank rate would mean cheaper money to commercial banks and ultimately an increase in credit to consumers leading to an increase in money supply (Gamb, 1980). Inversely, an increase in the central bank rate would mean the rate at which the central bank lends to the commercial banks is higher, thus credit is more expensive and this would shrink money supply (Gamb, 1980).

More importantly to all of this, the central bank's actions will be in vain if there is no communication to the consumers and the general public. This underscores the relevance of the media in modern day central banking. As we will see in the next section, it also leads to improvements in the efficiency of monetary policy.

An interesting aspect to the SARB MPC meetings is also the trait of releasing the MPC votes, which precedes the repo rate hike, drop or hold decision. In releasing the MPC vote count,

the media is able to pass on vital information to the public on the central bank's outlook for both the short term and mid-term summed up in whether the hike, hold or drop decision was a landslide or marginal.

The SARB also engages the media in a press conference immediately after policy decisions are made and the Governor together with the MPC answer questions from the media regarding the policy actions.

The economic outlook

The SARB Governor gives the economic outlook in his presentation before announcing the MPC decision. This is a vital aspect of the presentation and coverage as a whole. As the SARB has access to meta-data, statistics and health of the economy, it can forecast the future of the price stability in both the short and medium terms.

In addition to examining the process of choosing panelists for CNBC Africa MPC special, this research seeks to scrutinize if the macroeconomic outlook of the South African economy is captured in the panelists' discussions. The forward-looking objective of the SARB gives an insight into forecasts, future inflation projections economic activity notwithstanding the future of its monetary policy if there are no shocks. This research will analyse the coverage of the economic outlook from the MPC perspective.

The path of future policy rates

The primary objective of the SARB monetary policy in South Africa is to achieve and maintain price stability in the interest of sustainable and balanced economic development and growth (Mboweni, 2004). To this end, the SARB provides forward guidance in regards to likely decisions in the near to mid-term. Geanina (2010) advances that central banks announcing their future policy rates and forecasting their future behaviour can be deemed as the last layer of transparency, but Mishkin (2004: 48-65) argue otherwise that "announcing the path of the policy rate on the grounds that it may complicate the committee's decision-making process."

Monetary economics to this day has remained obscure to the public as the media barely covers central banks' actions. Largely, many central bankers argue that the public mistakes central bank communications for 'commitments' yet these are only projections (Geanina, 2010). Issing (2005:

65) argues that, “if the projected developments do not materialise, the discrepancy between actual and previously-projected policy might damage the central bank’s credibility.” This research will explore CNBC Africa’s coverage of the outlook as highlighted by the Governor to examine if the MPC commentators accord any attention and salience to the Governor’s policy outlook.

Before 1990, central banks globally were famous for their reserved stance on information disclosure and were often blamed for lacking clarity and transparency. It should be remembered that prior to 1990, many central banks were not independent and only after they realised sovereignty was there a need for accountability. Brunner (1981) concludes that “(central banks’) communication policy at the time was linked to phrases such as “esoteric art”, “secret of the temple”, “monetary mystic” or “constructive ambiguity.” But the past three decades ushered in a revolution with monetary authorities more open to general public and this unsurprisingly correlates with an increasing level of monetary policy effectiveness (Mishkin, 2004). As a result, central banks have figured out that an increase in the predictability of monetary policy actions can lead to a more effective management of monetary policy or the economy as a whole, but more importantly, accountability. Woodford (2005) therefore pinpoints that, “the success of monetary policy is not guaranteed just by controlling short-term interest rates, but also by influencing market expectations in the desired direction. With this premise, however, how can a central bank influence market expectations or foster predictability without effective communication and more importantly, an effective media?

Presently, any central bank's ability to steer macroeconomics is subject to its ability to manage market expectations with emphasis on future interest rates and as established by Haan et al., (2009) that “monetary policy has become gradually the art of managing expectations, with the media vital to this ‘expectation management.’

Monetary policy: A brief history

Monetary policy is principally the relationship between interest rate and credit. Before the 7th Century, monetary policy was the printing of paper money to create credit and the price of money: Interest rates were not part of monetary policy during the time. Monetary policy remained an executive decision, and was generally in the hands of the authority with seigniorage, or the power to coin (Goodman, 2010). As global trade grew, however, so did the emergence of trading

companies and this ushered in a new pricing model which relied on gold and silver which meant that goods were priced in relation to the precious metals and ultimately, the priced would be enforced by law.

From the widely used promissory notes at the time emerged what we know as paper money today and this was called "Jiaozi" as early as the 7th century in what is now modern day China. It should be noted that the Jiaozi were used simultaneously with the copper coins at the time with the Yuan Dynasty being the first economy to use paper currency as a medium of exchange. The Yuan dynasty's expansionist foreign policy however yielded other woes as it printed more money than was backed by any precious metal to fund wars and this caused hyperinflation.

Monetary policy was established later on with the creation of the Bank of England in 1694, which floated the idea of printing notes and backing notes with gold therein establishing the idea of an independent monetary institution. The primary objective for the bank was to print notes and maintain the value of the coinage with an aim of trading in monetary harmony.

Geanina (2010) consequently observes that, "the establishment of central banks by industrialising nations was associated then with the desire to maintain the nation's peg to the gold standard, and to trade in a narrow band with other gold-backed currencies. To accomplish this end, central banks as part of the gold standard began setting the interest rates that they charged, both their own borrowers, and other banks which required liquidity." Between 1870 and1920, European nations established central banks with price stability as their core objective, but this later evolved to them being the "lender of last resort." Meanwhile, over the past 50 years, there has been a (widespread) consensus on what should constitute monetary policy with prevalent disagreement on what tools need be deployed to achieve monetary goals (Geanina, 2010).

In the 1980s, many central banks were inscrutable and unpredictable in their policy actions often communicating sparingly and giving away little on the policy actions (Kahveci and Odabaş, 2016). Central banks in sub-Saharan Africa have made great progress over the past two decades in stabilising inflation, to single digits on average and this has in turn fostered fiscal-based stabilisation efforts.

They have done so by relying on monetary policy arrangements centred, at least de jure, on money targets, often with some form of a de facto exchange rate peg (Berg and Portillo, 2018).

A currency peg is an exchange rate policy where a country attaches the central bank's rate of exchange to another country's currency. This is where a currency is fixed to another currency, such as the U.S. dollar or a soft peg where a currency's exchange is allowed to fluctuate within a band of rates (Labonte, 2011).

With the emergence of sound monetary policy frameworks on the continent, the hard peg has gained prominence in African economies as policymakers are starting to demand more of monetary policy than mere achievement of price stability (Berg and Portillo, 2018)

Inflation targeting for instance; is a monetary tool deployed by many African central banks but they are often criticized for having this strict commitment to low inflation as a sole target. Inflation targeting targets inflation in a specified band often in line with a Consumer Price Index (CPI) band agreed on by the monetary and fiscal authorities. CPI, which aims to measure the change in consumer prices over time, is a current social and economic indicator constructed to measure changes over time in the general level of prices of consumer goods and services that households acquire, use, or pay for (Statistics South Africa, 2017).

Inflation can be defined as a sustained or continuous rise in the general price level or alternatively, as a sustained or continuous fall in the value of money (Labonte, 2011). As maintaining inflation at bearable bands is core to any central bank's mandate, inflation targeting has in the past three decades gained popularity as a monetary policy tool. In order to achieve low levels of inflation, policymakers must make credible announcements regarding policy paths and the economic outlook, which in turn act as a roadmap for future policy actions.

Geanina (2010: 3) submits,

> "If an announcement about low-level inflation targets is made but not believed by private agents, wage-setting will anticipate high-level inflation and so wages will be higher and inflation will rise. A high wage will increase a consumer's demand (demand-pull inflation) and a firm's costs (cost push inflation), so inflation rises. Hence, if a policymaker's

> announcements regarding monetary policy are not credible, policy will not have the desired effect."

Pétursson (2005) defines inflation targeting as a monetary procedure that involves the formal establishment of price stability as the primary objective of monetary policy, with precedence over any other listed objectives. However, inflation targeting can conflict with other more important macroeconomic objectives such as: attaining maximum employment; high, but sustainable, rate of economic growth; and keeping the balance of payments in equilibrium. Despite the criticism, inflation targeting has ushered in a new dawn for monetary policy as hyperinflation has been kept at bay and this has been argued to be a core ingredient to an economy's growth as is the case in New Zealand, Canada and the United Kingdom.

Debate has also taken shape in the form of the monetary actions like inflation targeting which create the much-needed clarity on the central bank's inflation goals and also the role of moderate inflation for any economy to grow (Taylor, 1999).

Behind this disagreement lie differences in theoretical understandings. South Africa has taken on a more post-Keynesian approach having inflation targeting as the core of its monetary policy (Reid and Du Plessis, 2011). Nonetheless, how has the South African media covered the monetary matters in the past five years?

More importantly, how is the media covering matters around MPC decisions? This thesis will examine the SARB MPC coverage with particular focus on CNBC Africa. Mishkin (2004: 44) submits, "Most of the literature on central bank communication has focused on the quantity and quality of the original communication sent by central banks, emphasising the need to be simple."

Reid and Du Plessis (2011: 2) argue that:

> "While the value of these features of the original central bank communication is not being disputed, most members of the general public do not receive the central bank's communication in its original form. A challenge that faces a central bank is that even well intentioned, skilful central bank communication doesn't necessarily arrive with the general public as the central bank initiates."

As more central banks have adopted inflation targeting, the role of communication from central banks has become core to their mandate. Communication in form of quarterly MPC decisions and monetary bands (if any revisions are made) ensures the smooth transmission of the central bank's actions onto the economy and also aids accountability and transparency of the modern-day central bank (Labonte, 2011). This then ushers in the role of business, finance and economics media houses like CNBC Africa, which cover the work of the SARB holistically to better unpack the implications to the market and the South African citizen.

CONTEXTUAL BACKGROUND

This section examines the role of CNBC Africa in covering the SARB MPC actions with attention conferred to the role of central bank communication and ultimately media reportage in achieving central bank goals. To that end, a deeper understanding of monetary policy is discussed in this segment for a better comprehension of why media attention need be accorded to the topic at hand. The section will also look at the various types and tools in monetary policy for a better understanding of why the SARB approaches its mandate with the tools it chooses.

Many developing countries, Sub-Saharan African countries included, faced a myriad of problems in their pursuit of sustainable levels of growth and development. Most of these problems have revolved around price instability, currency depreciation, deteriorating current account positions with its attendant decreases in foreign reserves (Fiador and Biekpe (2015). Meanwhile, monetary policy endured a phase of trial and error in the 1980s and 1990s as governments in Sub-Saharan Africa embarked on various structural reforms aimed at revitalising the economies, with financial sector reforms at the core (Mboweni, 2003). Non-independent central banks were synonymous with post-colonial Africa and many economists (Abebe, 2000) argued this was a primary cause of the inflationary pressures in the 1960s and 1970s.

Types of Monetary Policy

For monetary policy to be implemented, a base tool is the manipulation of the money in circulation. The central bank achieves this through a well-timed and scrutinised process of buying and selling financial instruments in the economy. Depending on the amount of financial assets bought or sold in the market, the multiplier effect of the fractional reserve banking system is able to reflect the actions of the central bank in the open market (Geanina, 2010). Through the manipulation of money supply, the central bank is, therefore, able to sway other market variables such as interest rates and currency exchange rates (Geanina, 2010). The central Bank manages to achieve its monetary policy through exchange rate regimes, which can be entirely fixed or floating regimes.

The different types of policies are also called monetary regimes, and these run in parallel to exchange rate regimes. A fixed exchange rate is also an exchange rate regime – the Gold standard results in a relatively fixed regime towards the currency of other countries on the gold standard and a floating regime towards those that are not. Targeting inflation or other monetary aggregates implies floating exchange rate unless the management of the relevant foreign currencies is tracking exactly the same variables (such as a harmonized consumer price index).

A pertinent concern to whichever monetary policy style that is chosen is how well it synchronises with the media and more importantly, how the monetary policy chosen by the central bank is communicated to the public given that monetary policy ceases to have any effect if the public is oblivious.

Inflation targeting

Inflation targeting was first deployed by the central Bank of New Zealand in 1990 and this is a tactic that targets inflation in a specified band often in line with a CPI band agreed on by the monetary and fiscal authorities.

As central banks lend to commercial banks at an interbank rate, the periodic adjustment of the central bank's interest rate band would ultimately have an effect on money supply and inflation as a whole. A MPC usually reviews this interest rate target on a monthly or quarterly basis in line with global and local macroeconomic variables. It is, therefore, the duty of the central bank's

MPC to anticipate future macroeconomic trends that could pose headwinds to the achievement of the set inflation target band and ultimately act accordingly. Taylor (1999) lays the framework for modern day monetary policy with a submission that central banks should deploy "a relatively high interest rate when inflation is above its target or when output is above its full-employment level, in order to reduce inflationary pressure." However, revision of central bank interest rates (or basically the price of money in an economy) is inadequate without a clear and precise communication strategy to inform the public (Kahveci and Odabaş, 2016.)

From February 2000, SARB moved to an inflation targeting based policy in making changes to the repo rate.

Mboweni (2004:2) notes:

> "With the adoption of this framework, the Bank moved away from an eclectic monetary policy framework or informal inflation targeting. In the eclectic monetary policy framework the growth in money supply and bank credit extension were used as intermediate guidelines for the determination of short-term interest rates. In addition, in deciding on the most appropriate monetary policy stance, developments in a number of other variables were also taken into consideration, because the monetary aggregates had lost some of their usefulness as indicators of future inflation due to structural changes in the economy."

Because of the forward-looking traits of inflation targeting, it is essential that the central bank communicates their future outlook to the public and this inescapably makes the media a vital ally of all central banks using inflation targeting.

Maumela (2010) submits that, "inflation targeting encompasses five main elements: the public announcement of medium-term numerical targets for inflation, an institutional commitment to price stability as the primary goal of monetary policy, an information-inclusive strategy in which many variables, and not just monetary aggregates or the exchange rate, are used for deciding the setting of policy instruments. Increased transparency of the monetary-policy strategy through communication with the public and the markets about the plans, objectives and decisions of the monetary authorities and increased accountability of the central bank for attaining its inflation objectives."

Role of communication in inflation targeting

After the United States abandoned the gold standard in 1971, pressure mounted on many central bankers to set clear monetary policy goals and pledge with certainty to achieving them. The dollar being a global reserve currency would mean that the Fed changing from a gold standard to a fiat money standard would have global repercussions. Vayid (2013; 2) connotes that it was only then that the relevance of clear communication, transparency and working with the media became apparent to central bankers.

Soon, central banks were forced to have clear policy frameworks and outright monetary policy strategies buoyed by the emergence of inflation targeting.

Inflation targeting was birthed by the Reserve Bank of New Zealand, which put a tough emphasis on transparency. Inflation targeting intuitively pushed central banks to make their monetary policy goals more transparent with regular communication being the pillar of the system. Inflation targeting relied on communicating the decisions central banks to foster monetary policy transmission with the rationale behind these decisions being a major facet of the central bank's mandate. In so doing, communication strategies became a major instrument for central banks in their efforts to increase efficiency (Blinder et al, 2008: 4).

Significantly in the inflation-targeting framework, central banks rely on communication to align economic expectations with the monetary goals as the public is informed about the central bank's "reaction function" (Kahvecia and Odabaşb, 2016).

Vayid, (2013: 7) submits that consequently, monetary policy became "the art of expectation management" and ultimately, a sound communication strategy became an instrument to shape the monetary prospects for long-term interest rates. It should, however, be noted that although central banks controlled short-term rates, communication remained the pillar for realizing long-term monetary goals. Kahvecia and Odabaşb (2016: 620), confirm this, "this means that central banks are not simply using interest rates to direct expectations, their ability to shape the economy also depends prominently on managing expectations for the long-term trajectory of interest rates."

Although the core function of a central bank is achieving price stability, achieving it is impossible without accountability and credibility, hence, fortifying the role of a sound and informed communication strategy to inform the public of monetary policy.

Vayid (2013; 1) further elaborates that the "value of transparency can quickly be lost, so communication must be an ongoing process. To this end, if communication is seen as a means to enhance accountability in central banks, then communication must then be a two-way process.

More importantly, Jenkins (2001: 2) advances that good communication helps put the central bank and financial markets on the same wavelength, so that "markets can anticipate, rather than simply react to, interest rate decisions." This by far sums up the role of effective communication in modern day central banking.

In addition, communication under inflation targeting is vital as effective communication supplements the strategy's forward-looking trait. This is because inflation targeting hardly relies on current conditions, but rather medium-term movements and economic conditions. In order to bolster the earlier discussed accountability and transparency, central banks using inflation-targeting strategy periodically announce inflation reports with the public with in depth analysis of the rationale behind the outlook and explanations for any aberrations from the central bank's target if any (Mishkin, 2004: 3).

Summed up by (Kahvecia and Odabaşb, 2016: 621), "transparency, openness and communication have gained importance for inflation targeting central banks. As time went on, they became approved not only by the inflation targeting banks, but by others too, and have become reflected in their policies."

Monetary aggregates

Advanced by illustrious economist Milton Friedman (1956, 1960) in his works on the quantity theory of money, this monetary system relies on the macroeconomic effects of the supply of money to effect monetary policy. Often referred to as monetarism, the system examines different classes of money and credit (M0, M1, M2, M3). In money supply, M0 and M1, also called narrow money, as this money classification includes coins and notes in circulation and other money equivalents

that are easily convertible into cash. M2 includes M1 plus short-term time deposits in banks and 24-hour money market funds (Carvalho and Nechio, 2014). M3 includes M2 plus longer-term time deposits and money market funds with more than 24-hour maturity. M4 includes M3 plus other deposits. But it should be noted that the precise definitions of the three classifications depend on the country and economic jurisdiction.

Jahan and Papageorgiou (2014: 1) submit that, "the approach relies on the premise that "The money supply multiplied by velocity (the rate at which money changes hands) equals nominal expenditures in the economy (the number of goods and services sold multiplied by the average price paid for them)." The core difference with a monetary aggregate approach is the focus on monetary quantities and not price signals in the market (Geanina, 2010).

Price level targeting

Price level targeting requires the central bank to define a target path for the development of the aggregate price level (measured against a suitable index) and commits itself to correcting deviations from this path within a given period (Deutsche Bundesbank, 2010). By contrast, when targeting the rate of change in the price level, i.e. the inflation rate, central banks' goal is merely to correct inflation-rate deviations from the given target rate (or target corridor).

Bohm and Filacek, (2012: 12) note,

> "Sveriges Riksbank adopted price-level targeting in 1931 after the Swedish krona faced speculative attacks on its convertibility to gold. As soon as the krona quit the gold standard the Swedish government declared a commitment to stabilize prices using all means available."

Fixed exchange rate

With a fixed exchange rate system, an over the counter fixed rate is announced by the relevant government authority and this is as a means to achieve the target exchange rate. It should be noted that this rate is in relation to another currency often the US Dollar but the central bank does not

necessarily actively buy or sell currency to maintain the rate (Geanina, 2010). Fixed exchange rates do vary often depending on how firm the fixed exchange rate is with the base currency.

Bohm & Filacek, (2012: 14) note that:

> "With the system, a unit of foreign currency (correcting for the exchange rate) must back every unit of local currency. This ensures that the local monetary base does not inflate without being backed by hard currency and eliminates any worries about a run on the local currency by those wishing to convert the local currency to the hard (anchor) currency."

The communication strategy here would come in to disseminate the exchange rate information to the public in order to ensure that the target exchange rate is achieved —yet again underlining the role of the media in the monetary policy strategy.

Monetary Policy Tools

Interest rates

A central bank can tighten money supply by increasing the nominal interest rates (Geanina, 2010). In raising interest rates, the central bank manipulates money supply as the consumers save more and also the higher interest rates will ideally discourage borrowing therein reducing the money supply size. Using monetary policy tools under interest rates, a central bank can lower interest rates and stimulates borrowing also called an expansionary monetary policy or loose monetary policy. On the contrary, however, a central bank can also raise interest rates and reduce borrowing in the economy in what is termed as a contractionary monetary policy or tight monetary policy. It is vital to communicate the interest rates to the public as manipulation of money supply can only be achieved when credit in the economy expands or contracts.

Through this tool, monetary policy actions are achieved by either lowering or increasing the central bank rate or repo rate, which is the rate at which the central bank lends money to commercial banks. Nonetheless, it is important to highlight to role of the media in communicating the changes in the repo rate as dictated by the central bank (Vayid, 2013).

Reserve requirements

A central Bank can also rely on reserve requirement manipulation as a monetary` policy tool. As monetary authorities require that commercial banks retain a certain threshold of reserves on hand at any specified time, the revision of reserve requirements would ultimately have an effect on monetary policy. Monetary policy would therein be implemented by changing the proportion of total assets that banks must hold in reserve with the central bank (Geanina, 2010).

The leeway offered to commercial banks would mean they are required to maintain a relatively smaller quota of their assets as cash available for immediate withdrawal resulting in an investment rally into relatively more illiquid assets like loans and mortgages.

Friedman (1968: 5) however, submits, "central banks typically do not change the reserve requirements often because it creates very volatile changes in the money supply due to the lending multiplier." Communication of reserve requirement revisions to manipulate money supply in an economy and ultimately monetary policy undoubtedly renders the media a core part of reserve requirements as a monetary policy tool attested by the condition by many central banks to communicate to both commercial banks and the public when reserve requirements are changed.

Monetary base

A monetary base is the total amount of a currency that is either in general circulation in the hands of the public or in the commercial bank deposits held in the central bank's reserves (Gamb, 1980). The monetary base therein comprises the stock of central bank money held by commercial banks and non-banks (Ehrmann & Fratzscher, 2006).

By adjusting the size of the monetary base, therefore, a central bank can use monetary base adjustment as a policy tool. The action would however directly change the total amount of money circulating in the economy, as the central bank would buy/sell bonds in exchange for hard currency. Geanina (2010: 13) emphasizes that, "when the central bank disburses/collects this hard currency payment, it alters the amount of currency in the economy, thus altering the monetary base." Communication plays a role here as selling of bond offers from a government relies on the public's awareness of numerous aspects of the bond to potential buyers. These range

from the coupon rate, face value of the bond, yield and maturity. All this must be communicated to potential buyers and the media is often an obvious choice for the expending this information.

Discount window lending

Often when commercial banks are experiencing short-term liquidity shortfalls, they borrow at the discount window (Goodfriend, 1983: 13). Discount window lending is an avenue where commercial banks and other depository institutions are able to access short term funds from the central bank at a lower rate often called a 'discount rate.'

As a rule of thumb however, the discount rate is set below short term market rates of T-bills (Gamb, 1980). Geanina (2010) however stresses that, the lower rate offered by the discount window enables the institutions to vary credit conditions (i.e., the amount of money they have to loan out), there by affecting the money supply. Despite being a source of short-term liquidity, this is still a crucial aspect of monetary policy actions as lower discount window lending rates translate to cheaper money in the near term. In addition, a central bank's revision of discount lending rates either on the upside or on the lower side to manipulate monetary policy must be communicated to both the commercial banks, financial institutions and the public thus underscoring the media's relevance in this monetary policy tool.

What is the role of the South Africa Reserve Bank?

The primary objective of monetary policy in South Africa is to achieve and maintain price stability in the interest of sustainable and balanced economic development and growth. Price stability reduces uncertainty in the economy and, therefore, provides a favourable environment for growth and employment creation (Vayid, 2013). SARB's primary objective is to achieve and maintain price stability in the interest of sustainable and balanced economic development and growth. Although the functions of the SARB have changed and expanded over time, the formulation and implementation of monetary policy remain the centrepiece of its activities.

It should be highlighted that Section 224(2) of the Constitution determines further that the SARB, in pursuit of its primary objective, must perform its functions independently and without fear, favour or prejudice (Mboweni, 2004).

The Bank's MPC is responsible for monetary policy decisions, and comprises the Governor as Chairperson, the deputy governors and senior officials of the Bank. Price stability is quantified by the setting of an inflation target range by government after consultation with the Bank. The Bank has instrument independence, with the commitment to pursue a continuous target of 3 to 6 per cent for headline consumer price index inflation. The MPC conducts monetary policy within a flexible inflation-targeting framework that allows inflation to be temporarily outside the target range under certain circumstances.

The MPC takes into account a viable medium-term time horizon for inflation and considers the time lags between policy adjustments and economic effects. This provides for interest rate smoothing over the cycle, and contributes towards more stable economic growth. The repurchase (repo) rate decision reflects the MPC's assessment of the appropriate monetary policy stance. The decision of the MPC, together with a comprehensive statement, is announced at a media conference at the end of each meeting.

This announcement outlines the MPC's assessment of prevailing domestic and global economic conditions, as well as recent outcomes and forecasts for inflation and real economic activity.

Mboweni (2004) notes that the role of the Bank is to achieve and maintain price stability and to develop and supervise a healthy banking sector. By fulfilling these objectives, the Bank makes its contribution to sustainable high economic growth in South Africa.

Central bank communication strategy

Greenspan (2001: 2), former chairperson of the US Federal Reserve submitted, "Since I've become a central banker, I've learned to mumble with great incoherence. If I seem unduly clear to you, you must have misunderstood what I said". The statement clarifying the unclear nature of monetary policy in the past as opposed to the inflation targeting structure today. Before inflation targeting, it was almost impossible to foresee central bank's future policy actions, as ambiguity was a perquisite. As a result, central banks across the world hardly interacted with the media at all and meaning that "without a clear policy framework or a well-defined criterion on which to judge central bank performance, central banks were less open to public accountability" (Vayid, 2013: 1).

Blinder et al. (2008: 2) submit, that at the time, central banking was premised on the idea that monetary policy-makers should restrict their interaction with the media to a minimum and stick to 'coded messages' once probed. In addition, central bankers strongly relied on the idea that successful monetary policy was inseparable from an element of surprise in financial markets. Kahvecia and Odabaşb (2016: 619) established that, "central banking during this period can be defined by three words: mystery, secrecy and opacity."

Central bank secrecy at the time however was a remnant of fixed exchange rate foreign exchange policies, which benefited from opaqueness of an economy's monetary policy. Chant (2013), advances that the secrecy was only a strategy to counter "the enemy of openness". Moreover, with reasoning, the migration of many central banks globally towards more flexible foreign policy regimes meant there was no need for the opacity anymore.

As monetary policy evolved and central banks took on inflation targeting, the relationship between communication, predicting long and short-term inflationary pressure was clear. "Greater openness might actually improve the efficiency of monetary policy because expectations about future central bank behaviour provide the essential link between short rates and long rates (Blinder, 2008).

By 2000, the sentiment had evolved as "74 percent of central banks regarded transparency as either "crucial" or "very important" to the monetary policy framework" (Fermo, 2012: 1). Examining the communication shift in monetary policy, it is clear that the transparency is now regarded the norm by central banks. Kahvecia and Odabaşb (2016:620) uphold that "it is now accepted in academic literature and in practice that communication has an important role to play in effective monetary policy."

Effective central bank communication

For a central bank, communication can be studied from either the short-term or the long-term management of expectations. A central bank's communication can in effect comprise indicators of monetary policy trends leading up to short-term monetary policy decisions and as a reactionary stroke, the market's movements are shaped by the signals provided (Kahvecia and Odabaşb, 2016). Meanwhile, Issing (2005: 70) reveals that advances that may trigger adjustments to a central

bank's assessments and actions which may diverge from the earlier gestures may also cause instability in the markets.

However, an examination of central bank communication is incomplete without exploring its role in aiding future market expectations. As Kahvecia and Odabaşb (2016: 620) substantiate, "communication bolsters the effectiveness of monetary policy and assists with the formation of expectations of future monetary policy actions among financial market participants that are closer to the central bank."

If well balanced, communication and any central bank's monetary policy are predictable and credible yielding clarity in policy paths and future interest rate trajectories (Issing, 2005; 70-71).

Despite the reliance on communicating the central bank's goals and outlook however, inflation targeting relies heavily on the public's ability to understand monetary policy and this is impossible without the media.

CHAPTER TWO

This chapter explores the aim, rationale and objectives of the thesis seeking to flesh out theoretical debate and trends in line with media and monetary policy in South Africa. Although literature exists on communication and monetary policy in Europe and the United States of America, there remains a gap in media, communication and monetary policy both in the developed world and developing world including South Africa. To this end, this section explores the role of communication and ultimately, the media in monetary policy with a disposition on why it remains a vital ingredient.

Objectives and Aim of the study

This section explores two aspects namely; how the CNBC Africa MPC panel discussion members are selected (and why this is relevant to media theory) and what the CNBC Africa panel discussions hold salient.

Research objectives

To understand the role of journalists in production of media debate in relation to the SARB Monetary Policy decisions.

As discussed earlier, SARB uses inflation targeting as a monetary policy tool and cardinal to this tool is communicating the inflation target band and future outlooks to foster predictability in the market. With this background, the media plays an essential role in SARB's mandate but there seem to be some deviations between SARB's MPC announcements and CNBC Africa's MPC coverage. This thesis explores this deviation as CNBC Africa's MPC coverage focuses primarily on SARB's interest rate actions i.e. hold, hike or drop yet the SARB focuses on three aspects namely, policy decisions, the economic outlook and the path of future policy rates.

To explore the decision making process of inviting panelists to the CNBC Africa panel discussion.

The thesis investigates the criteria used to identity and invite panelists to the CNBC Africa MPC panel discussions. In his works, Kahnemann (2011) uses fast and slow thinking to explore decision making in economics.

Upon this premise, the thesis explores whether inviting panelists for the CNBC Africa MPC panels is a process involving intuitive thinking or explicit thinking and what are the ramifications for whichever decision making process.

To understand which variables hold salience during CNBC Africa's MPC panel discussion coverage?

Salience as explored in framing and agenda setting theories shows which aspects of SARB's MPC announcement that CNBC Africa holds salient. Definitely, much of the coverage is dominated by a keen focus on the SARB's interest rate action (hold, hike or drop) and this is revealed by the frequency of the words "interest rate" in the CNBC Africa MPC panel discussions.

Research questions

The thesis has a main and sub research questions.

Main research question:

To what extent are there variances between CNBC Africa's MPC coverage and SARB MPC decisions?

Sub-research question:

What determines the choice of commentators on CNBC Africa's SARB MPC coverage and what is the effect thereof?

Rationale

This research seeks to evaluate how CNBC Africa covers MPC decisions for a more holistic understanding. The rationale, therefore, is a deep unpacking of the process that precedes the MPC coverage by CNBC Africa. In addition, the research will look at selection procedure of economic commentators for the coverage, focus of the debate and the underpinnings of the media debate in light of the norms of 'media production of debate' as a whole.

The thesis will examine media coverage of MPC decisions by CNBC Africa subsuming the selection of commentators for the pre-MPC discussion. Although there have been studies on monetary policy transmission of SARB decisions and the correlation between monetary policy and economic development, none has scrutinized the media's role in monetary policy coverage let alone 'transmission' in the South African context according to this thesis' research literature. The researcher will use framing theory with emphasis on dual process theory to unpack how CNBC Africa editorial team decides who to invite for the MPC panel discussion. The theory appeals to deeper understanding into whether the process of choosing a panelist is intuitive or explicit, making it ideal for the thesis. In addition to dual process theory, the researcher will use agenda setting theory with emphasis on what CNBC Africa holds salient. The thesis also exposes the role of public debate in breaking down and unpacking the technicalities of a topic as esoteric as monetary policy. These approaches are crucial to the thesis as the SARB MPC coverage is over two hours and it is the onus of media practitioners to pick what to air.

Central bank's audience is divided into groups in terms of access to its communication. A financially informed group who access the communication directly in its original form while others access it indirectly through the media (Reid, 2011). Thus, the role of the media is vital in monetary policy transmission and communication considering too that the raw data from SARB is often riddled with complex economic terms that are incomprehensible to outsiders without an economics background.

In addition, the inflation-targeting framework relies on the transparency and accountability of the monetary system-giving projections. This is why the media has a crucial role in this execution.

The CNBC Africa panel discussion also serves a podium where free and equal citizens come together to share information, to debate and discuss on common concerns therein, showing the relevance of understanding how the debate is produced (Cowling and Hamilton, 2010).

To rationalise the choice of CNBC Africa, it is worth pointing out that it is the only channel on the African continent that has two-hour live pre-SARB MPC coverage with a panel of at least three analysts to examine the pre-and post-SARB MPC announcements. The in depth analysis and monetary policy coverage commitment rendered CNBC Africa an unparalleled choice. The special coverage dedicates attention to all facets of monetary policy as opposed to other media houses such as "eNCA", "SABC" and "Businessday" which only report on the matter and do not dedicate enough time to unpack the details through panel discussion. In conclusion, the thesis' potency lies in the need for communication from the SARB but highlights CNBC Africa's dedicated coverage on the SARB MPC decisions, which affect all South Africans. The choice of the MPC panelists to discuss the matter, however, comes to the forefront and this will be dissected using the fore-mentioned theoretical approaches, fleshed out in the next section.

The purpose of this thesis is to add value to the growing body of literature in the intersection of media and monetary policy, discussed briefly in the background above, with a specific focus on the financial journalism dimensions. Kahveci and Odabaş (2016: 621) connote, "communication can increase the effectiveness of monetary policy by assisting with the formation of expectations of future monetary policy actions among financial market participants."

With this submission, the role of clear communication is indeed vital for functional monetary policy. As earlier highlighted however, SARB's communication is often intricate in nature riddled with technical jargon and this leaves the onus on the media to unpack the complex communications to their audience.

Through CNBC Africa's MPC discussion though, a question arises as to how the panelists are chosen. This thesis answers this question through interviewing relevant producers at the time in question.

In addition, another focus will be on what CNBC Africa holds salient during the MPC panels and this aspect will be tackled through analysing the "lower third" of the video content during the MPC panels (Atkinson, 2016). The research consequently seeks to fill literature gaps on the subject providing new knowledge and understanding on the coverage of macroeconomics in mainstream media.

Blinder and Wyplosz (2004) submit that the audience is divided into the "financial markets" (financially literate and well informed about monetary policy) and the "inattentive general public" which informs the need for this research. The media has a vital role in informing the public not only the role of the SARB but also their policy actions and adjustments as a whole.

Through public discussions like the CNBC Africa SARB MPC panel discussion, the public is informed about the actions of the SARB and their implications.

However, the key question is what is involved to put the panel discussion together? This is important because, as a hypothetical case in point, the choice of ill-informed panelists who are oblivious to macro-economic fundamentals of the economy would not only misinform South Africans, but also deter SARB's monetary policy transmission process to the market. The same would apply to panelists who might purport to proffer impartial expert opinion while pushing the interests of the institutions for which they work.

Media and Monetary Policy

Despite advancements in monetary policy communication in the past three decades, literature around African central banks' communication and media engagement remains scanty (Reid, 2011). In addition, Mishkin (2004: 16) submits that, "most of the literature on central bank communication has focused on the quantity and quality of the original communication sent by central banks, emphasizing the need to be simple." However, there is a gap in unpacking the media and SARB relationship yet SARB's policy actions affect interest rates, mortgage loans approvals, money supply as well as the strength of the Rand.

Knowledge about monetary policy making, for example, the relationship between a policy interest rate and inflation, is found to influence people's inflation expectations (Carvalho and Nechio, 2014). Cardinal to the market acquiring the policy decisions, however, monetary policy transmission is buoyed by the central bank's communication and consequent media coverage. As detailed by Blinder and Wyplosz (2004) that the financial audience takes the shape of the financially literate and the inattentive general public, majority of the players in financial markets acquire their monetary information directly from the central bank whilst the inattentive public acquires information from the media. Given the vastness of the inattentive general public, the media remains the primary provider of monetary policy information and commentary as a whole.

Cukierman (2009: 20) reaffirms this emphasising,

> "Most members of the general public are rationally inattentive to the original forms of central bank communication as these are costly to acquire and process. This rationally inattentive audience relies (to varying degrees admittedly) on the media to gather, condense and interpret this primary information on their behalf. As a result, reporting on monetary policy in the media, of which the central bank's communication forms part, is one point of strategic interaction between the stakeholders who codetermine the path of inflation."

Cukierman (2009) affirms the role of the media in condensing financial information for the public in a more digestible form of commentary. Because monetary policy communication takes typically two main forms namely, communication through official documents such as inflation reports and policy announcements and communication through speeches, presentations or interviews by the policymakers during the inter-meeting period (Demiralp et al, 2012), the media acts as a conduit between the policymakers and the inattentive public.

The general policy instrument adopted by most countries to combat the shocks to the economy was the monetary policy. Some of the prescriptions for monetary policy included lending strength to currencies on the exchange market; stimulating capital formation and growth; generating additional foreign reserves or both, while staving off financial instability or contracting the money supply to slow down demand-related inflation (Mboweni, 2003).

On one hand, it is well noted that contractionary monetary policy can result in undesirable outcomes, which are clear opposites to the initial expectations, such as currency depreciation, high unemployment rates and stagnation of the general economy (Abebe, 2000).

On the other hand, a very expansionary monetary policy of very low interest rates with very low inflation levels that fails to stimulate aggregate demand poses the risk of financial instability because it makes cash holdings more attractive in comparison with interest-bearing bank deposits (Stein, 1998; Chiesa, 2001).

There is a consensus, according to Gamber and Hakes (2005), that monetary policy matters for the economy. While this is the case in developed economies, Angeloni et al., (2003) argue that, the same cannot necessarily be said for developing countries mainly due to a dearth in literature for developing economies and also because of structural and institutional differences between developing and developed economies that constrain the applicability of a developed country findings for developing countries.

Indeed, Bernanke and Gertler (1995) indicate that the transmission mechanism of monetary policy remains 'a black box' because the exact dynamics of the transmission of monetary policy to the economy are largely unknown.

In addition to Blinder and Wyplosz's (2004) submissions as earlier discussed which divides financial markets into the financially literate and the inattentive general public complements the famed Lazarsfeld and Berelson (1944) 'two step theory', which showed the role of the media in the voter decision-making process.

Lazarsfeld and Berelson (1944) established that voters were more influenced by secondary sources who had digested the information from a primary source, a conception that can be applied to the information dissemination from central banks through the media to the "inattentive public." Blinder and Wyplosz (2004) therein exemplify the media as a conveyor belt of information from the central bank to the audience and therefore potentially, opinion shapers. Given the vastness of the "inattentive public," the media remains the primary provider of monetary policy information and commentary as a whole consequently abetting the process of monetary policy transmission to the South African economy.

The selection of CNBC Africa

The research examines CNBC Africa as this is a 24 hour Business and finance channel which covers micro and macroeconomics on the African continent.

CNBC Africa also debates SARB's MPC decisions prior to the decision day thus creating a window into the public sentiment before and after the MPC announcement. CNBC Africa was launched by CNBC (Global) and Africa Business News (Pty) LTD on June 1, 2007 and is headquartered in Johannesburg, South Africa. CNBC Africa programming is available on DStv channel 410, StarTimes channel 309, Canal Plus- channel 169 and Kwese TV channel- 736 reaching audiences in over 100 countries.

The channel broadcasts over eight hours of live business content per day from their bureaus in Kigali, Rwanda, Johannesburg, South Africa and Lagos, Nigeria. CNBC Africa's operations in Africa are under the Africa Business News, which was founded by Rakesh Wahi and Zafar Siddiqi.

CNBC Africa together with its companion site CNBCAfrica.com focuses on business, money, finance and economic news originating from Sub Saharan Africa, (Africa Business News, 2010). The choice of CNBC Africa is motivated by the channel's sole commitment to finance and economic news with a two-hour special coverage of the SARB's MPC decisions. This is also attested by panel discussions with economists to deliberate on the MPC decisions.

CHAPTER THREE

In this chapter, the thesis outlines the flow of the research with emphasis on how the various media theories align with the objectives and aims of the study. This section will discuss the theoretical foundations to be further explored in the literature review will aid the researcher in realising conclusions in the final chapter.

Theoretical framework

Classically, the theories outlined in this research describe the journalistic process of selecting panelists for the CNBC Africa MPC panel discussions in addition to outlining what is deemed salient by the producers. As connoted by Baran and Davis (2015), theory aids researchers to appreciate how communication functions in our complex world. In addition, Littlejohn and Foss (2011: 19) explain theory as "an organised set of concepts, explanations, and principles of some aspects of human experience."

For purposes of this thesis, the exploration of theories such as dual process theory and framing will aid the researcher in conceptualising the daily actions of CNBC Africa producers and ultimately assist in answering the research questions.

Using the contextual and theoretical literature canvassed in the preceding and intervening sections of this work, the researcher analyses data with a view to respond to the key research question: To what extent are there variances between CNBC Africa's MPC coverage and SARB MPC decisions? This is followed up with the sub question; what determines the choice and frequency of commentators on CNBC Africa's SARB MPC coverage and what is the effect thereof?

Breaking down the main research question demands an understanding of the decision processes that go into the selection of MPC panelists. The question then arises as to which theories and concepts therein can aid us in understanding the panelists' selection processes and the salient issues given precedence during the coverage. In addition, which theories of the media are relevant to understand the underpinnings of news sources?

Theoretical viewpoints in unpacking the research questions are; the journalistic production of media debate, agenda setting with support from the dual process theory (DPT) as part of the broader media framing theory.

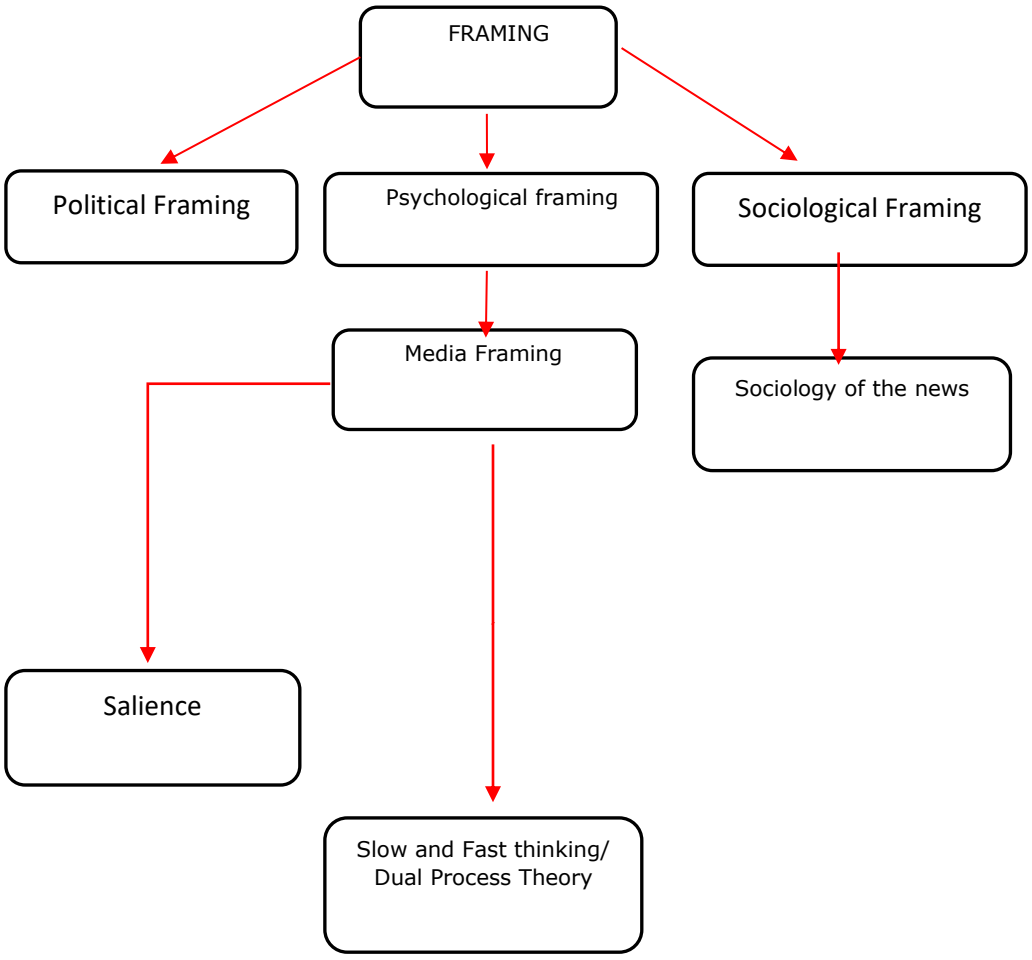
Nevertheless, given that the thesis sets out to explore SARB work with a focus on CNBC Africa, this is complemented with agenda setting to unpack what the producers deem salient when producing the debates.

Salience is a prominent concept within the theories of agenda setting and media framing. It refers to the capacity of the media (or other actors) to influence the relative importance individuals attach to policy issues (McCombs and Shaw, 1972). First-level agenda setting, as a concept within the agenda setting theory states that the media are successful in transferring salience regarding a particular "issue" or "object" to the public (Symeou et al, 2015). Gamson (1989), however, manages to illustrate salience in framing determining that the media uses a "central organising idea for making sense of relevant events and suggesting what is at issue. Using agenda setting and framing theory, the thesis examines what the CNBC Africa moderator and editors hold salient during the coverage.

Using the concepts of framing theory with emphasis on DPT, the researcher will examine the decision-making process of the CNBC Africa editorial team in regards to production of media debate. DPT will rely on interviews with the CNBC Africa producers for an understanding of whether the panelist inviting process is intuitive or explicit as highlighted in the DPT.

Step one of the theoretical framework

As highlighted above, the media framing theory will examine the process of choosing the panelists for the panel discussion at a psychological level. The thesis organised the theoretical framework in two steps with the first step looking at framing theory and the emerging psychological ideas, which can be used to unpack decision-making in newsrooms. The second step of the framework looks at agenda setting with emphasis on salience issues arising after the researcher analyses the CNBC Africa video clips. Because the decisions undertaken in the choice of panelists can be interpreted as psychological frames, framing will rely on the more established concept of slow and fast thinking with core focus on dual process theory to unpack the process of panelist choice.



Source: Field data

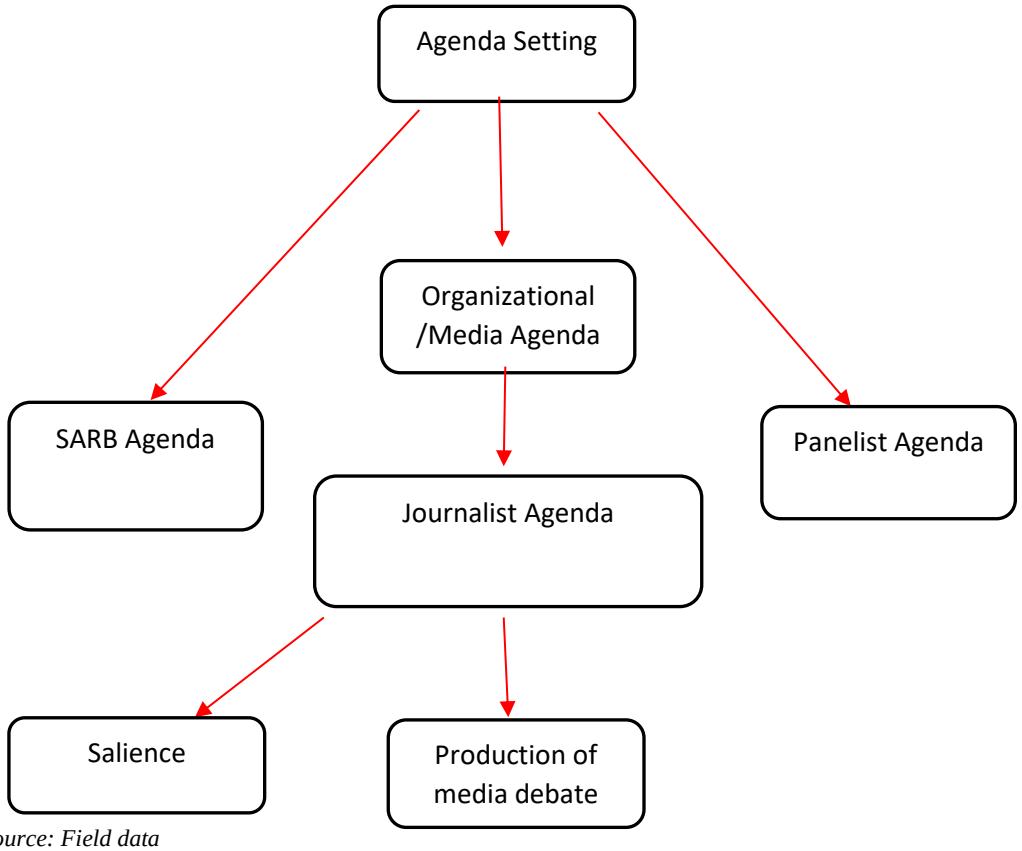
Meanwhile, Entman's (1993: 52-53) work on framing advances that, frames have at least four locations in the communication process: the communicator, the text, the receiver, and the culture. Because the role of frame analysis is to illuminate the precise way in which influence over a human consciousness is exerted by the communication, the thesis focuses on the communicator namely CNBC Africa and the text that is broadcast inform of the transcribed videos.

Franzosi and Vicari (2018) recently advanced that frames aid in describing problems, identifying causes, branding moral judgements and proposing explanations. Relying on this notion, the thesis can identify which issues are accorded more airtime during the CNBC Africa MPC panel discussions in an attempt to explore what the causal interpretations between the MPC and

the CNBC panel are. Consequently, Franzosi and Vicari's (2018) submission support salience under agenda setting in exploring what the media accords more attention during the CNBC Africa panel discussions. The ideas of dual process theory will be explored through questionnaires and interviews with the producers to get insights into the panelists' invitation process.

Meanwhile, the thesis also explores ideas on sociology of news production (McNair, 1994) who looked at the frequency of news sources who in this research amount to the panelists. Relying on McNair's (1994) work, this research examines the sociological aspects of news production backed by his argument that journalistic discourse is shaped by the information management activities of 'extra-media' social actors.

Step two of the theoretical framework



Source: Field data

As the second diagram illustrates, agenda setting will unpack the different agendas various parties in the MPC coverage aim to drive.

After exploring how the CNBC Africa MPC panelists are chosen, the thesis explores the salient matters during the panel discussion. Now salience can be measured using "key words in context" as will be explored in the literature review and it is this concept that will be used to unpack the salient issues during the panel discussions.

Looking at the frequency of word use, the thesis can conclude on the most salient issues during the panel discussions.

Complementary to agenda setting, Cowling and Hamilton's (2011) study on the AMLive debate programme, "the After Eight Debate" describes the characteristics and traits of the professional practice of its journalists with emphasis on the concept that came to be known as orchestration when producing media debate. Cowling and Hamilton (2011) show that the journalists at the broadcaster operated not only as traditional gatekeepers but also as facilitators of media debate. In view of this duty, the thesis explores the role of journalists in the CNBC Africa MPC panel discussion with emphasis on the panelist selection process. From a theoretical standpoint, the panel moderator would 'orchestrate' the debate in a manner that is aligned with what CNBC Africa holds salient.

In exploring the variances between CNBC Africa's MPC coverage and SARB MPC decisions, the thesis will rely on agenda setting with emphasis on salience as a concept. However, concepts of dual process theory under framing will explore to unpack the panelists decision-making process in inviting panelists to the panel discussions.

CHAPTER FOUR

This chapter expounds on the theoretical and conceptual foundations for the thesis, exploring the theoretical location of the thesis in contrast with the theoretical concepts discussed earlier. With a triangulation of dual process theory, production of media debate and agenda setting theory, this chapter will apply the theories explored under the literature review to examine the role of journalists in media production and understanding the panelist selection process in addition to exploring salient features in CNBC Africa's MPC panel discussions

The chapter will also explore the existing literature in the context of production of media debate and analysis of broadcast media. The thesis also explores work around 'key words in context' as a means to analyse the panel discussion videos in addition to psychological and sociological scholarship that can be used to unpack the newsroom process of guest invitation.

LITERATURE REVIEW

As indicated in the previous sections, this research is in the media-finance scholarship and with emphasis on the media-generated debates around the South African monetary policy. Using selected theories of media studies, the researcher examines the process undertaken to choose panelists for CNBC Africa's MPC panel discussions and whether there are variances between the coverage and the MPC decisions. As indicated in the theoretical framework above, the thesis leverages the theories of media framing encompassing the Dual Process Theory (DPT) and agenda setting along with media and public debate concepts to respond to the research questions. It is thus important to undertake an in-depth review of these theories and the concepts thereof.

In unpacking the role of journalists in production of media debate in relation to the SARB's Monetary Policy decisions, the thesis will rely on media theory on the production of media debate to explore the production process. This will however be complemented with the media framing theory and the Dual Process Theory (DPT) to explore the psychological aspects of inviting guests to the CNBC Africa MPC panel discussions. In understanding the psychological aspects the thesis will be able to unpack the decision making process followed in inviting guests to the panel discussions; is it intuitive or explicit thinking?

As the research also explores the salient variables which stand out during CNBC Africa's MPC panel discussion coverage, this section of the thesis discusses salience as a key feature in the media today from both the agenda setting and media framing end of things. More importantly, between 2014 and 2017, what topics have come out as salient in CNBC Africa's MPC panel discussions?

Media Framing

Media framing forms the foundation of the theoretical scholarship for the thesis as ideas such as DPT fall under media framing theory. To this end, media framing will primarily address the questions around panelist invitation for the CNBC Africa MPC debates.

In 1972, Bateson presented one of the earliest theoretical conceptualisation of modern day framing theory as a paper he had authored in 1954 in his collection, "Steps to an Ecology of Mind." Goffman (1974) supplemented Bateson's works deducing that frames are "schemata of interpretation." Therein Scheufele (2000: 66) concludes that, "a frame can be looked at in three ways: (1) as a cognitive complex of issue-related schemata for different aspects of reality, (2) established in public or inter-media discourse, and (3) becoming manifest as a textual structure of messages such as press releases or newspaper articles."

Scheufele & Tewksbury (2007: 12) also submit that,

> "The way individuals classify information also adds to the framing theory and framing is a macrolevel and a microlevel construct. As a macro-construct, the term 'framing' refers to modes of presentation that journalists and other communicators use to present information in a way that resonates with existing underlying schemas among their audience."

Because the media framing field has been shaped by other disciplines such as the interaction of micro-level and macro-level variables in sociology, (Modigliani and Gamson, 1987) framing theory is ideal for the study. For instance, at the micro-level, one can look at the individual texts produced on the CNBC shows while at the macro-level; one can consider the impact of the CNBC shows on the audiences more generally.

Scheufele, (2000; 2003; 2004) reveals that cognitive schema either denotes to a singular object or a relationship between objects but more importantly, schemata that set up a frame refer to different classes of objects or relations (Goffman (1974).

In addition, for mass communication, framing relates to the contextualization of news items in familiar settings. Arowolo (2017: 4), however, argues, "Framing focuses on how media draws the public's eye to specific topics – setting agenda, and then it takes a step further to create a frame, through which the audience will comprehend such information."

Entman (1993: 52-53) however reasons:

> "Frames have at least four locations in the communication process: the communicator, the text, the receiver, and the culture. The role of frame analysis is to illuminate "the precise way in which influence over a human consciousness is exerted by the transfer (or communication) of information from one location-such as a speech, utterance, news report, or novel-to that consciousness." Rhetoric has very little to say about the receiver and consciousness. It mostly focuses on texts. So, we too will focus closely on texts, ignoring the literature on framing effects, on how slight changes in wording may affect people's consciousness."

Over the years, the premise that media houses provide audiences constructed versions of reality has been central to communication, media, and cultural studies (Franzosi and Vicari, 2018). As pointed out the context section for instance, the media coverage of the MPC offers a version of reality that might be at variance with the MPC decisions themselves. Tuchman (1978: 1) delivers one of the first deployments of the word "frame," establishing that, "News is a window on the world. Through its frame, Americans learn of themselves and others…"; "the media set the frame in which citizens discuss public events"; "news … imposes a frame for defining and constructing social reality." Through this scholarship, frames such as SARB interest rates as covered in the media form an avenue for public deliberation as the frame fosters salience.

Gitlin (1980:6), however popularised the work of Tuchman (1978) theorising that frames as depicted by the media would soon surpass personal experiences. "What makes the world look beyond direct experience is a media frame. Media frames are then structures of cognition and interpretation" (Gitlin, 1980: 22.)

Entman (1993: 52) determined that to frame, “is to select some aspects of a perceived reality and make them more salient in a communicating text, in such a way as to promote a particular problem definition, causal interpretation, moral evaluation, and/or treatment recommendation for the item described”. Franzosi and Vicari (2018) later reveal that frames help to describe problems, identify causes, brand moral judgements, and propose explanations.

Their work in line with Tuchman (1978) who had earlier demonstrated certain linguistic facets of news (1978:106) such as short paragraphs and sentences, insistence upon facts, news as stories often constructed round “the who, what, when, where, why and how with the story line in the past tense and headline in the present in a bid to explore framing quantification.”

However, how to measure frames has remained a contentious issue over the past 50 years. Entman (1993:51) submits, “Despite its omnipresence across the social sciences and humanities, nowhere is there a general statement of framing theory that shows exactly how frames become embedded within and make themselves manifest in a text, or how framing influences thinking.”

We should note that Entman does not make any substantive progress with measuring frames. Gamson and Lasch (1983: 401) however make progress in this regard with the premise to “provide a set of stringent definitions of concepts, arrange these concepts in order of decreasing abstraction, and propose the categories of the signature matrix as the coding scheme for a content analysis of media material.” Gamson and Modigliani 1987, 1989) later supplemented this with their groundbreaking work analysing media engagement around affirmative action in 1987 and nuclear power discussion in 1989.

Using systematic sampling of media content, on the basis of the conceptual apparatus of the signature matrix as their coding scheme, Gamson and Modigliani (1989:11) advance a qualitative analysis of textual material which aids readers to form their own independent judgments on the validity of both affirmative action in 1987 and nuclear power discussion in 1989.

Framing is traced back to both psychology and sociology (Pan & Kosicki, 1993) with the psychological origins lying in the experimental work by Kahneman and Tversky (1979, 1984), for which Kahneman received the 2002 Nobel Prize in economics.

They examined how different presentations of essentially identical decision-making scenarios influence people's choices and their evaluation of the various options presented to them. In decision-making and psychology, "the schema" also emerged as an alternative to how readers use prior knowledge to comprehend and learn from text (Rumelhart, 1980). This definition was complementary to the submission by Barlett (1932: 3) who argued that schema is "an active organization of past reactions or experiences." In a nutshell, these foundational concepts within the broader media framing tradition suggest that decisions and perspectives by CNBC journalists and panelists are heavily informed by long-held schemas.

The media framing theory takes stock of two important principles: the act of framing (framing as a verb) and the frames that emerge from the said framing active (frames as a noun). Both perspectives can be studied from the point of view the structural elements of framing. Pan and Kosicki (1993) classified framing devices present in news discourse into four structures: syntactical, script, thematic, and rhetorical. Syntactical structures refer to the patterns of arrangement of words and phrases into sentences. Scripts refer to the narrative elements of a text, "the familiar five Ws and one H in news writing: who, what, when where, why and how," a structure also known as story grammar (Pan and Kosicki, 1993: 60).

Thematic structures define how an issue, a theme, rather than actors and actions (a story), is discussed through hypothesis-testing elements. Finally, "rhetorical structures of news discourse describe the stylistic choices made by journalists in relation to their intended effects." (Pan and Kosicki 1993: 61). Because this thesis is focused on the decisions made by news producers in selecting panelists for the MPC debate, thematic and rhetorical structural levels of media framing are found much more applicable than the syntactical and script structural elements.

The theoretical progression of framing benefited immensely from the works of Tuchman (1978) who examined a core aspect of the news: the fact that framing is based on media organizational need for "routinizing of the unexpected." She conceptualised this phenomenon as the "typification" of news.

Franzosi and Vicari (2018) in agreement reveal, this noting that the phenomenon can be summed up in the classification of news in predictable and familiar categories, such as soft and hard news, spot news, developing and continuing news, what a story!), location of news bureaux, professionalization of journalists, "web of facticity" (i.e., the focus on events rather than issues). This definitely appeals to CNBC Africa's MPC panel discussions as the MPC meetings are an event for economic journalists that fits a "hard news" frame and this is undoubtedly reflected in the choice of panelists invited for the commentary.

Gitlin (1980) in agreement did a qualitative study on media content, rather than media organizations examining news clips for "framing devices" used by the New York Times and CBS News to describe the Students for a Democratic Society movement of the 1960s.

It is important to note that the frames evolve with time as highlighted by Gitlin (1980:27-28)

> "These change from early trivialization, polarization, emphasis on internal dissention, marginalization, disparagement by numbers and by movement's effectiveness to later "reliance on statements by government officials and other authorities; emphasis on the presence of Communists; emphasis on the carrying of 'Viet Cong' flags; emphasis on violence in demonstrations; delegitimizing use of quotation marks."

A key element of this thesis is video data analysis as the research explores what CNBC Africa MPC panel discussions deem salient. Different types of attributes typify media frames such as subtopics, framing mechanisms, affective elements and cognitive effects (Craft & Wanta, 2004) (McCombs et al., 1997).

Framing manages to explore salience showing that, is the "central organizing idea for making sense of relevant events and suggesting what is at issue," (Gamson, 1989: 157). Using this premise, the thesis can explore what CNBC Africa deems as "the issue" during its MPC panel discussions and whether this is a going concern over the time under review which is between 2014 and 2017.

Ghanem, (1997: 10) affirms noting that,

> "Framing mechanisms deal with the emphasis given to topics in the media, such as placement and size as well as other elements that influence the prominence of a news item. Framing mechanisms have been shown to more effectively measure the amount of media salience for news stories. By adding additional variables that can account for articles that have been given special prominence or placement, more realistic measurements of media salience can be calculated. For instance, a framing mechanism technique might call for the measurement of news articles' length in seconds or words. Another measurement might record when or where an article or news story runs in space or time."

Entman (1993: 56) however cautions that, "Journalists may follow the rules for 'objective' reporting and yet convey a dominant framing of the news text that prevents most audience members from making a balanced assessment of a situation." This conclusion summing up the crucial journalistic role in passing on balanced frames to the audience.

Psychological aspects of media framing: dual process theory and the slow and fast thinking

The psychological dimension of media framing is particularly useful for the proposed study as it lends itself explicitly to decision making with regards to the selection of panelists. The leading proponents for this cognitive, decision-making perspective in framing are Amos Tversky and Daniel Kahneman, whose works have been drawn on by scholars in diverse fields including in journalism and media studies. Tversky and Kahneman (1992) mooted the dual process theory, which has been expounded on as the concept of slow and fast thinking (Kahneman, 2011).

Despite the immense contribution by Kahnemann and Tversky (1992), Bateson (1972: 197) had managed to link psychology to framing long before noting that psychological frames are "spatial and temporary bounding of set of interactive messages that operates as a form of meta-communication." In the context of this thesis, the decisions on the panelists invited to unpack MPCs are based on the psychological mind frames of journalists.

Both the dual process theory and the fast and slow thinking concept tell us that our brains work in a fast and intuitive way (think walking, someone's reaction when they are shocked by electricity, eating) which is named System 1 (Kahneman, 2011).

On the other hand, system 2 is the slow brain; the one that takes its time in making decisions and executing actions (think math problems, writing a sales report). In framing terms, system 2 or slow thinking appertains everything that requires extra cognitive effort before a decision is taken.

Because the thesis will use the framing concepts of dual process and fast and slow thinking, is worthwhile illuminating what they mean and how they are envisaged to work. **System 1** is understood as the fast, intuitive, implicit, automatic and subconscious cognitive process (Kahneman, 2011). It operates automatically and quickly, with little or no effort and no sense of voluntary control (Kahneman, 2011). Because system 1 is automatic, quick and with little or no sense of voluntary control, it is prone to biases, errors, impressions, feelings (Kahneman, 2011). It tries to reach to the conclusion as soon as possible and thus generates a complex system of ideas, mental constructions and interpretation of stories. Perhaps more significantly, system 1 can influence how system 2 works if unchecked.

In contrast to system 1, system 2 is marked by slower, deliberative and explicit or controlled thinking in a process that is much more conscious. System 2 is deliberate and rational but lazy.

It involves huge bandwidth of effort and unlike System 1, which is the essence of its laziness.

The concepts of dual process and slow and fast thinking are related but distinct. The value of the dual process theory, sometimes referred to simply as DPT as explained by Kahneman (2011) establishes the relationship between system 1 and system 2. After gaining a particular skill set system 1 generates intuitions, which it may pass on to system 2.

The dichotomies that are envisaged in the dual process theory and the fast and slow thinking concept are germane to investigating how CNBC Africa editors decide on the analysts and commentators invited to their studio during the special MPC coverage. The researcher hypothesizes that the decisions are slow as many variables go into inviting panelists such as their availability, where they work, whether they have media training and many others therefore

deploying system 2. But the core variable being availability. The researcher also hypothesizes that initially, system 2 is used but overtime, the decision-making on who to invite becomes routine practice therefore using system 1. If that is the case, then the dual process theory and fast and slow thinking concept will aid in the process of unpacking the frequency of certain panelists on the MPC debate as opposed to others. It will also inform the researcher if at all the routine exercise of MPC debate panelist invitation ultimately fuels system 1 in their panelist invitation process.

It can be argued that the dual process theory and the fast and slow thinking concepts can be conceived of as "frames in the mind" (Kahneman, 2011: 453) making the theory ideal in examining the choice of panelists. In addition, the researcher has identified a gap in relation to the use of the dual process theory and the concept of fast and slow thinking in media studies that appropriate psychological aspects. The inclusion of the two concepts can therefore contribute to the media framing literature, as it will examine psychological frames in media production of debate. In addition, media framing has been looked at from a media perspective but not many scholars have used the conception of slow and fast thinking in the media space to unpack media practitioner's decision-making processes.

Sociology of news production

In his ground breaking work to unpack the sociology of news production, McNair (1994) investigated the frequency of news sources who in this research amount to the panelists and relying on his work, this research will examine the sociological and psychological aspects of news production.

McNair (1994) argues that journalistic discourse is shaped by the information management activities of 'extra-media' social actors. Using this notion, it is clear that extra media activities such as a panelist's availability goes a long way in earning them an invitation to the CNBC Africa's MPC panel discussions. However, "extra-media" activities may take on various variables such as pressure to deliver as stipulated by the organisational editorial line. McNair (1994) advances, that the organizational-theoretic argument is that as a result of the extraneous 'timetabling demands of a news organization', 'journalists position themselves so that they have ready access

to institutions which generate a useful volume of reportable activity at useful intervals' putting it under the organizational approach.

Relying on McNair's (1994) submission, it is clear how CNBC Africa's producers might find themselves relying on system 1 (see Kahnemann, 2011) to produce the MPC debates as opposed to a more deliberate debate production process characterized by a more explicit process can conceptualized as system 2 by Kahnemann (2011).

However, in unpacking the sociology of the media debate production, it is crucial to understand the role 'objectivity' in debate production and often, this is achieved through opposing views. Tuchman (1972) establishes that opposing sources are counter-balanced in the journalists' 'strategic ritual of objectivity' and with this premise, this provides for an impartial MPC debate. In addition, by having opposing figures on the debate, the journalists can effortlessly 'fact-check claims' without necessarily entering or steering the argument.

Lau (2004: 702) establishes that, "finding facts entail[s] demonstrating impartiality by removing oneself [the journalist] from a story' by means of attributing the 'fact'- claim to a source." In a bid to understand the choice of panelists, this thesis will use the sociology of the news as examined by Tuchman (1978: 18–24) who conceptualises the choice of news sources as a 'news net' at centralized institutional sites. Tuchman (1978) also reveals the phenomenon of 'logical locations' where stories might be expected to occur and for the purpose of this thesis, the notion of 'logical locations' can be interpreted as established financial institutions which have an abundance of macroeconomic and monetary policy commentators. In addition, Lau (2004: 704) admits that source dependence can easily be attributed to more simple and generally practical reasons arguing that, "dependence on establishment sources seems at least partially premised upon the news values of amplitude and elite-centeredness. A president's statement is generally privileged over statements of small pressure groups because, if for no other reason, of their differential impact."

Upon this premise, it is clear that the monetary policy commentary of a seasoned economist at an established macroeconomic institution would have more appeal than one from an upcoming one. These sociological considerations would undeniably be variables to study when inviting panelists to the CNBC Africa panel discussions.

Agenda Setting

Agenda setting refers to the idea that there is a strong correlation between the emphases that mass media place on certain issues, which in turn the masses perceive as the most pressing issues in society (McCombs and Shaw, 1972). Agenda setting is core to the thesis as the research explores the matters accorded emphasis during the CNBC Africa MPC panel discussions in form of graphic representations during the broadcast and matters emphasised by both the panel host and participants. Agenda setting looks to see if the media control what topics the public holds salient.

The conceptual definition of salience as it is understood today is the founded on the ground breaking study that was first hypothesised in 1972 when McCombs and Shaw studied the1968 presidential campaign (McCombs & Shaw, 1972). In the study, McCombs and Shaw (1972) explored which issues voters perceived as important and they hypothesized that the media influenced the rank of importance of people's top issues in the campaign, and that the coverage would ultimately influence the perceived importance of those issues to the viewers. The study later confirmed their hypothesis revealing a relationship between what made news headlines and the public's perception of the most pressing issues for the country.

Over the past fifty years, agenda setting scholars have examined the "cross-legged relationship" between mainstream media and how they may set the agenda of the public (Servin & Tankard, 2001) and findings have revealed that agenda setting has linked the public's perception of what is important to issues mentioned in mainstream media. This is a phenomenon, conceptualised as salience. Vargo (2018: 1) determines that, "in agenda setting, the measurement of issue salience measures the significance of real-world issues, stories or events.

The two most common measurements of issue salience are measurements of the public's agenda and the media's agenda."

The past thirty years have seen media salience pegged as a significant autonomous variable of agenda-setting research (Kiousis, 2004) with the association between the dependent variable, issue salience and media salience being a primary analysis point of agenda setting.

In the process of news production and selecting which news items to publish while ignoring others, the media attempt to influence the public and public policies.

McCombs, (1977) underscores that, the media, while not telling people what to think; they tell people what to think about. The ability to set an agenda through what the media publishes as 'news' acts as the foundation for the agenda setting theoretical framework. Dearing and Rogers (1996: 1-2) further advance that, "the agenda setting process as an ongoing competition among issue proponents to gain attention of media professionals, the public and policy elites. Agenda-setting offers an explanation of why information about certain issues, and not other issues, is available to the public in a democracy." Through selecting what makes the news, Scheufele and Tewksbury (2007: 11) deduce that "mass media can also shape peoples' considerations in making judgments about political candidates or issues."

Agenda setting will address the agenda set by the SARB and that set by CNBC Africa during the panel discussion. Agenda setting will examine the two agendas brought forward by both CNBC Africa and SARB making the theory crucial in understanding whether CNBC Africa deems some issues from the MPC announcement more 'significant' than others. The researcher hypothesizes that CNBC Africa focusses more on the interest rate actions at the expense of inflation yet SARB's mandate is primarily focused on arresting inflation. Agenda setting will show whether there is confluence between the SARB and CNBC Africa or not. Agenda setting will therein be used to unpack the coverage of SARB MPC decisions by CNBC Africa by understanding what CNBC Africa holds 'salient' in its coverage and from the policy perspective, agenda setting will aid the researcher unpack what SARB holds salient.

The researcher will use agenda setting to analyse the MPC videos looking out for what the moderator held salient from the SARB Governor's speech. The researcher hypothesises that CNBC

Africa holds the interest rate policy actions from the SARB salient from the presentation and agenda setting will confirm or reject this hypothesis. Interest rates in this case refer to whether the Governor announces a hold, drops or hike in interest rates. As the Governor's speech is a forty-minute presentation, not all the contents of his speech are deliberated on the panel discussion. It is then the duty of the CNBC Africa editorial team and panel moderator to concentrate on what constitutes news and leaving out what does not.

Agenda setting theory will link with media theories on production of media debate in examining and analysing the content to unpack the journalistic ideals in the MPC panel discussion.

Production of Media Debate

Production of media debate examines journalistic practice in light of the archetypes and ideals of journalistic practice. Cowling and Hamilton (2011) establish that, production of opinion, analysis and debate entails a different set of processes from the practices employed in news production.

Attempting to understand media production of debate would be impossible without first defining what is meant by the public sphere:

> "By 'the public sphere', we mean first of all a realm of our social life in which something approaching public opinion can be formed. Access is guaranteed to all citizens. A portion of the public sphere comes into being in every conversation in which private individuals assemble to form a public body." (Habermas, 1984: 49)

Habermas (1989) was however doubtful about the ability of the modern day media houses to take on the mantle of critically engaging the public sphere. In his later counter position, Habermas (2006. 411) suggests that the media can accomplish the role. Thus, the media remain central to public communication, by providing a forum for public deliberation (Berger 2005). In their 'gatekeeper' capacity, journalists are often seen as facilitators to productive debate in a functional democracy and cardinal to this role, is the ability to keep the discussion on course and impartial.

As Cowling and Hamilton (2011) advance, “to extend this conception to opinion and analysis is to imagine an arena in the media for discussion, with journalists allowing speakers and topics in, but not interfering with what they cover and how their views are expressed.”

The ability to facilitate debate in an impartial manner therein remains cardinal to the rationalization of public debate production.

More importantly, the research reveals an emerging relationship in the CNBC Africa MPC panel discussion as ‘orchestration’ can guide the conversation towards what CNBC Africa as a media house deems ‘salient.’

Although journalists are considered the ‘gatekeepers’ Shoemaker (1997: 57), Cowling and Hamilton (2010) present a supplementary concept (in regards to public debate production) arguing, “Journalists act not as gatekeepers, but as conductors of the dynamics of debate. We have conceptualized this process as ‘orchestration.’ ‘Orchestration,’ which appeals specifically to opinion, analysis and debate in the media, highlights the role of journalists not only as mere gatekeepers, but also ‘conductors’ of the dynamics of discussion, selecting the participants, the issues to be discussed and the manner in which they are addressed.”

In this regard, journalists are appreciated as enablers to debate as they keep the discourse from deviating. In regards to the CNBC Africa MPC panel discussion, this will be an avenue to explore, as the study will examine the orchestration and ‘enabler’ stature of the moderator of the discussion to provide for a conducive platform for macro-economic discourse. This notion is avowed by Jackson-Beeck and Meadow (1979: 179) who in answering the question, "For whom are debates held?" alluded to the fact that the fundamental question is the cornerstone of democracy as commentators and sectoral leaders comment on policy actions in a 'Habermasian' public space.

Cowling and Hamilton (2011) however determined that a significant constituent of the production process is the decision-making power and practice of journalists and other media producers as conceptualised by Shoemaker (1997) to be the ‘gatekeepers.’

Cowling and Hamilton (2011: 4) submit,

> "Initially predicated on a simple notion of one individual having the power to make decisions based on his or her personal preferences (opening or closing the gates), research has shown that the gatekeeping process is highly complex and that different individuals are inclined to make similar selections of news reports."

In addition, the gatekeepers, therefore, do not make decisions idiosyncratically, but rather function from a proficient and agreed set of standards, which take into consideration a number of variables. Shoemaker (1997: 291) reveals, "These range from deadlines and technical factors to organisational influences and professional ideologies." Vastly significant considerations come in play such as the journalistic professional ideology and normative values, concepts and practices that regulate journalist's conduct (Cowling and Hamilton, 2011).

Cowling and Hamilton (2011) study on the AMLive debate programme, "the After Eight Debate" describes the characteristics and traits of the professional practice of its journalists.

Cowling and Hamilton (2011) submit, "The investigation of a controversy around the selection of commentators in 2006, in which the journalists and producers of AMLive were active protagonists, further illuminates their values and understandings of their journalistic role." The research findings exposed that the journalists at the broadcaster operated in a manner that observed the awareness of both themselves and the public. The study concludes, "They did this both by producing news reports and by producing debate on issues arising from the news, or issues that the team decided were important or of common interest (Cowling and Hamilton, 2011). As endorsed by (Soloski 1997), the journalists' awareness of their gatekeeper role remained in line with the studies of journalistic work across numerous newsrooms. Nevertheless, while examining the production of the "After Eight Debate,"

Cowling and Hamilton (2011) recognize practices that diverge noticeably from orthodox gatekeeping practices in many newsrooms.

> "They note that callers are coached into making cogent points and challenged to support them, pushing them beyond simple statements of opinion. The presenters also provided context for the points under discussion and made sure that all the potential positions were set out and engaged. The interventions of the presenter were directed towards the dynamics of the argument, not the content. In other words, the protagonists could present any arguable position, but they had to be able to argue it rationally, presenting reasons and evidence for their ideas," Cowling and Hamilton (2011).

It is clear that the journalists' involvements went outside the orthodox norms of journalists as providers of an abstract platform for view and opinion.

In this case, the producers and journalists went beyond being mere 'gatekeepers' as they steered and provided oversight for the on-air deliberations in harmony with the audience in a concept Cowling and Hamilton (2011) conceptualise as 'orchestration'. Cowling and Hamilton (2011) establish that, "Orchestration in the is a set of practices that is not simply the shaping of debate through the general operations of media production, in which production is conceived of as limiting and framing – orchestration is productive and constitutive."

CHAPTER FIVE

This chapter presents the methods deployed to collect the data needed for the study in addition to a descriptive examination of the materials gathered. As the study aims to explore salience during the CNBC Africa MPC panel discussions in addition to the panelist selection process, data collection is critical to the study. As revealed in the literature review, the study will rely on theories ranging from sociological to psychological and to that end; the chapter will flesh out the qualitative and quantitative methods that will be used to collect the data relevant to the study.

Methodology

Research methodology is a systematic way to solve a problem with attention on procedures by which researchers go about their work of describing, explaining and predicting phenomena (Rajasekar et al, 2013).

This section will examine the process of unpacking the data collected by the researcher in form of the CNBC Africa MPC videos between 2014 and 2017 in addition to procedures of collecting the research data. The researcher will justify the choice of qualitative and quantitative research methods providing an overview of the method and key definitions in both therein and defend the choice for using content analysis. As discussed in the historical background, most of the research around social aspects of central banks have focused solely on mere communication strategies of central banks and not the media's engagement. In that regard, this study will deploy methodological triangulation to examine not only how panelists are chosen for the CNBC Africa panel discussions on MPC decisions but also look into what CNBC Africa deems salient in their coverage and in so doing, provide for a cross examination of theory and practice. 'Triangulation' refers to the combination of two or more theories, data sources, methods or investigators in one study of a single phenomenon to converge on a single construct, and can be employed in both quantitative (validation) and qualitative (inquiry) studies (Yeasmin and Rahman, 2012).

In addition, social sciences triangulation is defined as the mix of data so that viewpoints cast light upon topics. In mixing the data types and methodologies, such as use of survey data with interview a more holistic deduction can be made (Olsen, 2004). Some of the earliest deployment of methodological triangulation can be seen in the work of Lenin (1898) where he uses a mix of

quantitative data tables alongside political economy analysis in his research monograph, "The development of capitalism in Russia (1898)."

Lenin, who was a vocal critic of the bourgeois political economy, managed to unpack the shortcomings of the capitalist economy and ultimately capitalism using triangulation. Olsen (2004: 3) establishes that, "We would today say that Lenin used methodological triangulation of discourse analysis and survey data to study the end of the Russian peasantry and early beginnings of working class conflict with employer in Russia." This approach is supported by Zhang and Wildemuth (2009) who submit that both qualitative and quantitative are not "mutually exclusive" and can be used in combination given that they validate the study hypothesis.

As submitted by Olsen (2004), triangulation is not aimed merely at validation but at deepening and widening understanding. In order to understand the SARB's MPC work as this thesis sets out to, a holistic approach which examines multiple facets is explored so as to study not only the process of guest invitation but also, what is comes through as salient though the CNBC Africa MPC panel discussions. In addition, because the literature review deployed theoretical triangulation, methodological triangulation is a coherent approach in answering the research problem.

As the research looks at MPC panel videos from 2014-2017, the triangulation method of quantitative content analysis and qualitative content analysis will be used. Qualitative research is concerned with qualitative phenomenon involving quality while quantitative research is explains phenomena according to numerical data which are analysed by means of mathematically based methods, especially statistics (Yilmaz, 2013). The research will also present a description of how the data was collected and the steps taken to analyse the collected data.

Quantitative research

Aliaga and Gunderson (2002: 4) establish that, "quantitative research is an inquiry into a social problem, explain phenomena by gathering numerical data that are analysed using mathematically based methods e.g. in particular statistics." Creswell (2003: 18) complements this highlighting that, "a researcher primarily uses a post-positivist approach to develop knowledge when quantitative research is selected (i.e cause and effect thinking, use of measurement and

observations, and test of theories), employs strategies of inquiry such as experiments and surveys, and collects data on predetermined instruments that yield statistical data."

An essential aspect of quantitative research is that it is informed by objectivist epistemology and thus seeks to develop explanatory universal laws in social behaviours by statistically measuring what it assumes to be a static reality (Yilmaz, 2013) and this is essential in examining data sets, which are already predetermined such as salient features in a broadcast through analysing frequency. Quantitative methods will be vital in answering what CNBC Africa hold salient during their MPC panel discussions by using instruments such as surveys, which we turn to next.

Survey questionnaire

In attempting to unpack how CNBC Africa producers choose the panelists for the panel discussions, the study will have surveys in form of questionnaires handed out to producers as the primary source of information. Survey methodology will be used to collect data for the purpose of this research relying on previous work of Saunders (2003) to inform the researcher's data collection method. Zikmund (2003) defined survey methodology as a method of gathering primary data based on communication with a representative sample of individuals.

In support for survey research, Herbert McClosky (1969) establishes that a survey research is any procedure in which data are systematically collected from a population or a sample thereof through some form or direct solicitation, such as face to face interviews, telephone interviews or mail questionnaire. Platt (1972: 77) established that survey research is a "technique of data collection that is the systematic and structured questioning, either by interview or by questionnaire, of relatively large number of respondents, e.g. public opinion polls, consumer behaviour research, census of population." In addition, Kerlinger (1973) expounded that survey research as social scientific research and focuses on people, the vital facts of people, and their beliefs, opinions, attitudes, motivations and behaviour.

Over the past century, survey methodology has established itself as an ideal data collection method given its exceptional response rate and this is another reason the researcher chose surveys as a data collection methodology. For example, Pikkarainen et at (2004) conducted 427 questionnaire which were delivered to respondent by post in which 268 were returned showing 63% response rate.

As established by Shoemaker and McCombs (2003: 231), “a survey is understood as a study that collects information by asking people questions” but in order to tally the gathered information in digestible and consumable data, the information gathered by from the questionnaires will be scored in charts and infographics.

The study will use the Worlds of Journalism Study (WJS) masters questionnaire as a focal point for the questions. Because the WJS questionnaire has been deployed in numerous journalism surveys, it provides the perfect benchmark for extracting information from the CNBC Africa producers. Hanitzsch (2007) notes that, the WJS survey questionnaire of journalistic roles has been extensively employed in many national and cross-national comparative studies of journalists in more than 60 countries including at least 9 African countries: Botswana, Egypt, Ethiopia, Kenya, Malawi, Sierra Leone, South Africa, Sudan and Tanzania. In addition, the fact that the WJS is proven across numerous geographical spectrums adds to its credibility as a formidable foundation for extracting journalistic information.

In a bid to avoid generic answers which are disconnected to the research spectrum which is focusing on the production of media debate, the questionnaire is structured with tailor made responses inform of multiple answers.

Relying on the WJS format survey questionnaire, the variables that inform the producer’s decision-making process whilst inviting panelists to the MPC panel discussion will be examined. This is achieved with structured questions such as: What informs CNBC Africa’s choice for South Africa Reserve Bank (SARB)’s MPC coverage panelists? 1. Newsroom consensus, 2. Editor’s decision, 3. Availability, 4. Panelist’s workplace 5. Panelist’s title. In so doing, this provides for a range of options in line with the research objectives.

Upon this background, the study collected information on the variables producers consider before inviting a panelist to the CNBC Africa MPC panel discussions.

A total of 5 sample surveys and semi-structured qualitative interviews were conducted all focusing on the editorial considerations pondered before inviting a source to the MPC panel discussion.

Table 1: CNBC Africa interviewees and Quota Sample Response Rates

	Name	Position	Number of responses	Response rate
1	Karabo Lethlathla	Reporter/Producer	8	100%
2	Amogela Modise	Producer	8	100%
3	Lubabalo Mashiqana	Reporter/Producer	8	100%
4	Chris Bishop	Head of Programming	8	100%
5	Monique Vanek	News Editor	8	100%
Total	5		100.00%	

Source: Field Data

Through the tallied responses, the study will highlight what variables or factors inform CNBC Africa's producers to invite the panelists they invite and these range from mere media training of the panelist in question to macroeconomic knowledge (see appendix 4).

As established by Hansen et al. (1998: 7) the survey method still endures in media studies as a significant pillar in media studies and remains being a backbone for journalistic research.

In a bid to categorise survey research, Kraemer (1991:20) identified three distinguishing characteristics of survey research. "First, survey research is used to quantitatively describe specific aspects of a given population. These aspects often involve examining the relationships among variables. Second, the data required for survey research are collected from people and are, therefore, subjective. Finally, survey research uses a selected portion of the population from which the findings can later be generalized back to the population."

Meanwhile, Glasgow (2005: 14) outlined the objectives of a survey highlighting that, "survey research is used to answer questions that have been raised, to solve problems that have been posed or observed, to assess needs and set goals, to determine whether or not specific objectives have been met, to establish baselines against which future comparisons can be made, to analyse trends across time, and generally, to describe what exists, in what amount, and in what context."

A total of 5 quota sample surveys interviews were conducted, involving producers and editors at CNBC Africa. Visser (2011) submits that, quantitative content analysis involves the reporting of results in numerical terms or by using statistics; the method will encompass the counting of articles and keywords.

Wimmer and Dominick (2000: 106) clarify:

> "Quantitative researchers generally follow a deductive model in data analysis: Hypotheses are derived prior to the study, and relevant data are then collected and analysed to determine whether the hypotheses are confirmed or not confirmed."

Upon collection of the questionnaire data (see appendix 1), the quantitative approach was used in line with the Dual process theory to understand which percentage of the CNBC Africa producers used system 1 and which ones used system 2 in deciding the panelists to invite.

Qualitative research

The thesis explored the dynamics that influence CNBC Africa producers when inviting panelists for the CNBC Africa panel discussions. A qualitative method was used to collect this information from the producers. Specifically, a semi-structured interview was conducted with 5 of the CNBC Africa producers with questions ranging from what informs their decisions whilst inviting panelists. The purpose of this approach was to unpack the whether the process is explicit or implicit. This thesis therefore is a pioneer in the understanding of production of debate specifically around monetary policy as previous research around monetary policy has focused on empirical analysis of central bank communication and not media engagement.

Hsieh & Shannon (2005: 1278) define qualitative research as "a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns." Mayring (2000: 2) maintains qualitative analysis is "an approach of empirical, methodological controlled analysis of texts within their context of communication, following content analytic rules and step by step models, without rash quantification."

Patton, (2002: 453) explores the premise of qualitative analysis being "any qualitative data reduction and sense-making effort that takes a volume of qualitative material and attempts to identify core consistencies and meanings."

In an effort to understand the decision making process involved in the producer's panelists invitation processes, the study examines the responses from collected interviews in addition to interviews with the relevant producers. Interviews in this case inform the researcher on whether the panelist invitation process is implicit or explicit. In addition, an examination of CNBC Africa's MPC videos between 2014 and 2017 enables the researcher to locate the issues the producers and the presenter deem 'salient' during the MPC panel discussion. As a case study, CNBC Africa was chosen given its presence on the continent as a dedicated 24-hour business, finance and economics Television station. To this end, producers and the editors interviewed for the panel discussion act as entities of analysis, wherein data gathered from the semi-structured interviews are transcribed and condensed into units of data to unpack the debate production process. The data is represented in infographics and data sets showing the salient issues in the panel discussion and variables producers consider before inviting the panelists.

The study will rely on structured interviews for the interactions with the CNBC Africa producers. Crow (2000) submits that, structured interviews are based on a questionnaire with a sequence of questions, asked in the same order and the same way of all subjects of the research, with little flexibility available to the researcher. The major objective for structured interview is for the researcher to remain neutral and obtain comparable information from the sample space (Crow, 2000). The interviews supplemented the survey questionnaire discussed earlier which enhanced the data set in order to understand psychological aspects in line with the Dual process theory to understand which percentage of the CNBC Africa producers used system 1 and which ones used system 2 in deciding the panelists to invite.

Media content analysis

Media content analysis is a specialized sub-set of content analysis, a deep-rooted research methodology (Macnamara, 2005). Neuendorf (2002: 9) further defends that, "in the field of mass communication research, content analysis has been the fastest-growing technique over the past 20

years or so" (Neuendorf, 2002: 1). A premise supported by Riffe and Freitag (1997) whose work found that the number of content analyses published in Journalism & Mass Communication Quarterly increased from 6.3% of all articles in 1971 to 34.8% in 1995.

In addition, content analysis has been used past studies involving the media to establish its influence on public perceptions of foreign nations.

Wanta et al (2004. 364) investigated network newscasts and managed to show that they were setting the agenda for their viewers and therein influencing what their viewers perceived as salient when it came to matters of foreign nationals.

Watching the MPC videos, the researcher will use the observation approach to examine which issues are held salient during the MPC panel discussions. By examining the most frequent words in the transcribed CNBC Africa MPC videos, the study will be able to establish the salient issues during the panel discussions and this will be graphically represented.

Media content analysis is a rather elaborate process that would involve an analysis of data about media content such as topics or issues, volume of mentions, 'messages' determined by key words in context (KWIC), circulation of the media and frequency (Macnamara, 2005). Neuman (1997), in his path breaking work on social research methodology reasons, in content analysis, a researcher uses objective and systematic counting and recording procedures to produce a quantitative description of the symbolic content in a text. The study relies on Neuman's (1997) work to unpack the CNBC Africa MPC video with particular focus on frequency of "key words in context" as advanced by Macnamara (2005). By looking at the frequency of these key words, the study is able to establish the salient features during the CNBC MPC panel discussions and see the recurring theme. In answering the research question, "what variables are salient during CNBC Africa's MPC panel discussion coverage?" Frequency in the videos plays a crucial role.

In addition, to this the study also relies on the crucial work of Mayring (2000) who explicated a number of procedures for qualitative text analysis to understand the issues around computer generated content on the screen during the CNBC Africa MPC panel discussions. Among these, he submits that there are two central approaches, which are the inductive category development and deductive category application.

Mayring (2000: 14) establishes:

> "Inductive analysis involves working from specific observations of categories and patterns (e.g. issues or messages) to a broad theory or conclusion. Deductive analysis involves working from a broad theory or general position to specific observations to confirm or disprove the former."

The study will rely on a deductive analysis approach working from a general position that during the CNBC Africa MPC panel discussions, there are specific computer generated messages that are recurrent and the study moves to confirm or refute this premise.

The data collected by the researcher is in form of archived MPC MP4 videos from CNBC Africa from 2014 to 2017. The videos cover the panel discussion and the SARB Governor's speech in its entirety therein providing for three phases of the content: Pre-MPC panel analysis, MPC announcement by the Governor and the post MPC panel analysis.

In deploying content analysis, the preparation phase involves selecting a unit of analysis (Cavanagh 1997, Guthrie et. al, 2004). Elo et al., (2014: 6) submit that, "in the preparation phase of collecting suitable data, a research seeks to making sense of the data."

Using content analysis, a more observational approach will be deployed as it identifies and analyses themes in the sample therein highlighting the panelists in question. In light of the observation analysis, emphasis will be accorded to the lower third and content generators as mentioned in the literature review. .

In the television industry, a lower third is a graphic overlay placed in the title-safe lower area of the screen, though not necessarily the entire lower third of it, as the name suggests (Atkinson, 2016). Using the final third, CNBC Africa can pass on content they deem salient to their viewers.

Atkinson, (2016: 31) submits that, "in its simplest form, a lower third can just be text overlying the video. Frequently this text is white with a drop shadow to make the words easier to read." The analysis will rely on ideas from media framing and agenda setting to flesh out what CNBC Africa deems salient during the SARB MPC coverage.

The theories of agenda setting, and media framing with focus on ‘dual process theory’ will be used to break down the data exhibited during the panel discussions but also understand how the panelists are selected for the MPC coverage at CNBC Africa.

CHAPTER SIX

Results, analysis and Discussions

This chapter looks at the findings of the research together with discussions around the relevant relationship with established media and journalism theory. The chapter will conclude with a summation of the research findings and make recommendations for future research exploration in the field. The chapter breaks down the results from the data collected, an analysis of the results emerging and finally, a discussion on the emerging patterns and variations from the analysis in line with the established media theories discussed earlier.

The study sought to answer the main and sub questions, which are to what extent are there variances between CNBC Africa's MPC coverage and SARB MPC decisions? In addition, what determines the choice and frequency of commentators on CNBC Africa's SARB MPC coverage?

It also sought to respond to these further questions below.

- To understand the role of journalists in production of media debate in relation to the South African Reserve Bank Monetary Policy decisions
- To explore the decision making process of inviting panelists to the CNBC Africa panel discussion

In addressing the research questions, the study posed the further question of: What is the role and process of journalists in production of media debate in relation to the SARB's MPC decisions and also, which variables are held salient during CNBC Africa's MPC panel discussions? An exploration of the two questions would entail an examination of the panellist invitation process on one end and one the other, an in depth examination of CNBC Africa's MPC panel discussions to establish what is held salient during the debates.

In light of the objectives above, the study took on questionnaires and interviews to understand the process of panelist invitation to the CNBC Africa panel discussion and use video recording of the MPC panel discussions to unpack what held salience during the panel discussions.

In the process of examining the video data, the study establishes two hypothesis bases on monetary theory aspects and media theory. The two hypothesis therein act as a guide to dissecting the video meta-data and a means to contextualise it.

Hypothesis 1

As established under the literature review, I hypothesise that mentions of interest rates will dominate the CNBC Africa MPC discussion at the expense of inflation. If this hypothesis is true, it will show a clear deviation of both the SARB's frame and CNBC Africa's frame. The notion is based on the fact that SARB's core focus is achieving price stability and guarding the Rand while CNBC Africa seems poised to cover the MPC action on the day with a more 'present focused agenda.' The study will use the mention of 'interest rates' and 'inflation' in the transcribed videos under appendix 3 to test the hypothesis.

Hypothesis 2

The second hypothesis states that the primary variable that CNBC Africa's journalists and overall editorial team consider before inviting a panelist is availability. This hypothesis is backed by McNair's (1998) groundbreaking work on understanding the sociological aspects of newsrooms. A key finding of McNair's (1998) study was the fact that simple variables like mere availability of news sources (or panelists for this research) greatly influenced their frequency as news sources.

Results

Video results

McCombs (1997: 433) described agenda-setting as the "transmission of salience, not the determination of opinion's pro and con about a particular issue." A proven way to determine salience is through frequency and the study used frequency tables, to test the different research questions drawing on Freyenberger (2013). The results section includes the quantitative data gained from tallying "key words in context" as explained by Macnamara (2005) and expounded under the media content analysis section of this study.

The study examined the 12 videos for two sets of key words namely: "interest rates" and "inflation." Using frequency of mention and "key words in context", the research is able to establish salience on these two features in the transcribed videos.

The data here is divided into four key areas namely present, past, future and global perspective and this relates to the context in which the two variables namely 'interest rates' or 'inflation' are mentioned during the context. For instance, under the 18th September 2014 panel discussion, 'Sizwe' mentions that,

> "The only risk stems from the current accounts which makes the rand venerable in an environment where the rand may be starting to price in the fed rates hiking."

This mention of 'rate hikes' registered as an interest rate mention under 'global context' given that the 'Fed' here alludes to the Unites States Federal Reserve Bank. Other "key words in context" were accorded the same treatment throughout the data analysis.

Table 2.

Summation of mention of "Key words in context" —Inflation and Interest rates

	Present	Past	Future	Global Perspective	Total mentions
Interest rates	99 (20.97%)	9 (1.90%)	54 (11.44%)	88 (18.64%)	250 (52.96%)
inflation	83 (17.58%)	17 (3.60%)	94 (19.91%)	28(5.93%)	222 (47.03%)
Sub total	182 (38.55%)	26 (5.50%)	148(31.35%)	116(24.57%)	
Total	472 (100.00%)				472 (100.00%)

Source: Field data

Hypothesis 1

Table 2 illustrates the results of the first hypothesis: Mentions of Interest rates dominates the CNBC Africa MPC discussion at the expense of inflation. As hypothesized above and earlier under the literature review, the CNBC Africa panel discussion focusses its broadcast on matters around

interest rates at the expense of inflationary matters yet the mandate of the SARB is to keep inflation at bay.

The results further dissect the context in which both these variables are discussed in a granular manner as the frequency shows how many times interest rates and inflation are mentioned (as 'key words in context') in relation to present, past, future and a global perspective.

As shown in Table 2, the results did support the hypothesis as mentions of interest rates mentions stand at 52.96% yet mention of inflation stands at 47.03%. An unforeseen development from the results however is the prevalence of interest rates in a global context, which stands at 18.64%. Still on interest rates, past actions are hardly mentioned in the panel discussions as they stand at only 1.90%.

On the inflation side though, the global inflation is not a major driver of the discussion as it only stands at 5.93% of the 'key words in context' but a major talking point for the panel is the future inflation outlook. This dominates the conversation at 19.91% as shown in table 2.

Third quarter graphic results for the of CNBC Africa MPC panel discussion

Further examination of the CNBC Africa MPC panel discussion videos clips exposes the interest rate domination of the lower third and content generators. As Atkinson (2016) submitted, this is a way for broadcast media to establish salience during broadcasts and between 2014 and 2017, the content reviewed shows that 80% of the 'third quarter' graphic overlay was focused on 'interest rates' at the expense of inflation.

Again, this was in relation to the interest rate contextualized into present, past, future and global perspective. In addition, the "Breaking News" (as illustrated in figures 5, 6, 8 and 13 in appendix 2) graphic was deployed upon the Governor's announcement of the MPC action. This further supports the study's hypothesis that the CNBC Africa panel discussion focuses its broadcast on matters around interest rates at the expense of inflation.

Using the lower third analysis, the study found that during the pre-MPC announcement, CNBC held the panelists' predictions salient as, illustrated in figures 16 and 9 in appendix 2.

The study also found that the lower third graphics have emphasis on the 'prime lending rate' as illustrated in figure 4. This was not hypothesized by this study but it is a thought-provoking finding as the 'prime lending rate' is the interest rate at which commercial banks lend to ordinary consumers. More importantly however, this poses a question as to why a relatively micro economic matter would have salience on a broadcast focused on macro-economic matters.

Finally, only 20% of the final third graphics are accorded to inflation related issues. The study also found that the relatively fewer final third graphics related to inflation as illustrated in figures 19 and 20 have a retrospective tone. This is in lieu of the MPC's tendency to use inflationary pressures and risks in an economy to pave monetary actions.

Questionaire and interview results

In answering and unpacking the role of journalists in production of media debate in relation to the SARB's MPC decisions, questionnaires where answered by the CNBC Africa production team (see Appendix 1 and Appendix 4 for responses).

Table 3 illustrates that the primary motivator for CNBC Africa's production team to invite panelists is informed by the panelist's depth in macroeconomics.

Hypothesis 2

As shown in Table 3, the results did not support the hypothesis as advanced under 'Psychological aspects of media framing: dual process theory and the slow and fast thinking' earlier that the primary variable CNBC Africa's journalists consider before inviting a panelist is availability.

Eighty percent of the respondents agree with the premise that knowledge of macroeconomics is the primary variable with only 20% saying that newsroom consensus is the primary driver. Without a single mention of availability of the panelists, the questionnaire findings did not support hypothesis 2.

Table 3. CNBC Africa production team Questionnaire responses.

	Name	Position	Primary motivator to invite panelist	Response rate
1	Karabo Lethlathla	Reporter/Producer	Knowledge of macroeconomics	100%
2	Amogela Modise	Producer	Knowledge of macroeconomics	100%
3	Lubabalo Mashiqana	Reporter/Producer	Newsroom Consensus	100%
4	Chris Bishop	Head of Programming	Knowledge of macroeconomics	100%
5	Monique Vanek	News Editor	Knowledge of macroeconomics	100%
Total	5		100.00%	

Source: Field data

The dominance of knowledge of macroeconomics as a key driver was supported by the interviews (to be discussed further under data analysis) with the producers who affirmed the relevance of a panelist with an unrivalled macroeconomic background (see appendix 4).

Data Analysis

Relying on the data collected and tabulated in the section above, the study unpacks the findings in relation to the research questions.

As established earlier, the study has a main and sub research question.

Main research question:

To what extent are there variances between CNBC Africa's MPC coverage and SARB MPC decisions?

Sub-research question:

What determines the choice of commentators on CNBC Africa's SARB MPC coverage and what is the effect thereof?

This section also looks at findings that the research uncovered but was initially not in the scope of the study and concludes with recommendations for further studies in the field.

‘Key words in context’ —Inflation and Interest rates

The ‘key words in context’ created the core foundation for the study in establishing what the CNBC Africa MPC panel discussion held salient.

As illustrated in table 2, the results supported hypothesis 1, which was that mentions of interest rates would dominate the CNBC Africa MPC discussion at the expense of inflation. Through the study’s granularisation of the data into present, past, future and global context, the researcher was able to uncover two trends, which can be further researched.

On one hand, the tone used in mentioning interest rates is predominantly in a global context reading at 21.89%. This finding poses a researchable area on how much global monetary actions affect South African monetary actions and more so, if or not this is captured in the media. This would focus on the USA central bank, which is the US Federal Reserve Bank, and the European Central Bank. The CNBC Africa MPC panelists’ mention of interest rate hikes in the USA and the European Union also shows South Africa’s exposure to global markets, cyclical movements and risk. This global context was captured in the study.

Still on interest rates, past actions are hardly mentioned in the panel discussions as they stand at only 1.98%. This definitely appeals to the ‘forward looking’ trait of inflation targeting as a monetary tool as discussed in the contextual background. Because Inflation targeting is primarily focused on a strict commitment to low inflation as a sole target, it makes sense to see the past interest rates numbers register so low given that all focus is on a future inflation stance.

In addition, this shows what CNBC Africa holds salient given that media houses are a business. To this end, past news does not increase viewership but projections, speculation, outlooks and breaking news does. To this end, it makes sense to see the outlook surpass the past mentions.

On the inflation side though, global inflation registered at 6.53% as a ‘key word in context.’ The major driver was future inflation outlook reading at 20.58% as shown in table 2. This goes to show that the panelists are cognisant that the actions of the MPC are in lieu of the inflation outlook and ultimately inseparable.

The study found that the panelists pay a lot of attention to the pressure on the South African Rand. Although this was not initially hypothesized, it can be a strong area to explore given that higher inflation would trigger inflation on the Rand.

Salience in the third Quarter Graphics

The lower third quarter graphics revealed the tone of CNBC Africa during the panel discussion and more importantly, exposed what holds salient during the panel discussions. Figures 1 to 20 above show the lower third graphics as painted by CNBC Africa with an interesting use of "BREAKING NEWS" in capital letters every time the SARB Governor made the announcement. The lower third also confirms the first hypothesis that CNBC Africa holds interest rates more salient than inflation during the MPC panel discussion as interest rate related graphics appear 80 percent of the time on the lower third yet inflation related content only appears 20%. This confirms the hypothesis that the CNBC Africa panel discussion focuses its broadcast on matters around interest rates at the expense of inflation. Now, this might pose a lot of questions given that interest rates are a tool to keep inflation at bay and more importantly, the SARB uses interest rates manipulation and actions to keep inflation at bay.

In the researcher's defence though, the SARB's mandate clearly states that, "The Reserve Bank is required to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. The achievement of price stability is quantified by the setting of an inflation target by Government that serves as a yardstick against which price stability is measured."

If the SARB's mandate is aligned with inflation and interest rates are only a tool, more emphasis need be accorded to inflation in the reasoning that any MPC actions are only meant to alleviate inflationary pressure in the South African economy.

The lower third graphics also shows that a lot of attention is paid to the 'prime lending rate' and this was not foreseen by the study. Figures 4 and 17 (under appendix 2) show the attention paid to the 'prime lending rate' and this is the rate at which commercial banks lend to the ordinary consumer.

Given that this is a broadcast focussed on macroeconomic matters, it would seem out of place to see a facet of relatively microeconomic matters feature under the breaking news barrier. However, this appeals to the 'two step theory', which was discussed earlier. When it comes to monetary policy matters, the media acts as a conduit to the inattentive viewer and breaks down the information.

The final stage of breaking down MPC decisions arrives at the 'prime lending rate', which translates to the cost of money to the ordinary consumer. This definitely appeals to the consumer and is comprehensible away from all the economic jargon.

This was a recurring theme in the videos surveyed and the researcher hypothesizes that it fosters more relatable news for the viewer watching the panel discussion and more so answers the "so what" question for the viewer.

Decisions to invite panelists —Sociology versus psychology

The study sought to explore the decision making process of inviting panelists to the CNBC Africa panel discussion and in the questionnaire and interviews, the study uncovered that the primary driver in inviting panelists for the CNBC Africa MPC panel discussion is their depth in macroeconomics. Although this deviated from the initial hypothesis that the prime driver is mere availability of the panelist, another variable came out of the study which is the 'consensus of the newsroom.' This shows that the CNBC Africa newsroom clearly deliberates before the panel discussion on the potential panelists and agrees unanimously. This is summed up by a member of the editorial team who states:

> Availability is a driver yes but some of the market commentators just want airtime to gain relevance in the market. What we really look out for is how good they are at giving timeless commentary. That's what we look at. Then maybe availability will come in but what good are you if you are always available but terrible at giving actionable commentary? But remember, we meet as a newsroom and talk about the potential panelists before the MPC. That's where we decide on all of this. It's not a one man decision. We always discuss (personal interview, November, 2018)

To this end, the study also looks at the psychological aspects of inviting panelists. The researcher initially hypothesized that the producers use system 2 in the beginning but overtime, the decision-making on who to invite becomes routine practice therefore using system 1 (see psychological aspects of media framing: dual process theory and the slow and fast thinking under literature review). Another member of the editorial team again confirms this.

> In the beginning, we are all finding our way and we do not even know the best market commentators in the market. So there, you struggle and it does take ages to even get someone in the studio for a comment let alone a panel discussion. But over time, you actually get to know the market commentators and they know you too and it becomes way easier (personal interview, November, 2018).

This, however, poses more questions that could be explored further, whether producers having a relationship with market commentators or panelists for this matter does influence their decision making process ultimately.

In summation, relying on the work of Kahneman (2011), we are able to see a trend here as new producers have a tough time to invite the panelists for the MPC panel discussion therein relying on system 2 to get this done as it is a slower, deliberative and explicit process. Over time, they do gain immense experience at the job and given that they produce daily shows and this is not their only commitment in the newsroom, they get access and contacts to numerous market commentators. More importantly, they get to understand the workings of the newsroom and what makes the MPC panel discussions work with more experience, in that regard, this decision making process morphs to system 1 which is fast and intuitive.

This confirms the researcher's hypothesis that the producers initially use system 2 but overtime, the decision-making on who to invite becomes routine practice therefore using system 1. This also falls in line with McNair's (1994) scholarship on frequency of news sources argues that, "journalistic discourse is shaped by the information management activities of 'extra-media' social actors." Given that "extra-media" activities may take on various variables such as pressure to deliver, this typifies the psychological emergence of system 1 in decision making around MPC debate panelist invitations

DISCUSSIONS

SARB and CNBC Africa frame deviations

As seen through the contextual background and appendix 3, monetary policy is a technical facet of economics and its media coverage is only emerging. To this end, gaps do exist between SARB's communications and what the media covers and some of this can easily be attributed to the forward-looking nature of monetary policy communications and the present looking nature of newsrooms.

The SARB, just like all central banks globally has forward 'threshold' guidance and will consistently seek to condition expectations. This struggle to mute macroeconomic risk both locally and globally is what informs the SARB looking forward and this is clear in all the MPC announcements. On the contrary, the findings from table 2 clearly show that CNBC Africa focus on a present threshold with focus on just the 'repo rate' action on the day. This is asserted by the data in table 2, which clearly shows that interest rates and inflation in the present context are mentioned 38.55% for the videos examined. To contextualise this, inflation and interest rates mentions in the present are higher than inflation and interest rates mentions for the past and future combined (36.85%).

Because SARB is using inflation targeting as a monetary policy tool, this creates a deviation in SARB's frames and CNBC Africa's frames. Essentially, there is a deviation here as inflation targeting dictates a forward-looking approach to evade macroeconomic crises in the near to mid-term. Meanwhile, CNBC Africa's media coverage is focusing primarily on the monetary policy actions in the present context. The shortfall, as it does not address the "reaction function" feature of inflation targeting as addressed by Kahvecia and Odabaşb (2016) earlier. If SARB uses interest rates to address inflationary and foreign exchange risks on the horizon, then surely it would be merely insufficient to cover SARB MPC decisions with a present focus.

Monetary policy and the Media —bridging the gap

For any country relying on inflation targeting as a monetary policy tool, communication and the media are an indispensable asset. SARB has clearly figured this out given their extensive monetary policy communication strategy and media engagement. The challenge this study reveals is the gap between SARB's mandate and what the media holds salient.

To bridge this gap, I recommend a three-pronged approach while covering SARB MPC decisions.

Cover the Policy decisions in their entirety

Central banks have taken on an approach of informing the public about their monetary policy decisions on the day they are adopted and this is covered intensively as the data in appendix 3 shows. To the data set acquired from the CNBC Africa MPC panel discussion, this is covered intensively in a present, past, future and global perspective. The study, however, shows that other aspects of the monetary policy announcement are ignored such as the South African Benchmark Overnight Rate (Sabor) which is essentially the interest rate that large banks use to borrow and lend from one another in the overnight market. Because the SARB Governor always announces these changes in the Sabor, the researcher finds that not according this rate the utmost attention leaves the MPC coverage defective. Throughout the data examined in appendix 3, both the hosts and the panelists do not mention the 'overnight rate' as a 'key word in context' at all. The researcher consequently submits that for a total alignment of both SARB and CNBC Africa frames, the latter need cover all aspects of the MPC announcement in their entirety.

Cover SARB's economic outlook with emphasis on the forward-looking stance

As highlighted in the contextual background, the SARB Governor gives an economic outlook in his presentation before announcing the MPC decision. Since the SARB has access to meta-data, and statistics on the South African economy, it always gives an economic forecast given the data collected. An emphasis on the macroeconomic outlook in the coverage would address the gap in the SARB communications and CNBC Africa coverage. More importantly, this will address the gap time variation deviations between the two given that CNBC Africa covers the MPC announcement with a present emphasis (table 2) driven by the repo rate action on the day yet SARB actions are forward looking. With CNBC Africa revising their present looking coverage of MPC decisions to a future variables highlighted by the SARB, they can address both deviations.

Scrutinise path of future policy rates

As advanced by Mboweni (2004), the primary objective of the SARB monetary policy is to achieve and maintain price stability in the interest of sustainable and balanced economic development and growth. To this end, I submit that any coverage of SARB work would need to encompass all aspects of price stability and this must include comprehensive reportage of inflation, interest and exchange rates. In addition, SARB's customary position of forecasting their future behaviour as is a characteristic feature of central banks, which rely on inflation targeting, must be given more consideration in order to bridge the gap between media coverage and SARB communications.

Unit of Analysis and Limitations

While the study aims to contribute to South African journalism and media studies literature, it does not undertake a systematic review of the evolution and development of monetary policy communication and media engagement in South Africa across a wide spectrum. Although the study looks at SARB's and CNBC Africa's frames, more emphasis in terms of data analysis was accorded to CNBC Africa as opposed to a cross examination of both SARB and CNBC Africa simultaneously.

In addition, the research focuses solely on CNBC Africa as a case study which was only established in 2007 and this does not allow for a cross examination of the practices of media houses which have been communicating SARB decisions for decades. This presents a limitation as SARB adopted inflation targeting as the monetary framework in February 2000 and this has presented over 18 years of media data to cross examine.

The research has also focused on TV as opposed to looking into other media such as print and radio, which have been vital avenues in monetary policy communication and media engagement.

CONCLUSION

This study has traced the trend in SARB monetary policy committee coverage at CNBC Africa between 2014 and 2017 in a bid to enhance the understanding of the guest sourcing patterns and coverage as a whole. Sparked by a deeper appreciation of the monetary policy communication and subsequent media coverage, the study managed to illustrate emerging trends in the MPC announcement coverage.

The breadth and frequency of 'key words in context' revealed in the study have expanded the knowledge in the only emerging field of media and monetary policy. The thesis provides evidence of a deviation between the SARB mandate and CNBC Africa's coverage of the MPC announcements through their panel discussions posing the question as illustrated in the dominance of interest rates over inflation which opens the door for more studies in that line to examine the grounds.

In sum, the study has presented evidence of an interaction between sociological and psychological variables in newsrooms, as panelist invitation for the CNBC Africa MPC discussions is takes on numerous facets.

However, given the approach and the issue addressed in this thesis, several questions remain unanswered such as the dominance of interest rates as a 'talking point' during the CNBC Africa panel discussions. More pressingly, why other aspects of the SARB Governor's speech such as the economic outlook and the future policy outlook are hardly covered. This important aspect can shed more light on the deviation between media coverage and central banks given the central banks' forward-looking stances globally and newsrooms' present looking bearings. In addition, an exploration of other aspects of literature on media production such as 'Babelisation' could be cross referenced with the video data collected for a cross examination of the host's questions and the panelists' responses. This can enrich the data and explore the possible deviations between CNBC Africa's 'agenda' or frames against the panelists' 'frames' and agenda.

Supplementary extensions can also include an analysis of newspapers and online financial websites, which are fast gaining readership and traction in South Africa. This can take on various avenues such as local and regional financial press releases in for a contrast with international press and news wires such as Bloomberg and Reuters for an analysis of the coverage and salience on a local, regional and international scope. In addition, an emerging trend in the CNBC Africa MPC panel discussions also shows that salience is accorded to the 'prime lending rate' which is the rate

at which commercial banks lend to ordinary consumers. This can be researched further as to why the repo rate announcement is quickly converted to what affects the consumer subsequently attested by CNBC Africa's 'lower third' graphics (Figures 4 and 17) diverting some of their coverage to the prime lending rate.

Lastly, the study is limited to 2014 to 2017 but the SARB's deployment of inflation targeting as a monetary policy tool leaves a window for future research to explore analysis of the transmission of monetary policy actions in lieu of media coverages. This would not only inspect the interaction between the SARB and media houses such as CNBC Africa but also explore how communication is actually received by the general public.

I leave this for future research.

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APPENDIX 1

Master's thesis Questionnaire

A1 Which of the following categories best describes your current position in your

at CNBC Africa? (List to be Read by Interviewer or Answered by Respondent.)

1. Editor in chief

2. Managing editor

3. Desk head or assignment editor

4. Department head

5. Senior editor

6. Producer

7. Reporter

8. News writer

9. Trainee

10. Other, please specify: .....

A2. What informs CNBC Africa's choice for South Africa Reserve Bank (SARB)'s monetary policy committee (MPC) coverage panelists?

1. Newsroom consensus

2. Editor's decision

3. Availability

4. Panelist's workplace

5. Panelist's title

5. Panelist's knowledge of Macroeconomics

6. Other. (Please specify)

A3. What are the core variables that CNBC Africa and the commentators examine during the pre-MPC coverage?

1. Inflation and price stability

2. Economic Outlook

3. SARB's policy actions

4. Impact of SARB's actions on South Africans

5. Other. (Please specify)

A4. Does a panelist's workplace influence their choice for CNBC Africa's MPC panel discussion?

Yes No

A5. Does a panelist's knowledge of macroeconomics and monetary policy influence their choice for CNBC Africa's MPC panel discussion?

Yes No

A6. Do correct pre-MPC forecasts from panelists influence CNBC Africa's to invite the panelist back for another MPC panel?

Yes No

A7. Is media training and experience a variable CNBC Africa considers before inviting panelists for the MPC panel discussion?

Yes No

A8. What are the core considerations when inviting a panelist for the CNBC Africa MPC discussion? (Please share three)

APPENDIX 2

Third quarter graphic analysis of CNBC Africa MPC panel discussion



Figure 1



Figure 2



Figure 3



Figure 4



Figure 5



Figure 6



Figure 7

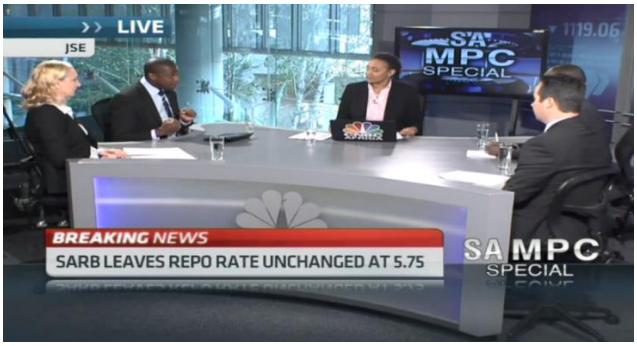


Figure 8



Figure 9

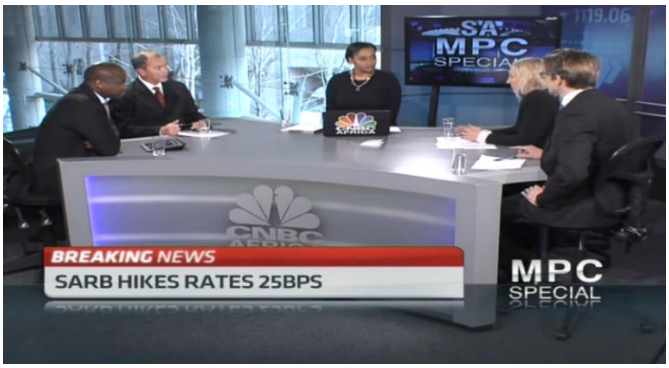


Figure 10



Figure 11

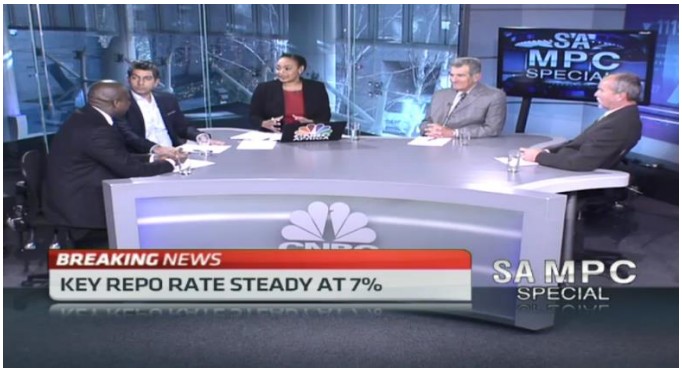


Figure 12



Figure 13



Figure 14



Figure 15

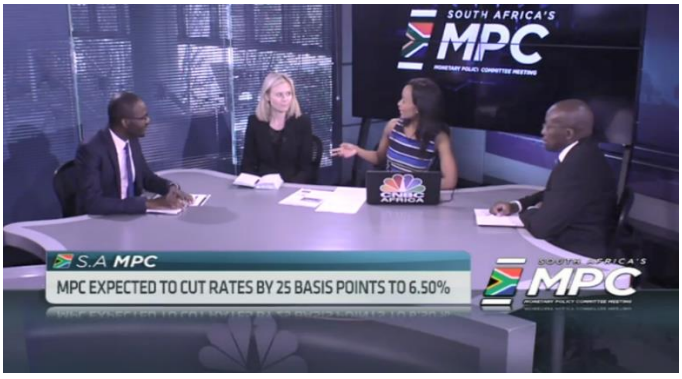


Figure 16



Figure 17

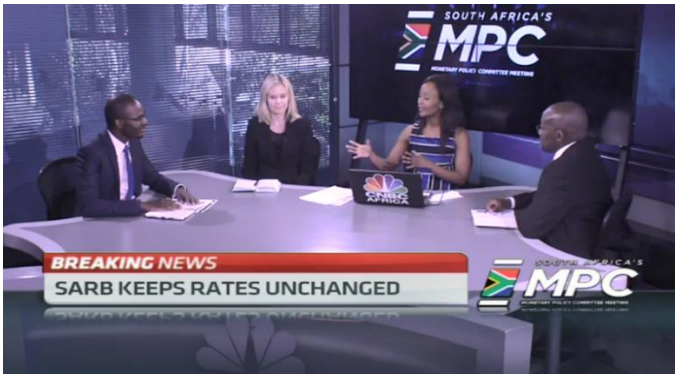
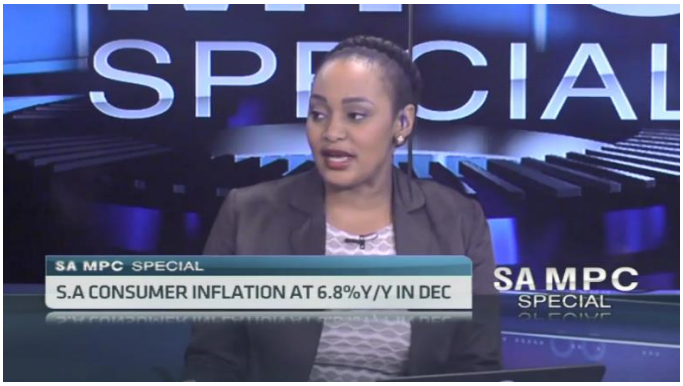


Figure 18



Figure 19


SPECIAL
SA MPC SPECIAL
S.A CONSUMER INFLATION AT 6.8%Y/Y IN DEC
SA MPC
SPECIAL
Figure 20

APPENDIX 3

TRANSCRIBED CNBC AFRICA MPC PANEL DISCUSSION VIDEOS

CNBC AFRICA MPC Panel video- 27th March 2014

Bronwyn: Well, welcome back to the CNBC, Africa CNBC, MPC special and joining me to discuss the implications of the South African Reserve Bank, Governor's speech, Iraj Abedian, CEO Pan African capital holdings Tendani Mantshimmuli consumer economist at Liberty John Cairns, currency strategist at RMB and Azar Jammine, chief economist and director at Econometrics. Gentlemen, would you like to leave? No, we're staying put. So as a consumer contingent, a huge amount of relief from all of us that we are seeing interest rates on hold. But uh, probably the key here is the inflation environment and I think John, let's get you to take a stance on that.

John: Yeah. So they, they revise their inflation forecast downwards. So they've got six point three percent this year down to five point eight percent next year, a little bit lower. I mean the big surprise for, for us at RMB was in the inflation expectations. So, in the BER survey where the weakness in the rand, the rising inflation, we had some expected inflation expectations to push up, but it's remain precisely the same six-point one percent by this year and next. So not as much in their view, not as much inflation,

Bronwyn: What were you anticipating?

John: maybe sort of six point three on that. Inflation expectations, maybe a bit more. Uh, Iraj was right. Why would he, he was saying inflation expectations wouldn't rise here.

Iraj : It cannot rise, inflation expectations that rise has been two things in place, at least one or two things: global inflation that we know it's a matter of time before it comes home. And income pressures, which is the spending part, disposable part, at the moment. There is no global inflationary pressures and domestic with disposable income is under pressure on employment, mining, manufacturing, that just about every sector. So I'm not sure will inflationary expectations with come from just the fact that there is a gap between PPI and CPI does not translate to my granny's* many more or myself spending more. So that issue is a nonissue for as long as growth prospects remain as mediocre as it is for structural reasons. No expectations.

Bronwyn: But then let's come back Azar, to what you mentioned, obviously PPI coming out of seven point seven percent and the shock. Basically you're saying that the, the correlation isn't there, but as Azar you were worried about that number,

Azar: I am worried about it and I think that there is a significant risk of an upside shock to inflation of goods and services. There's another aspect to inflation that I'm concerned about and that's not measured in all these deliberations. It's asset price inflation and this is a worldwide problem and I think with the loose monetary policy worldwide, there is a risk of an asset price bubble followed by a crash at some point in time and it worries me worldwide, including South Africa too, that we have as an environment persistent negative real interest rates and I think this is going to explode in our face, uh, at some stage over the next few years. The trouble is of course here, one was asked to forecast right now for the next two months.

Bronwyn: Exactly now let's go to that forecast a little further out. She certainly made mentioned of we may have to hike aggressively in the future. What does that mean in your view? And Tendani hike aggressively. That means 100 basis points.

Tendani: not at once, certainly not at once, but I mean it leaves room for the MPC to hike interest rates still in 2014 and that was expected, was implied in that first statement, the first statement of the year that uh, the inflation outlook that they had suggested that they expected the currency to depreciate for longer and more deeper than what most analysts expected. That was the basis of the interest rate hike. She does leave room open for that because she's saying while core inflation, which would indicate whether this pass through is coming through. She says there's some evidence of that, but if we look at the data that they presented with that, there is no evidence yet. So, if that comes through as they anticipate, yes, they are going to hike aggressively but I don't see a 100-basis point hike at once

Bronwyn : at once, maybe two 50 basis points. Let's just look at this rand. She was saying that we've seen an improving trend in the local unit since the last MPC meeting and that obviously had some bearing.

John: Yeah, I think it in rightly so. When they met during the last MPC and the rand was almost in free fall, there was political problems

Bronwyn: It was at 11.30.

John: Yeah. Well we got, we got to 11.40, which was actually after they hiked 50 bizarrely enough. But um, yes, one of the big cases to keep rates on hold is that global financial market conditions in the rand have really stabilized and she was clear have stabilized for now.

Bronwyn : For now?

John: Yes. I mean I'd agree. Our view at RMB. Things that are definitely looking better if you look at how the rand's traded in the past few days, but she's right, there's still a risk. And hence there's talk about the potential for significant rate increases. We

shouldn't make that the core assumption. She said we are in a hiking cycle. So I think pretty much what would everyone agree 50 basis points for may I think is it's got to be the expectation.

Bronwyn : Well let's see do we agree? 50 basis points. I mean you wanted one now, so I'm sure that will be.

Azar: I'm not sure now that it will be in May because if the, you know, the reason why the rand is strengthening at present is because a tapering does not mean a withdrawal of liquidity. It means just additional liquidity at a slightly slower rate and suddenly the market's woken up to the fact that money's still flooding the system, which is good for stock market's good for the rand and that should continue for quite a while. Yet, until QE is out of the way.

Iraj : And a tail to that is not only that money still being pumped. That's not 85 at 65, but Yellen's quite clear in, in her testimony to the congress that even when tapering comes to zero interest rates for a long time. She said this is her word, is going to stay put. So, let's say tomorrow, they close the tap, still there is zero for a long time. So you're in for the five to seven years. In my estimate, five to seven years of zero interest in United States* that is if NATO and Russia don't start fighting

John: zero interest rates in the US for five to seven years

Iraj : at least

John: I can see the Fed being below the mean expectation, which is 3.754 percent, but we will go into fed tightening cycle at some time, presumably next year unless you take it very bearish view on the US economy.

Bronwyn: Are you're taking very bearish view on the US economy.

Iraj : not just the US economy. US economy is not the only consideration of Fed. Fed is on record to say they look at the global economy and that the moment since Yellen's testimony and she made it very clear in a very important phrase that we are watching what's happening in Ukraine. We are not reacting to it, but we are watching it. NATO yesterday announced that they are amassing troops on the, on the eastern and southern part of Ukraine. Russia is already increasing members. That grumbling is going not to go to end very, very soon and it means there is a geopolitical risk to the global economy. Now, on part on the addition that you have Turkey, you have China, you have all of them. There is no buoyancy in the global economy. There are signs of growth in United states and UK, but there is science subject to a very vulnerable turnaround.

Bronwyn : Exactly what the Reserve Bank governor was saying. She was saying that the global picture is being overshadowed by these geopolitical risks. The southern African consumer. Do you think that they will perhaps take heed of the cautionary note here that best you start getting your finances in order because at some stage, as we've pointed out, we are going to see interest rates, rates increase in South Africa.

Tendani : It's in their best interest that they take heed to that other than the reserve bank increasing interest. we are very highly indebted. The numbers that came out of the reserve bank yesterday I mean a couple of weeks back. The liquidity suggest that we aren't even saving. We are a nation of current consumers,

Bronwyn : meaning that the immediate gratification is higher on our agenda.

Tendani: Yes, disposable income is under pressure. Even if interest rates, remains the same for the year, disposable income, is going to continue to be under pressure from the factors that we know very well from inflation. And I think what she also correctly mentioned was that the problem with electricity and the strikes in the mining sector is going to have a huge impact on GDP going forward, which is why I think it's very optimistic of the reserve bank to still put growth at two point six percent, especially given the fact that I don't know where the growth in this quarter is going to come from.

Bronwyn: Let's debate this now. You were saying that you think that's a little aggressive?

Azar: I don't think that everyone who's terribly pessimistic is necessarily justified the business sector...

Bronwyn : So you're in line with these GDP forecasts?

Azar: You know, the trouble is with every couple of weeks of strike activity, you have to keep revising your full cost downwards. But um, our studies have shown that the business sector is still actually hoarding cash. So that should be a stabilizer in the overall growth picture going forward. Um, so you know, you look at the Reserve Bank's core leading indicator doesn't suggest to collapse in activity.

Bronwyn : the other thing to mention is what Tendani said, is not only the money strikes back the electricity threat and the stoppages that we could encounter and that appears to be a very real threat as we move into winter.

Iraj : Absolutely. I mean there's no threat of collapse. we mustn't get doomsday type of predictors, but there is no boom either. Which means if last year we did one point eight, our economy will do well this year. If you stay put, given that the first half of the year, everybody's politicking and nobody's caring for the economy. If we do one point eight this year, we've done fantastic.

Bronwyn: So are your forecasts are more in line with one point eight? Two percent specifically John?

John: Our household cost at RMB is 2.5%, which is just a tick below where they are, but, but really, they're the, we probably going to revise those downwards. Just a point our export sector is doing relatively well. We were having sort of the year on year growth in the fourth quarter was up nine percent export volumes. Okay. That's distorted but maybe six percent volume growth. So we're getting a boost from exports from and that's, that's a quarter of GDP.

Iraj : This is a separate. Yeah.

Host : So you're going to revise your numbers. Potentially the house view will be revised down from their two point five percent Tendani. Where are you standing?

Tendani: We at two point three percent

Bronwyn: two point three percent. So Azar, you're the outlier here on a more positive outlook on a GDP number.

Azar: Yeah, but obviously with the mining strike continuing, I just believe that there are still some underlying areas of resilience in the economy that are being underrated and we keep getting upside surprises to the monthly indicators from time to time.

Bronwyn : What else stood out for you from the Reserve Bank speech?

Iraj : I think the point that the governor makes about the lack of action on the structural issues is become like a stuck record for over two years. And I'm worried that when the Reserve Bank continuously points out that there is nothing we can do to fix these structural issues and nobody listens, I think it's time that that thing stands out. Not, not that the monetary policy then move the rates. I would have liked to say government hasn't moved the economy. That's a very important insight that keeps coming up.

Bronwyn : Criticism almost coming from the South African reserve bank .

Iraj: Well it’s not a criticism it’s an observation, it’s just a fact.

Tendani: For me it was that she talked about union labour costs. They also mentioned it in the quarterly bulletin I mean at the same breath we're talking about the wage settlements which are going to be way above where we are. The unit labour cost is much higher than the productivity the rate of productivity, it is a structural issue. So I don't think I'm going forward. We, we, if, if, if that doesn't change materially, I think that we're going to have a problem in this economy going forward. The

reserve bank keeps on harping on it, but I think it's never received it. And we need labour at two percent productive, and its much, much lower than that.

Bronwyn : So again, to the point that Iraj was making John?

John: What stood out for me is how clearly she gave guidance on where rates are going. It's very unusual for the MPC or the governor to do that. It's very clear that in their opinion rates or on the way up, we can debate the timing still, but it's very unusual to give such clear guidance that that we are looking at hiking rates in the future sometime. So the view is still got to be there that we're going to have further hikes this year, May probably in our view.

New Speaker: Iraj bringing you back in here before I go to Azar in terms of these hikes and you said in May still no change, but it is dependent on all these factors. There's so many risks. We have no idea.

Iraj: I think what we cannot disagree on is that not only in South Africa but globally, monetary policy normalization is inevitable in United States and the rest of us are interconnected. So are we in the cycle of increasing rates? Absolutely. Are we in a position to say should happen today or in May and so on? No, because I've too many elements in the air loose. We have an election coming. By May we could have Europe in chaos. Um, we could have NATO, on top of Mr. Putin and all the other way around and interest rates are not going to change because there is a cycle that has to go up. You've got to be realistic.

John: Just to come back to that. And when they keep emphasizing data dependency, which to some extent means to large extent means what happens in the rand. So you've effectively tied interest rates to the most volatile currency in the world. So to that extent I would agree to Iraj, it creates a lot of uncertainty. You mustn't get too detailed.

Bronwyn : What about going back into the commentary that you made before we went to the interest rate decision and that was what the, the emerging market status and that this could effectively send us into a tailspin if we don't react quickly enough. On the interest side, am I misquoting you?

Tendani: No, you're right and Tendani made the point. No, zero consumer saving. I think Azar and I will both agree on this point. It is a structural problem, and one of the reasons why we've got zero savings while we've got a current account deficit is that real rates are too low. Now we can talk about the pace of global normalization, but we also need local normalization and we need to resolve this problem. And the longer we don't resolve this problem, the more vulnerable we make ourselves to debt. it's that we remain susceptible to run on the currency as long as this current account deficit remains. So by doing nothing they, keep that risk intact .

Bronwyn: She spoke about the narrowing of the current account.

John: A temporary narrowing of the current account.

Azar: Bronwyn. I totally agree with John. I think they've almost taken a risk here and she's almost intimidating it in who were in her verbiage. Uh, I found it an amazingly bearish statement in terms of the medium to longer term outlook for interest rates, surprisingly bearish, more than we've ever known before. And in a way that's the price to pay for not raising interest rates. Now and I think it's all encapsulated in the vote at the MPC four versus three, they were completely torn apart.

Bronwyn : That is true. We haven't really looked into that vote, 4 vs 3,

Iraj: But I think it must also acknowledged that in modern monetary policy management, part of the, uh, there is, uh, there are two elements that you have, the actual quantity and the quality of the messaging that you get across. You can either raise 50 basis point today and manage the secondary effect of inflation expectation of inflation, or you can be so emphatic about the possible aggressive rise of interest rates in the next future, six, nine months or however many months. And through that messaging you contained in inflationary expectations and that's exactly what that's the right thing to do.

Bronwyn: So you are celebrating. You did say that you're going to throw tomatoes at the screen.

Iraj: Absolutely. If they went the other way, they deserved it.

Bronwyn: Tendani Let's focus again your area of expertise. Obviously being the South African consumer and this is what we debating day in and day out. Where is that South African consumer going? We know overall structure. We've got crucial and a huge extensive problems in the South African economies but are teetering on the brink for the consumer?

Tendani: Not yet, You must recall what the governor also mentioned that there is no evidence of pressure coming from the demand side precisely because the consumer is under pressure. We know that from the spending side is about two thirds of GDP consumer spending and there's no evidence that you're going to have enough disposable income to spend. While we don't save disposable incomes, a very good predictor of where spending is going to be because we get the income we spend, we don't save, so that's. That's if this is a very good correlation between the two, so if that's not going to grow because unemployment is high, I don't see where you're going to have. Unless if we just take the money sector as a sector and this strikes that is so protracted for now, I don't think we're going to have a lot more jobs in that sector by the end of the year. Hey, that's adding to the unemployment new jobs

being created in the Labour absorption rate into the economy is so slow. Even if the economy does grow we don't absorb a new whole number of new people into the formal sector of the economy. So that's the greatest part of disposable income. The other pressures that consumers are going through, which is we've mentioned earlier means that there is not going to be any spending coming forth from the consumer. I think a lot of people are already under pressure. You might see data, suggesting that we're not even keeping up with our obligations to pay back the debts

Iraj: and just very important along to add to that is that the public-sector wage increases are moderated, and the Minister of Finance and I think governor referred to it, the minister of Finance said I'm going to get this under control. And that, that was another part of the equation. So, both in private and public, there is no pressure for higher spending.

John: Yeah. But the, the, the unknown on the inflation front is the FX pass through. So we know that we've had very limited FX pass through in the past two, three years. They are indications that that's coming through. She did mention that in the statement, but perhaps not as strongly as we would have had expected, so that's still the risk. Okay, suddenly the rand moves. The FX pass through eventually corporates have to pass it through. We've all mentioned how we've got anecdotal evidence on this.

Bronwyn: Let's talk about the search for a minute. The run on the rand. Just unpack that for me.

John: Okay, so there's any number of reasons that the rand can run. So the first one is global geopolitical risks. The second one is emerging market tension, so the Turkish elections as we get local government elections. Key issue to watch. We are still linked to the other fragile 5. So now the rand hasn't reacted very negatively to this, to this thing. We're now facing a support down at 10:59. If we can get through that. The dollar-rand can really start going, but the risks geo political, emerging markets. And then the third one, which comes into play because of today's decision is will speculators start targeting the rand because we behind the curve, there was a lot of talk about that after the first 50 basis points hike, Turkey hikes 550, we hike 50. A lot of traders were saying, let's go after the rand. That didn't happen, spiked up to 11.40 and as comebacks and no indication yet that the rand is become a target for as the EM play. It could still happen.

Bronwyn: What are the consequences if it does? So what? Where do we go?

John: Exactly as Marcus says that then we faced with significant interest rate hikes further down the line.

Bronwyn: Are we talking 12 on dollar-rand?

John: Choose a number Bronwyn 14 or 15.

Iraj : Speculators will go if only two conditions are met. If they rand is structurally under or overvalued, they'll go after it. You had thirty eight percent depreciation over the past year. There isn't anything left in the pot to battle over speculators know that. Secondly, watch this space when New York opens in a couple of minutes rand will appreciate because the no move is good for equities, Equities of bond market is going to compensate for that and there is no doubt that global capital markets are chasing growth. They are not chasing interest rate differentials. They're as smart as we are. That interest rates on the up, so that's not the issue. The issues are where being growth happening in, in the globe, they'll go after.

Bronwyn: John, come back here.

John: I'm very happy that you agreed with me. That the rand is, is undervalued. I think a lot of you get a lot of studies out there, crazy studies that suggest that the rand is still overvalued and went from 6.60 in 2010 all the way up to 10,50/11 on the rand. Rand is undervalued.

Bronwyn: Is that on a purchasing power parity basis, that's generally what we base it on.

John: We run a lot of models and they will say, you can argue about where fair values are, but you can't argue really what the point that the rand is undervalued. Yet, however, the rand has been a lot more undervalued in 2008, 2001, I remember 2001, we've got to 13.88 on dollar-rand. So even though the rand is weak, it can still weaken more. It's not our view at RMB that it will, but it's the risk that South Africa is running with a large current account deficit, not hiking rates in a period of global tensions focus on emerging markets and a fed that's moving towards.

Bronwyn : We haven't given enough attention to this current account deficit and the risk.

Iraj: No, but the current account deficit is inevitable. Not only because our export has been bogged down, but we are in a period of self-confessed prolonged meaning six or seven years capital spend on our infrastructure, most of which is over 80 percent import dependent. Everybody knows that. So what are you surprised that we can exchange rate and we're getting balance of payments deficit. We've said for the next three years we're going to spend billions of billions of which 60 percent of our input.

John: The literature of the emerging market crisis shows quite clear that it clearly that it does not matter why you have a current account deficit but why you are susceptible to it.

Bronwyn: Azar, Tendani, come on, you've got to take sides on this debate. And you're sitting next to both of them.

Tendani: I agree with Iraj in terms of the reason for the current account deficit and there's evidence that a lot of that is imports in machinery and equipment, part of the infrastructure drive that we're on, so in that sense that is good news. What would be worrying is if it was on current consumption or consumer goods and that's not evident and so that for me is to be expected.

Azar: We're talking trade all the time. The main reason why the current account deficit is so large is because so many foreigners have bought our shares and bonds in recent years that we are having to pay out dividends and interest to those guys and that's not going to be resolved in a hurry and the which means that even if our trade conditions improve, the current account deficit will still be fairly substantial and we will still need to keep having capital inflows to sustain the rand.

Bronwyn : Right. We've got a couple of minutes left till the end of the show. You all allowed your final comments in summation, and I'm going to start with you sir.

Iraj : I'm not worried about speculators because at the same speed that they will have a run on the rand, but the same 2001 within six months that will reverse itself if it's a speculative, therefore we mustn't fear that's shadow. What we need to deal with is the real fear of dealing with the structure of the economy is productive capacity and this global competitiveness. If you focused on that, I can live with five, six years of a higher than average balance of payments. That's normal for a growing economy, a growing economy like ours. If it has surplus in the current account and I wouldn't be worried. So I'm worried about the reason why when our export cannot compete or generate because we have no electricity, no skills, no water, no political consistency. That's why we focus on the real issue

Bronwyn: Iraj. Thank you very much. Tendani.

Tendani: I am with John on the fact that this is the first time, that I've seen a statement where the MPC was so explicit in terms of influencing expectations going forward, so that is good because while they didn't hike that message on its own, as Iraj said, should be enough to say this is going to come and then influence with hopefully they might not be a need for a hike because behaviours will change accordingly.

John: Yup, not as much inflation pressures coming through the system as we had expected. The BER inflation consensus forecast of inflation, stable inflation expectations aren't becoming unhinged. Allow this, allow the SARB to keep on hold this meeting. But the governor's clear rates are on their way up. We should expect another move in, may

Bronwyn: Brace yourself, Azar?

Azar: They were clearly very divided, and I think they just thought that discretion is the better part of valour right now. But um, they are getting, they try to talk the market to persuade the market that this was the right decision right now. But boy, oh boy. Just be careful.

Speaker 1: Well, thank you so much for joining us for that robust discussion on an interest rate environment where we've seen no interest rate move.

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	3 (3.66%)	0 (0.00%)	7 (15.55%)	9 (20.00%)
inflation	7 (15.55%)	0 (0.00%)	15 (33.33%)	4 (8.88%)
Sub Total	10 (22.22%)	0 (0.00%)	22 (48.88%)	13 (28.88%)
Total	45 (100%)			

CNBC AFRICA MPC Panel video- 22nd May 2014

Nozi: Welcome back to the CNBC, Africa MPC special. Still with me, my guests Annabel Bishop, group economist at Investec, Chris, Becker, chief Africa strategist, and head of Africa research at ETM analytics, Dr Azar Jammine, director and chief economist at Econometrics and RMB, derivative specialist Colin Wakefield. Still joining me here in studio. Well, let's start off with the voices that I'm sure are not happy with the decision that we've just heard from the governor. Let's start off with you, Chris. You said that you expected to hold, but you didn't think that that was the right decision.

Chris: Yeah. I mean we've been saying this for the last three years, but we really started getting a bit bolder in terms of making that statement around mid-last year. Our view has been for quite some time that low interest rates are actually the problem in this economy. You know, governor Marcus is focused on the output gap and that is widening at the moment, but what the output gap is measuring is bubble sectors that were inflated by very low interest rates in the previous cycle, so that's perhaps not a very good measure to be using as a guide to where you should be setting interest rates. Another thing to say is with by keeping interest rates this low, you're effectively redistributing out of people's bank savings and deposits accounts the extent of two percent of GDP per year, which is not a sustainable policy. It's not a good policy. It doesn't incentivize savings in this economy and it's a real savings that ultimately can be invested and deployed in sectors where you can then see sustainable growth through time. So that's really the sort of back drop to the view that we've been holding. But that's also why we've, you know, our view theoretically, it's quite different to the, to the way that the Reserve Bank thinks about economics. So we didn't think they were going to hike but we still think that should be hiking,

Nozi: right? Chris, walking into this, you were confident at least 80 percent confident that we're walking into a 25 basis points. It didn't happen Colin did

you, did you feel that we, you know, that particular decision was wrong for the country and where we're going?

Colin: No, I don't think so. I think it was very touch and go. I think the market's a very, very wavy consideration of the 25 basis points speaks to the uncertainty. And Governor Marcus highlighted the policy dilemma. I think analysts are aware of that and I think ordinary South Africans frankly are very aware of that. The consumer side of the economy is extraordinarily weak. Um, I think picking up on one of Chris's points, uh, absolutely, uh, interest rates in South Africa are very low, but it's always a relative game. And I think interestingly enough from, from my perspective, the governor highlighted at global capital flows and the extent to which these have been the primary driver of rand strength at least since the last MPC whether, of course that is sustainable or not. I mean, the Governor expressed some quite interesting views, hinting perhaps that the committee is concerned about these flows and how sustainable they are will of course be a key determinant of inflation to which the Reserve Bank needs to act.

Nozi: Are you at all surprised by the amount of worry that seems to be in between the lines when it comes to the movement of the currency?

Colin: The rand is always an issue now. Um, it's, you know, how it is too hot or too cold. It's like the goldilocks porridge story. Manufacturers always want a weaker rand. Consumers always wants a stronger rand, I think unfortunately, and very concerningly despite the week rand that we saw earlier in the year, the manufacturing sectors still extraordinarily weak. So the arguments that you know, that many sectors of the South African social groupings put forward, that a weaker rand is critical towards stimulation of at least external demand for South African manufacturers and needs to be called into question and does highlight the extent of the weakness. The, the, the key determinant, of course, it's the fed. The governor knows this. I'm a little bit perhaps optimistic on the US growth outlook, certainly as a talking point.

Nozi: Yeah. Let's look at the highlights. Azar, starts off with you. One of the big issues that came out of that speech, that revision downward of the growth, forecast, two point one percent overall. You know, what does this say about the health of the South African economy?

Azar: Well, we all know that the mining strike is costing us terribly and you know, almost with every week that goes by you and the strike continues. You've got to keep revising your growth forecast downwards. And it's as simple as that. And it's also having knock on effect through the rest of the economy. Uh, Chris mentioned the manufacturing sector, well, you know, why is manufacturing so weak? Why is it not deriving any benefits from a more competitive exchange rate is because it's being hammered from the other direction. A declining confidence decline, a declining demand for manufactured goods for the mining sector. And also, by the way, and she mentioned it, electricity supply, uncertainty.

Nozi: What do you make of her forecast for future quarters? I mean there's a revision down to two point one, but some degree of optimism that we're somehow going to bounce back.

Azar: You know, I've got the same dilemma myself in forecasting growth for this year. Um, you know, were the mining strike to end tomorrow. Uh, could there be a little bit of a bounce back in economic activity and growth? That's, that's what I'm hoping.

Nozi: Annabel we've just heard a bit of the domestic's pressures that Azar has pointed out, let's look at the global picture. Um, and why this, the supportive, perhaps the governor's decision.

Annabel: 0Sure. And perhaps before we get there, um, you know, I think it's interesting to note that both the US has contracted in the first quarter and we're likely to be at the same magnitude. The governor good has told us that in her speech and I think from that point it is appropriate that if we have a negative change

in GDP, if we've have a negative growth, outcome in the first quarter that our interest rate differential with inflation is also negative. And obviously now close to minus zero point six, so I think that is appropriate in terms of global monetary policy normalization or what's happening at the moment as they're injecting liquidity, um, you know, in, into the, US economy to keep growth going and next year they expect to inject no liquidity with possibly small interest rate hikes at the end of that period. But really, you know, normalization of interest rates, in other words, reaching the neutral level in the United States of possibly around about four percent is only likely to happen out in about 2018. So that's a very long trajectory for us to go through. So actually the imperative to hike interest rates inside Africa to maintain some type of differential or you know, fit with what's happening globally has actually been reduced. So from that point of view, I think the Reserve Bank, did the tight outcome they're comfortable with the fact that they can wait before they start to increase interest rates inside Africa. Given the fact that we have seen this deterioration in the economy

Nozi: focused on the US, let's look at.

Chris: Can I just add a point? we've been looking at a theme where we expect the Fed to start tapering the taper because yes, growth is going to be so weak. Our view is that cyclical growth in US, it was actually peaked out last year and as the US growth starts to come under pressure and as Annabel pointed out, you get a very weak. We we've already seen quite a week Q1 GDP prints in the US as that extends into the rest of the of the year. Janet Yellen is going to want to reverse the taper and she's going to start tapering the taper and she starts to increase QE once again and then we could see a very strong resumption of inflows into South Africa. If the domestic growth environment isn't two weak.

Nozi: Chris, with your analysis give us timeframes. I mean you saying this is what you, you anticipate yet and will do. Let's talk about. Let's talk about it within

context of timeframes and then the impact. This is likely to have on monetary policy back home.

Chris: So central banks tend to be on the Fed as well as the reserve bank has become a lot more reaction in terms of their policies, so wait for the data to come out, then they'll respond. Um, so in terms of the tapering of the taper and scaling back that we expect that to happen more aggressively towards the end of this year, going into early 2015. Our views also been this camel hump interest rate hike view in South Africa. So we've been expecting a very short interest rate hike cycle. The first half of that speech to me was so devilish. I thought if she continues down that track, she's actually starting to set the scene for rate cuts at some point. That's really what it seemed like to me. And so we're looking at it. And maybe another one hike, maybe she unchanged before the economic data starts to come out. And we start to see right cuts early next year.

Annabel: Or just a reverse on that unfortunate hike in January. Because the reality now, the reality is, you know, what is being said is that they're going to continue injecting liquidity into the United States economy for longer, so in other words, the longest stretch of easy monetary policy globally, which then gives us scope to try and assist our economy if it continues to falter.

Nozi: Colin let's link back to the emerging markets picture, she seemed to be quite positive that we're seeing a reversal of outflows or at least, a sustaining of the inflows coming in.

Colin: Uh, but not very certain we're very worried about the rand outlook. I think the rand, the rand of course is an extraordinarily volatile currency. The interesting move of course, earlier on today to take note of as the Turkey, one of the earlier branded fragile currencies given current account dynamics actually cut interest rates by 50 points. I think it has to be pointed out, at least in my opinion, that that's a reversible of an extraordinary policy era. They've hiked interest rates by 550 basis points in January out of fear of their lives,

given the global capital flows that at that stage and given potential ECB easing in two weeks and then of course Europe is a huge destination for South African exports. The global picture at least is certainly for economies that are relevant and matter to South Africa as one towards further easing, so in that environment and of course currencies are always a two-sided story. It's, it's the rand versus everybody else, right? We need to. We need to say that an on emerging markets platform, South Africa's growth is really disappointing and at the same time now our inflation outlook is not that differentiated. Inflation isn't trending up in Turkey in indeed in many emerging economies. However, the question is what is the outlook on the horizon for the Reserve Bank and the governor spoke to that. Still confident that at a 12 to 18 month horizon, the target band, and the inflation rates that are realized will be maintained within it

Annabel: So you know, something just picking up on what you're saying is that when we've had withdrawals of liquidity injections in the United States would actually then had falters of economic growth, you know, and we've seen that with QE one, QE two, you know, so the reality is there is a risk that QE may well be extended and then we actually may have the spectre of high interest rates and of faltering economic growth economy put off for South Africa

Nozi: Azar, let's bring you in into this and I wanted to talk about emerging markets just before we move on. We see the decision in South Africa, we hear of the decision that was taken in Turkey earlier today. Overall is South Africa in line with what other emerging markets should be doing. And if we're not, I'll be really part of the fragile five or not.

Azar: No, that's precisely why I suggested before the speech that one of the main reasons why they would not increase interest rates right now is that the whole tenor of, uh, not only, uh, emerging markets, but um, also the advanced economies is suddenly to put off the day at which interest rates are going to rise and that there could be unintended consequences if South Africa were to

suddenly start raising rates in that environment. Especially given it's very low growth rate. And uh, I believe that that is the one reason why they stuck.

Nozi: Well. One of the questions that I think she did well to duck was that tips for the incoming finance Minister. But we can certainly do that. A quick from you mean if, if the, if the focus is to achieve five to six percent growth in order for us to meet those NDP targets. What do you think should be the first order of business? Not only have just the whole new administration broadly, but of the finance minister as he or she walks in.

Chris: It's a very easy answer. Cut Spending and cut taxes, really.

Nozi: Cut spending and cut taxes!

Chris: And not talking about cutting, spending for baseline increase, freezing spending, releasing more resources to the private sector, which is where we really need the growth and people really just pay lip service to this idea that the private sector needs to grow, but we continue to spend money which ultimately is going to take money out of the private sector, so it weighs on growth over the long term

Nozi: Cut spending and yet we have this massive infrastructure plan underway that needs significant amounts of spending.

Annabel: I think we need to cut our current spending and that's the spending on civil servants' salary and wages and they have reduced the trajectory for the forecast of real growth rate and expenditure, but what they need to do is start looking to ease back on spending. There's no need for this proliferation of regulations that we are seeing that are quite frankly against the ease of doing business in South Africa, which then engenders, more government departments, more civil servants and more pressure on the fiscus and in turn that then translates through into pressure on our ratings as a sovereign credit basis. I think from that point where we need to focus instead on increasing the

ease of doing business in South Africa and we really need to try and triple the size of the private sector and of course income tax hikes on the face of where we going with us economy are going to be very unhelpful.

Nozi: How do we move on from 2.1%?

Azar: I think the most important thing right now is for the government really to show commitment towards the implementation of the national development plan. There is, there are some weaknesses in the plan, but it's certainly the most holistic way of actually bringing the whole country together. It's all very well for us to, uh, keep saying cut government spending, cut taxes, et cetera. It's not going to happen. We all agree that should happen here around the table, but we are regarded by the majority of people in this country as neoliberal and under those circumstances we will never carry them with that kind of argument. So the best thing to do is, you know, just rather try and achieve a compromise and the NDP is the best way of reaching that.

Nozi: The best thing to do is use the NDP and it's the best way of getting where we want to go. That's the final word for the segment. We're headed into a short break now, but when we come back more analysis right after this

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	6 (22.27%)	1 (4.54%)	2 (9.09%)	8 (36.36%)
inflation	1 (4.54%)	1 (4.54%)	2 (9.09%)	1 (4.54%)
Sub total	7 (31.81%)	2 (9.09%)	4 (18.18%)	9 (40.90%)
Total	22 (100%)			

CNBC AFRICA MPC Panel video-18th September 2014

Nozi: Hello and welcome to this CNBN Africa special, I'm Nozipho Mbanjwa. In a couple of minutes Reserve Bank Governor will be giving the address cumulating in the MPC's interest rates decision. My guests today to share their insights are Sizwe Nxatana* Chief economist at FNB, Andre Cilliers currency expert and director at Treasury One and Annabel Bishop group economist at Investec.

Expectations from experts in CNBC newsroom:

- 6 think interest rates will remain unchanged.
- 2 believe there will be a 25-basis points hike.

Interesting insights there but I'm quite certain a lot of South Africans do not want the interest rates to change either. But let me turn the attention to the experts that we have at the desk. Sizwe let's start with you, there's a 6-2 consensus in the newsroom most saying that they see this as unchanged, where does your consensus lie?

Sizwe: I concur with the CNBC staff's consensus. I think if you look on balance at all the information we've received since the last MPC meeting growth remains very weak. We know in real terms that interest rates must increase in South Africa, but we've already had 75 basis points first and foremost ant that coupled with inflation that we think is likely to moderate over the next 12 months plus the weak growth environment domestically would suggest to us that there's space for the Sarb to not move today. The only risk stems from the current accounts which makes the rand venerable in an environment where the rand may be starting to price in the fed rates hiking

Nozi: A lot [punching into that short analysis, Annabel are you leaning towards the unchanged side of the fence as well?

Annabel: yes, I also forecast unchanged. The reserve bank hiked interest rates last meeting in July and have said that we are in a gradual up interest rates cycle, should they hike

it now in September that would not be a gradual cycle as its two hikes in a row. Secondly I think if we take a look at the currency itself its only depreciator essentially against the US dollar on the back of dollar strength, its actually strengthened since the last meeting against the euro and the pound and if we look at a normal trade weighted basis you can see the rand is similar 9% weakness both on the 15th July and now. So, there's many factors which point to less reason to be hawkish, but we know that the reserve bank is hawkish. Lastly, we target inflation 6-24 months out so there's no point in harping on yesterday's inflation figures as they are irrelevant, and it really matters what inflation is going to be in the future, and from that point of view of course what's happening with global monetary policy normalisation.

Nozi: Very interesting point in zooming in on prior communication and focusing on that word gradual and how this would be a contradiction. Now André, let's put you on the spot and see which way you are going.

Andre: I'm going to go for a 25-basis point increase this month. I think I would still call that gradual, it's a very slow incline of rates and I think we need to move back to real effective interest rates and I don't think that a 25-basis point increase would have such a dramatic impact on growth at this stage, so I'll put my money on the 25 basis points increase.

Nozi: I want to bring back a point that Annabel made where she said there's no point in harping on about yesterday's CPI numbers, so she's quickly dismissed that as not valid for today's conversation.

Annabel: not, not invalid but it's not the core focus.

Nozi: but let me put it to you, if we were to look at the domestic factors do you believe that the CPI number – which was up a little bit more than everyone expected – reinforces and justifies the stance that you're taking today?

Andre: I think that if we're going to look at inflation then I would say inflation is not really going to go up that much – yesterday's figure doesn't concern me. But if we take 25 basis points on the upside on interest rates now, stable inflation even to slightly

lower then I have inflation and the interest rates helping hand in hand to get back to a real effective interest rates.

Nozi: I always think this is a good opportunity to take a step back and reflect on previous decisions that the Sarb has made. Do you get a sense that previous decisions made, looking at January and July have been justifies given the economic space we're in today?

Sizwe: well yes, I think so. If you look at the January meeting the Sarb almost had no choice - can you imagine if the hadn't hiked when Turkey had hiked 500 basis points overnight. We had been deemed one of the fragile 5 and when some of the other fragile 5 EMs are hiking interest rates and you do nothing when you have large imbalances in a world that was very much risk-off at the time, things could have really become sticky for the exchange rates so that takes care of the January meeting. It was a signal to the market that we're going to embark on a shallow hiking cycle because we have a large current account deficit, even though growth is weak, even though inflation has perhaps peaked in the second quarter of the year we still have that external imbalance which provides a tail risk to the exchange rate in an environment where the Fed is going to start reducing liquid – and in fact has reduced liquidity or rather is increasing liquidity at a slower rate and will start reducing liquidity, they are also signalling that they are going to increase interest rates. That's a massive tail risk on the exchange rates that can then derail the benign inflation outlook. The Sarb has to somehow start buying insurance against that.

Nozi: We'll get into a little more analysis around exchange rates but perhaps now we can look at where the JSE ALSI is current trading prior to the announcement. If we look at the graph it is slight firmer by a quarter of a percent, beaching the 51 000-mark sitting at just over 51 299. It will be interesting to see how that changes after the decision. Any expectations on what we're likely to see Annabel after the decision when we look at that graph?

Annabel: that graph is very heavily influence by your global equities so it's your global listed equities that are also listed on the South African Stock Exchange, so you're necessarily going to see much change. But what I do want to talk on is the real

interest rates and I do think it's really important to actually look at the calculation for real interest rates, that looks at future inflation – it doesn't use current inflation rates – it's a misnomer to say the real interest rates is your current inflation rates and your current interest rates. So while the difference between inflation and your repo rate currently is negative and the reserve bank has expressed that they want to get back to a neutral level of zero of above that's not a real interest rate so I think the reality is we are going to see inflation drop down towards the end of the year towards the 5.7 mark if not 5.5, we see substantially low yellow maize prices which come through to feed, white maize prices come down substantially as well and you've actually seen the cereal and bread component of CPI inflation on the food basis come down recently as well in the recent set of figures. So that all points to this downward trend, so I think when we come to the end of the year the reserve bank will see that zero differential effortlessly achieved without any part of them on their own. I think they actually risk damaging the economy by hiking now – I think it wold be pre-emptive.

Nozi: Future inflation. Annabel sees it falling within the target band at 5.7%. Andre, do you see that trend also?

Andre: well I said that I don't think that inflation is in a massive upward trend and I think it will come down a little bit. But I think I will be a little bit more conservative and say that it doesn't come down that much.

Nozi: I think to a large extent we've kept the conversation looking at domestic factors. Maybe let's go global. Sizwe let's start off with the FOMC just last night and how that's likely to spill over into future meeting and decisions from the Sarb.

Sizwe: So as I've said already I think the main risk for domestic monetary policy stems from our external imbalance and the tail risk in a world where the fed is signalling and the markets are going to start pricing in the feds hiking and the impact that could have on the exchange rate because all these inflation forecast that see inflation sort of hovering at 5%-5.5% this time next year don't assume a rand at 11.50 so the domestic petrol price is falling, domestic food prices as Annabel has pointed out – look at safex* future short dated, if you look at the wheat prices – all of that plus

the fact that core inflation is relatively well-contained because the pricing power is not there because of weak growth, all of this is pointing towards a reasonable expectation of moderation in inflation. The tail risk for that is the extend of the Feds rates hiking cycle and to what extend we see a narrowing of the current account deficit because if this time next year the market is pricing in an aggressive fed hiking cycle and we still have a large current account deficit because we've had more strikes or production and exports have been impeded because of lack of electricity then the rand will remain under pressure. And if we assume a high rand – say 11.50 – then this expected decline in inflation doesn't happen but the opposite could happen. So, I think the critical core here is the international call and fed hiking rate and the impact that could have on our currency and the narrowing of the current account deficit.

Nozi: Sizwe is raising a lot of red flags here, Eskom and electricity tariffs being amongst them. Annabel, I see you nodding, do you think it is as clear cut as these two divergent paths he's just mentioned?

Annabel: I'm nodding with the feds funds rate. We saw yesterday evening that the FOMC put out its trajectory for the future fed funds target, moving away from a numerical to really a dot trajectory – or every individual's dot as to where they think its going to go. If you look at the average of that, it certainly sees the fed funds up by as much at 375 basis points by 2018. So that's a 3% increase for us in South African because we have already done our 75 basis year points. And I think the reality of it is if we actually look going forward the 2015 is expected to see a 1% increase in the fed funds target rate so I think between 75 basis points and 1%. I think that's very important that Sizwe highlights that because if we get more than those expectations it could upset the markets but actually if we look at the Taylor rule* calculations and if you have a look at the feds funds futures they're actually pricing in a lower interest rate trajectory, it's not as steep as what the federal committee is pricing so I think the market's actually not buying into the believe that they're going to be able to run at such a high rate given their repurchase operating requirements as well and their balance sheet obligations. So I think it's going to be difficult for them to

hike it by that much but should it actually come to pass and they disappoint the markets and hike it by lot more then as Sizwe said, I think we could start to see a sell-off of South African assets and the negative there is that could actually come to impact our rand quite substantially so that's when it does become quite worrisome if the rand does come to 11.50 or 12 and it's not because of dollar strength because remember the oil price itself has actually strengthened as the dollar has strengthened because the oil price is actually priced in dollars so the dollar has strengthened against commodities and other currencies. If that's not the case and if there's actually a loss of value on a rand side because foreigners are selling of the assets that they've been holding, then we are at risk for a bumpy ride, so I think that's where the flux is coming in

Nozi: Gill Marcus is walking in but before she takes the podium Andre I just want to get a comment from you on the fed and the implications of their decisions playing out in South Africa. We've had some degree of consensus between Annabel and Sizwe, where do you stand on this looking forward think about this time next year, what kind of conversation do you think we'll be having?

Andre: I think the next 3 to 4 months is going to show to us that the growth – and especially looking at creating jobs and reducing unemployment in America – is going to show to us that the upward movement of interest rates in America is not going to be that steep and not that soon. So, I don't think that should be a threat to the selling off assets in South Africa.

After speech

Annabel: Positive into Africa, so you know, if they expect the growth rate to start to tumble and, you know, bear in mind that it's being revised lower and lower, the governor's now got it at one and a half percent. If it starts to move towards a one percent mark, then some of that shine is going to come off equities.

Nozi: Absolutely. We've got to get into that a revision. But before we do Andre, I need to know, have you lost some money this afternoon? As you can see most of the panel,

there's just two of them had it at unchanged. You foresaw a 25 basis points rise. Have you lost some money?

Andre: No, I've not really lost any money. Personally. I am a bit surprised. I would have liked to see an interest rate increase. It didn't happen. I think we might see happen next month now or at the next MPC meeting.

Nozi: if you were in the room and that one member from the community who was on your side and thought that we should have seen at 25 basis points raised, what would you have argued? Where do you think maybe the governor might have missed it?

Andre: I think the governor that, I don't want to say the government missed it because it's whole MPC meeting that missed so it's not the governor. I would have moved stronger to which the, a normalization of monetary policy much rather than just focusing on growth and I am not of the opinion that inflation will come down that much. So, I would've much rather stronger argued on monetary policy rather than focusing on growth.

Nozi: Are you happy Sizwe? Do you get the sense that your earlier arguments have been justified?

Sizwe: Yes, I think so. I mean she did sort of lay out the thinking of the committee very well to say that growth is weak. Inflation to them and again in consensus or in concert with the market is reasonably expected to moderate over the next 12 to 18 months. And then the risk to the outlook is the external imbalance in a rate normalization environment globally which places tail risk on the rand. And they keep having this paragraph where they say the future monetary policy outcomes or predicted or predicated upon the pace and extent of our adjustments. Yeah, and the pace and extent of monetary policy normalization globally

Nozi: There’s a very interesting term: asynchronic global growth. And just to bring you back to that, but we've spoken a little bit about what's happening in the US. Maybe

let's turn our focus to some of the decisions that are the ECB. They anticipated a quantitative easing. If it happens, how is this likely to play itself out in future meetings?

Annabel: You know, I think it's quite interesting if you look at the quantitative easing move, the move toward, but not obviously full quantitative easing in the eurozone. Obviously, they have their problems, the German constitutional court very strongly opposed to any type of quantitative easing and bond buying of sovereign assets, particularly of other countries. So, they are against that. It's going to be difficult to see how they get that through legislation, but if you have a look at the move at that introduced recently, the Abs spy*, you know, that obviously will support nonfinancial corporates in the eurozone, but it's quite small as estimated to potentially be the capacity of less than 100 million euros. So, it's not expected to be have much impact at all. I think the reality is they're going to have to look potentially to other methods of stimulation in the eurozone if they cannot have full quantitative easing. I think that there probably is probably purpose now or call for some reduction in the fiscal constraints we've seen in Germany in particular, some fiscal stimulation, you know, the difficulty is they are running a budget surplus and that doesn't assist their neighbouring countries.

So, to stimulate demand and obviously provided but a fiscal stimulus I think will be the way ahead, but I think you know, should there to answer your question, go into full quantitative easing. Then the reality is that would be positive. I think for emerging market countries they would be a search for yield on again perhaps not to the same extent that it was in the United States, but I think you know what's really happening is those very low interest rates, negative even in the eurozone have certainly stimulated the carry into other countries and you see the United States bond yields have actually come off in the 10 year space which was alleviated. Some of the pressure of the FOMC to keep those down, to stimulate their housing market in the mortgage space. So, from their point of view that's also assisted in our 10-year government bond come off as well. So, I think it's interesting if they managed to get it past the German Constitutional Court

Nozi: of course, Germany standing in the way of that, but staying within Europe and of course today we've got that vote with the Scottish and whether they're going to be granted that independence or not. To what extent would those that geopolitical tensions and if we wake up in the morning, and hear that Scotland is no longer part of the union. Is that important for us back in South Africa and for consumers?

Andre: I didn't think there, for instance, the Scottish vote, whether they stay within the UK, whether they go to the Euro. I don't think that got much of an impact on us directly. I think the general growth in the European economy has got an impact on us and that's the more important one that we should look at and I think that's going to be from a European point of view, the growth is going to be very, very slow and it's going to take a very long time before it gets back to any normalization of growth. The and I don't think that the Russian side speaking about political tension is helping at all in terms of the European economy.

Nozi: Yeah, of course. It's brought us to the Ukraine Russia issue and the sanctions on Russia. That continues to be a great cloud that plays itself out in Europe. Sizwe, again, keeping our focus on long-term development. Should this continue unabated and those sanctions become reinforced the how's this going to outplay itself back home?

Sizwe: Okay, so it puts uncertainty, increases uncertainty and places further downside risk on the eurozone economy that's already slowing, on a eurozone economy that's sitting with inflation at about 0.4 percent where the target is close to two percent and it's suggests and it substantiates the call by Mario Draghi* the ECB president's to put the foot on the accelerator on a unconventional monetary policy and also to try and put pressure on the fiscal policy makers in the eurozone to also become a little bit more flexible in terms of the fiscal tightening or rather the fiscal stance, where it impacts South Africa. I think again, going back to our external vulnerability is that it might be a positive to the extent that we are seeing and are in in fact not a Seeing a contraction of the current account deficit. You need the carry

to be positive. You need us to be bought time to adjust this current account deficit and with the Fed moving the one way and ECB that's trying to increase its balance sheet by a trillion as the Fed tries to reduce its balance sheet and didn't hike rates that might actually lead to, might mitigate the reduction in global liquidity

Nozi: So the divergence in monetary policy at a global level, you're arguing might actually play in our favour?

Sizwe: Yeah, because I mean it's risk on or risk off. Risk off is negative for South Africa. Risk off just for asset pricing model. To the extent that your discount rate, the interest rate starts to go up, then asset prices go down and then money tends to flow to safe havens. Now the US is definitely going to start increasing interest rates. We're just not sure about the extensive repairs of that hiking, but that might be mitigated by the weak euro zone. The low inflation in the eurozone, in the eurozone, going into the opposite direction such that overall global liquidity conditions remain easy to allow an externally vulnerable small open economy like South Africa to continue or the gradual normalization of the currency.

Nozi: Before we move from the global picture Annabel, just a quick one around Japan. She did mention that we are likely to see fragile growth and we know that they also in a space where they're considering loosening monetary policy stance. Again, the significance of Japan back here on our own shores?

Annabel: Japan's interesting. They engaged in a huge quantitative easing program. They're looking to try and push inflation up. The eurozone has got the same problem and yet their liquidity doesn't translate through into significance, essential or substantial changes in South Africa's assets and you know, my view is that they're very inward focused, you know, if you stimulate their economy there, you put more liquidity and you know, their government debt, I think it sits above 250 percent of GDP. It's exceptionally high and that's because there's a Japanese culture of wanting to hold their own vines, you know, so it's a very wealthy economy. It's one of the key

advanced economies in the world globe. And yet they've got such a surprisingly high debt level and it is this national reticence to stay at home to keep their investments at home, even see Japanese abroad repatriating funds into the investments and their government bonds and I think if you actually have a look at their holdings of platinum bars, gold bars, you know, they're quite a risk averse nation. So, I think it is interesting, you know, from that perspective,

Nozi: Let's maybe look, come back to the South African space and look, let's look at that one-point five percent. Andre downward revision from one-point seven percent and the national development plan comes to mind, and I'm reminded of the five percent that were told we require to achieve many of the targets that I noted in that plan. One point five must be quite a sombre number to be hearing the governor talking about this afternoon.

Andre: That's a very sombre number and it's a number that is not post any positive signs for us because we need the number closer to five or six percent to really, really show anything significant in this country. And that's not what's happening. So, a very bad for unemployment, bad for companies in general in the sense that there is no real foreseeable growth for them. So, I think it's a very, very bad number.

Nozi: Sizwe I know this is a bit of an unfair question, and literally asking you to take the position of being the man in charge of the country at least for the next couple of seconds or so. How do we turn it around? How do we move from one point five and gradually build it up to the five, six percent that Andre has also reinforced that this is what it's needed to move forward on that NDP?

Sizwe: Well, you take the NDP, clearly you can't focus on all hundred and 30 things that are in there and you chunk up into small pieces. First five years, I think that's already been done through the MTSF. So, there's a gradual movement towards

taking these big softy, sort of lofty goals and chunking them down into sort of five-year plans. And I think the most critical constraint to our growth going forward is energy and labour. So, we need to get the power station's online as quick as possible and then we must move towards the less toxic labour environment. What that does is that then means that are productive sectors, mining and manufacturing, which are also exporting sectors has become more productive and more competitive. We boost our exports and we have a much quicker narrowing of the current account deficit.

Nozi: Well, it sounds like the earlier question that the governor had dodged this being her last MPC is being addressed right now and it seems that she is confirming that this is indeed her last MPC, but let's have a quick reaction from the desk. Annabel you seem sad.

Annabel: I would like her to stay on. I think she's been a particularly good governor. I think her handling of the African Bank crisis was exemplary. I think you know that she's been very solid on the monetary policy front. I think she's been a very strong asset to South Africa, particularly on an investor basis and you know it's sad for her to leave, but I think the focus is now going to be on who would step into her shoes and I'm thinking potentially Lesetja Kganyago is the person I would like to see. But um, obviously there are other people as well who could do equally well on the committee. Daniel Manyele is another one, so I think it's going to be very interesting to see what the announcement's going to be now and who her successor is

Nozi: so, a quick reflection on the legacy as well as putting her name in the hat for the person to fill Gill Marcus's shoes. That's nicely done Annabel. Andre, how do you feel about this being her last term and now that Annabel has started the trend, we want to know who do you think the man or woman should be to step into that position?

Andre: I put my money on Lesetja Kganyago I think also Danial Manyele and Annabel mentioned is also there. I think Gill Marcus to me was one of the most calm, stable and collected governors that we've seen in a long time. And I think she's done it particularly well,

Nozi: I think they're called the term cool, calm and collected, if I remember correctly. But Sizwe, a quick one, a quick reflection on the legacy that you think she's left for the country and your man or woman for the job.

Sizwe: So, what we appreciate as analysts of monetary policy is communication and I think under the governorship of a Gill Marcus, the communications by the song to my mind is certainly improved. So, I would commend her for that. Um, and presiding over there definitely a in terms of who's going to take over. Look, I think there are many competent people within the MPC and I don't want to speculate too much, but they might even be someone from outside.

Nozi: You're starting to sound like the secretary general of the ANC, but you're not allowed to indicate who do you think is next on the job. But let's get back to some of the points that says Sizwe raised in his analysis and talking about energy constraints and labour. And I want to come back to this point and this concern Andre that was raised by the governor around the de-linking, a of what she called a delinking of productivity and the negotiations and settlements that we're seeing in South Africa and how together that's leading to a reduced competitiveness for the country comparatively. I'm quite certain have a concern that you share.

Andre: It's a concern that I share, and you would have seen whiles you are asking the question there's a smile that comes to my face because it's a really, difficult one. When I was listening to a program last week on radio and a person called in and he said he's got a problem with the labour law because when you employ somebody it's difficult to get rid of them. And I was sitting there thinking, but you know, but this is just taking things to the completely wrong side. The minute that I employ

somebody I'm already thinking of how I get rid of the person that creates a very unstable labour environment. I think creating a very unstable labour and environment leads to labour tensions and that's most probably also leading to all these higher wage negotiations that takes place because people are so uncertain of what happens and the only thing that they have is a short-term goal of getting as much as possible as soon as possible.

Nozi: Do you share that concern of the negativity that Andre is talking about that it seems to have infiltrated the Labour space, Annabel you're shaking your head? No?

Annabel: I'm not necessarily going to disagree with him, but I would point to the facts that you see in America where they have a far more flexible labour market. Indeed, a far more flexible economy. One that's now going to be looking potentially for quickening the economic growth compared to South Africa this year and you know, certainly next year we shouldn't be running at the same level as an advanced economies and emerging markets, we should sufficiently faster growth which we're not seeing. So, I would say that, you know, my view is that the biggest difficulties in the labour market are the inflexibility particularly I'm concerned about the fact when you go through cyclical downturns, there's not an opportunity to reduce costs. And when you go through cyclical upswings then obviously you would employ less because as Andre says, people are worried that if they get someone on board then when they go through a financial hardship they can't shift their costs. Because for many companies they laborers, indeed the biggest cost or one of the biggest costs. So that flexibility I think is something that does proved to be problematic for South Africa on a cyclical basis. And you know, the reality is yes, there are measures that you can protect workers who would be perhaps in terms of downsizing, you know, in a downsizing situation where you would look to see reduced hours, reduced working days, variables which can keep them on board, but see greater flexibility. And in the South African environment we're moving towards such inflexibility that I think it is becoming very difficult. And it's also, I think, what's a disincentive for foreign direct investment and that's why we need, this bricks and mortar investment

inside Africa from Foreigners abroad. So, you know, those are my concerns.

Sizwe: So, um, having, having heard, that's mean, one of the key macro-economic development, economic arguments or debates now is about income inequality. And so, I think when, when people strike for five months and go hungry, you know, it's almost like, as a middle-class observer, you almost think this is like cutting your nose to spite your face, but they're telling you something, they're telling you that they're there perhaps suffering. So, I think the problems are intractable more intractable than what we make them out to be. Just to say, well, you know, that people must accept whatever the market clearing price is. People aren't accepting that and they're willing to strike for five months. So, there's a deeper issue of income inequality that's out there. But going back to then Annabel's points about flexibility. I think one trick would be to tier the flexibility so perhaps keep the labour laws as they are for big companies, but then for smaller companies impose a little bit more flexibility and I think that's what sort of the free market foundation's been arguing about that these bargaining counter agreements shouldn't extend to non-signatories. I'm speaking particularly about sees

Annabel: and globally as well. I have great concern that South Africa's remuneration - the wage per GDP is closer to 50 percent mark and you know, globally it's closer to about two thirds. You know, so certainly people would say perhaps you know, we have a riskier environment, you know, the other factors that need to be brought into play. But you know, the reality is I think there is scope for some lifting at the lower end and some more reticence at the upper end with income. The upper end income band unfortunately it's now become a comparison between those, the bottom and those at the top. And that's the balance needs to be raised.

Nozi: before we just get there Andre. Also, just wanted to comment that seems to be liberal advice for Minister Zulu there in terms of the focus areas for the small business ministry, but Andre, she also spoke of executive remuneration and how

that, she also felt was raising or rising at unacceptable levels in South Africa that to maybe raising alarm bells about competitiveness. Do you get a sense that we're having the executive remuneration conversation as often and as in depth as we should be a given the focus that we give a for example, to a wage negotiation when they happening at say the mining end?

Andre: No, I don't think so. I don't think there's a good enough and in depth and just discussion about executive pay, but I do think it's a little bit out of hand I do think that these people are paid way above what they should be getting. And, and I think that the strategy between top and bottom is way too big and that's where this all or nothing and inflexibility from the bottom end comes from because that's what they want. They also want the all and they're not having it and the inflexibility then leads to, as Annabel said, now there's no four-day work or less hours or anything. It's just either you'd employed or unemployed and if you're employed I went as much as possible as soon as possible.

Annabel: And that creates a very negative inside-outside paradox where people who are employed get remunerated more and more and more because of the strike action because of the pressure that's come to bear and it makes it more difficult for other people to get into the labour market. You would perhaps accept low entry level salaries and indeed this is something that unions are very adamant about and one reason why they oppose the youth wage subsidy so very adamantly so it's creates a bigger problem for the South African economy in terms of it's very high level of structural unemployment and that's why I think some of these structural issues actually need to be readdressed or you looked at quite significantly be addressed because the reality is if we carry on with the youth unemployment rate or close to 50 percent, you actually risk regime change. You know that's the reality which has happened in other countries when you've seen Arab spring*. So, we're not expecting Arab spring, don't get me wrong. What are we trying to say is that you cannot persist with the youth unemployment rate running around or about 50 percent and expect

to have stability in your country. And that's one of the factors that the rating agencies points to quite substantially in South Africa, they're concerned about civil society and the fact that you're starting to see some of it come through in some of the strife areas. I think still quite a few areas to look at. But I think there are concerns on a socioeconomic basis,

Nozi: maybe not an Arab spring, but the regime changed. Wouldn't necessarily be an all bad thing all around. Even if I might come under fire for saying that. Sizwe, I want us to come back to executive remuneration. You spoke about inequality being one of the biggest issues on the global agenda, and again I get the sense that we will always focusing on the lower income brackets when we talk about this and we hardly ever focusing on those that are really making the big money that is inaccessible for most. How do we turn that around from a policy perspective? If the government were to tackle this and say let's bridge that gap between the highest earning and the bottom earners, how do you go about doing it? Where do you start?

Sizwe: Well, I mean it's an unpopular answer that I'm not agree with, but theoretically if the government wanted to redistribute, obviously you can't tell people or the private sector, this is how much you must pay your executives and so on. But I'm in at a quick stroke of a pen. The government could tax a higher and higher income bands.

Annabel: The multiple millions. So, you could have 20, 30 million

Sizwe: Yeah, so you could have much higher pay as you earn income tax rates for very high-income earners.

Annabel: But you wouldn't want to get into the super tax bracket either. Sorry to interrupt. Just as a cautionary.

Nozi: You don't want to get into the super tax bracket. Quick elaboration for us?

Sizwe: The points I was making is that policy wise, that would be an option. It's not something that I'm advising, but I'm just saying theoretically that's what an

economist would say if they're looking at the treasury and they really were not happy about the situation and they wanted to rectify it. Taking a step back, a more general macroeconomic point, and this was made. I was made aware off very recently, which I then subsequently went to double check is that, and I think you spoke about this, as a percent of GDP, corporates profits are some of the highest in South Africa and wages is a pittance of GDP in the world. Um, so it's like 50/50 almost. Whereas you have your EM splits being about two thirds or 70 percent wages 30 percent corporate profits and your DM split being 60 to 40 percent. I can't take that back to how almost toxic labour relations have been South Africa with a negative spill over in business confidence and production and maybe I'm just putting it out there that perhaps we aren't paying people as much as we should.

Annabel: Certainly, a lift at the lower end that I think is a very strong scope as Sizwe says for trying to control some of the perceived excess with the upper end because that's what's sparking this instability in the labour environment as well. The fact that while we make so much profit in this mining company, the executives are getting paid such multiple millions. We're only at this level. We are battling financially obviously partly because of unsecured lending in excess indebtedness of households, but that's a big issue as well. So in terms of the taxation you know we'd certainly think the marginal tax rate should be limited to 45 percent, but it probably need to kick in about the 20 million plus mark so you could probably graduate it at above, you know, kick in at about 41 percent, then move upwards there because that upper stratosphere of wealth has actually been ignored in the South African tax system and there continued to earn a 40 percent marginal tax rate the same as someone who's earning some very substantially lower than that and indeed increasing the marginal tax rate where it does now, it is not the solution because it's actually going to knock on the head the only portion of consumer spending that's actually driving any growth in the economy and the housing market and employment.

Nozi: interesting phrase that “upper stratosphere of wealth”, if you've put into that record, raise your hand, but, as we begin to wrap up this conversation, let's just get a quick insight into some of the future decisions that we think are likely. And, Andre, I'm going to ask you to put your neck on the block again and hopefully you don't lose any money this time round, but upcoming meetings, given the analysis and the conversations that we've had at the desk and what the governor has said in her last MPC, what do you think if it is going to be Lesetja Kganyago at stepping in, is likely to do.

Andre: I think we will see a 25-basis point increase this year still. So, I still put my money regardless of who the governor might be. I don't think it's just the governor making the decision. It's the entire MPC committee that makes the decision.

Nozi: another 25 basis points before the year is through Annabel?

Annabel: I'm going for flat with diversity here on our desk. I don't think that we would need to see a further lifted interest rates this year, given that my expectation is for inflation to come down quite substantially. There is a six to nine-month price channel between your inputs that go into your formation of the prices, there’s forward buying in the white maize market. There's a few other factors as well which have this quite long lead time. So, the downward pressure on white maize prices that we've seen in the past 12 months has not come through yet, even in most part in, in our food price inflation. Nor has the yellow maize feed price and indeed we have seen the meats and the dairy products, those are the prices that did went up quite substantially. So, all of those I expect to feed through because it is the largest component of our CPI basket. We also, as I said earlier, also of the view that the oil price is not to increase and from their point of view we could see some moderation in petrol price. So, we think by the November meeting would have seen inflation full lower and that would assist in starting these CPI off on a low point in 2015 and aid the trajectory for that year or the forecast the outcome for CPI inflation in 2015.

Nozi: So, inflation falling within target very nicely and keeping rates unchanged. A are you going to go with Annabel again?

Sizwe: not meeting to meeting. To my mind, we can expect a shallow hiking cycle post inflation targeting is normally plus minus five up five down. We think a hiking cycle of no, no more than 200 basis points. The timing is data dependent on this – there's many moving parts. What's our productive sectors of the economy going to do to the current accountant? What's the FED going to do and what's the ECB going to do? So, in terms of time and data dependent, but in terms of the cycle, we just think the magnitude is one that's much less than what the post inflation targeting experiences.

Nozi: And so, you've indicated that there's a lot of moving parts that we need to be keeping our eye on and of course the rand being perhaps one of the key indicators that we should be keeping an eye on. Again, I'm asking you to investigate a crystal ball and just give us a sense of where you see the currency moving in the short to medium term.

Sizwe: So in the short term, we do expect as the market starts to more meaningfully price in these fed rate hikes that we should see the currency trading at around 11 maybe slightly weaker, but longer term, I think this time next year we should be seeing a rand that's significantly stronger because we think that by then we will be needing this funding because our current accounts should be narrower. That assumes of course that there isn't a five-month coal strike or five-month gold strike in the first half of next year.

Nozi: And of course, I'm sure we can all concur around the desk that you were saying that it's been a good term for Gill Marcus, and so it's very appropriate to maybe that she, she wraps it up the way she has done a very big thank you to my guests.

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	12 (20.68%)	2 (3.44%)	3 (5.17%)	6 (10.34%)
inflation	10 (17.24%)	3 (5.17%)	16 (27.58%)	6 (10.34%)
Sub total	22 (37.93%)	5 (8.62%)	19 (32.75%)	12 (20.68%)
Total	58 (100%)			

CNBC AFRICA MPC Panel video- 20th November 2014

Gugu: Hello and welcome to this CNBC Africa South Africa MPC Special. Today we get to hear from the new Reserve Bank governor Lesetja Kganyago who makes his first monetary policy statement in a short while. At the desk I'm joined by my panel of experts, Alex Smith, he's an economist at FNB; Andre Cilliers, currency expert and director at Treasury One and Mangaliso Nxumalo* head of wealth management at Inkunzi Investment. Good to have you all here. Before we head to the newsroom to get some comments I want to get your expectations – up, down or keep steady?

Alex: All the indicators that I look at suggest that rates should be kept on hold today.

Gugu: Kept on hold – we'll get back to the analysis and why in a moment. Andre, from your perspective?

Andre: I think we keep it on hold. No change.

Gugu: Keeping it on hold. Mangaliso?

Mangaliso: I'll have to agree with my 2 colleagues. Keeping it on hold and stable as the global trends suggest.

Gugu: It seems everyone's on the same page here but Andre, let's get some of your analysis here as to why. We look at the currency, it has been significantly weaker over the last couple of weeks, but we are strengthening quite well today, we're looking at 10.99 ahead of the speech. What are some of the global driving influences to allow Lesetja Kganyago and his team to keep it steady. What are your reasonings?

Andre: Just this week we've had the Japanese economy telling us that they're in recession and I think they will remain in recession for quite some time. The European economy is still struggling and that boosts the carry trade market quite significantly and I think that's why the rand is so strong. I think it has very little to do with what happens with the MPC today.

Gugu: So, a lot of it is external factors. Alex the oil price – is that also an influence – sitting at $78 a barrel now?

Alex: Without a doubt, its down 20% since the last MPC meeting, that has a substantial impact on inflation so I think inflationary pressures in South Africa dissipated quite significantly along with the global factors means that the Sarb is probably going to have to cut their inflation forecast today and if that's the case I can't imagine how they could hike interest rates.

Gugu: Inflation did come in at a 5.9% just yesterday. We see the markets still in negative territory today, down quite significantly but will this sway the outlook for investors today?

Mangaliso: Not at all and I think because of the sentiments that are coming across we're most likely going to see the numbers still down, but the market is still strong, and we look forward to the new governor's update. Maybe we'll see the market bounce back as a result.

Gugu: I think it's time to check in with our newsroom as see what the newsroom is feeling and their estimations as to what will happen with interest rates today.

Newsroom predictions:

- 4 hold the rate
- 1 25-basis points hike

Gugu: well it seems our news room is just as knowledgeable as our team is here. I want us to go back to the consumers sentiment, we're hearing a lot of individuals in the news room saying that they don't want it to go up, that they are consumers and they don't want to pay more on their credit levels. Doesn't this paint a picture as to where the consumer market is sitting now. Mangaliso?

Mangaliso: I think it's very important, given the global sentiments and with the oil price coming down, that consumers have been longing for a bit of stability in the pocket and that it comes through. It is a tall order for the governor because obviously he need to present his leadership style and affirm his policy decision, but I think the consumer is going to likely expect the unchanged in the interest rate.

Gugu: well that would come as a surprise I take it, Andre, that keeping the rates steady or maybe even a slight dip which I doubt we'll get but what does this also tell us about the South African growth story?

Andre: The South African growth is under pressure and will remain under pressure for quite some time. From a consumer point of view, we just need to look at the figures that were released not so long ago by credit bureaus telling us by how much pressure the consumer really is. So, any change in interest rates upwards would really make it more difficult for them and put the economy's growth at more risk. So, a hold for the consumer is really a positive outcome and I think that's what they're going to get.

Gugu: Well surely, hopeful that would be fits to it but we all recall the Moody's downgrade we saw just a few weeks ago. Are we expecting any acknowledgement on this from Mr Kganyago?

Alex: Perhaps he will but I think more importantly from a fiscal policy perspective, we had the MTBPS and Minister Nene was very conservative in the budget that he tabled. He indicated to us that there's a strong possibility of more tax increases coming to us early next year. That obviously has implications for the consumer as well and some spending cutbacks by government. So, government is doing some of the work at this stage and I think that also reducing the strain on monetary policy makers to tighten policy at this stage. So, I think the interplay between fiscal policy and monetary policy in South Africa is something quite important to take note of at the moment that now fiscal policy is tightening even more than people thought and that means there needs to be a little bit less tightening of monetary policy in the short term, I think.

Gugu: Is this a sustainable idea Andre? Maybe you can unpack this further?

Andre: Yes, I've been listening to Alex now, if you look at a Moody's downgrade for instance, the changes that need to be done must come from fiscal side and not from monetary policy side. Monetary policy has done that – over the couple of years – the ratings worthiness of South Africa, the fiscal side now needs to come to the

table, so the emphasis is now on them and we'll have to carefully look at what Mr Nene does in February next year.

Gugu: It also does seem as if he's in a tight spot, we do have the Davis* tax commission as you alluded to earlier, but we know also that capital raising initiatives by the country aren't exactly at the rise now.

Mangaliso: yes, with the downgrading of the rating obviously we're struggling to attract any foreign direct investment from the international markets so it's very important that, as Andre said, that the fiscal side of things comes on board in terms of trying to bring in some policies that will be able to drive the market in a positive direction.

Gugu: well the man himself is about to make his address in a moment. He is making his way to the podium to present his maiden statement regarding the MPC. All analysts are expecting that interest rates will be kept on hold at 5.75% but let's see if this changes as Reserve bank governor Lesetja Kganyago has taken to the podium.

After Speech

Gugu: welcome back to this CNBC Africa MPC special. Still with me at the desk is Alex Smith, he's an economist at FNB; Andre Cilliers, currency expert and director at Treasury One and Mangaliso Nxumalo* head of wealth management at Inkunzi Investment. Gentlemen, it appears your analysis was on the spot with no change to interest rates, but I want us to touch on the demeanour of the governor. Very confident and Andre, you were saying during the ad break, the response to the questions were very thorough.

Andre: very thorough indeed and I enjoyed that more than the speech. And as he said, "all good things come to those who wait."

Gugu: does this set a precedence for him in his maiden MPC meeting? He's kind of setting his authority in that he's maintaining the policy that's being put into place and showing that he's not a pushover either. Mangaliso?

Mangaliso: that's true and he's certainly brought in his character and his style in what he stands for. I particularly like that line in his last response where he says that you'll have to wait till next year for your response.

Gugu: well he certainly didn't wait when it came to the oil price which is one of the first few things he made a reference to, no doubt having a positive effect on the South African economy. Alex?

Alex: absolutely, if you look at the inflation forecast the Sarb revised the inflation forecast at quite a lower figure from 5.7% to 5.3% and that's basically on the back of this lower oil price and if you look at the current trends we could get something like a 70% petrol price cut next month, that would bring the accumulative decline in the petrol price between august and December to about R2 or around 15% so that's a massive boost to the consumer and a lot of money back into the consumers pocket and it means that maybe the outlook for the festive season is a little bit better than what we thought a couple of months ago.

Gugu: let's talk about that. We know that many South African consumers are indebted and now there's a little boost. I don't think many will actually capitalise on it.

Alex: yes, we've seen credit growth to the household sectors be very weak in the last few months growing less than inflation and about 4.5% when a wage growth has been flat in real terms when you adjust for inflation. As he mentioned unemployment has been very high, so there hasn't been a lot of good news for the consumer over the last 6 to 12 months and obviously we've had some interest rate hikes earlier this year. So, this is probably the best news I've heard for the consumer this year and it really is quite encouraging, also for the business and the retail sectors. So long may the oil price stay low.

Gugu: exactly, and Andre, I want to get your view on this because you were touching on the Japanese story and the overall global conditions. I would think, if I were the government, I would import a lot more and keep a little kitty in the background.

Andre: that could be dangerous if you have an oil price going down to $65 a barrel because that would be a very expensive exercise but we were touching on consumer

spending – a key driver of an economy – and spending of the consumer is kind of like eating chocolates, there's 2 reasons why you eat chocolates, you're either happy or very depressed. And with an oil price coming down and a fuel price coming down for the third time and a bonus being paid into your account and interest rates being on hold, there's a happiness that comes about and just a little bit of a ease saying maybe I can afford buying something which is a valuable boost to the economy and I think we might be seeing that going into the festive season.

Gugu: How much of a boost though because does consumer spending really contribute to economic growth is at all?

Andre: well it's the magic of number. It you just go out and spend an additional R1000 but 5 million follow suit then its 5 million multiplied by that R1000 and that's quite and dramatic effect.

Alex: if I can just add in something there. Consumer spending or household spending makes up for about 65% of South Africa's GDP so about 2 thirds of South Africa's GDP is household spending, so it's massive in the greater scheme of GDP.

Gugu: massive. But maybe if we go back to the overall industry, the mining and manufacturing again the outlook there is expected to pick up, but it is from a significantly lower base. Mangaliso?

Mangaliso: that's true. Ant with this good news, we hopefully the numbers coming in in terms of unemployment where the backdrop will come from in terms of the strikes for the year, it's a confidence boost coming going into 2015 and we're hoping the fiscal policy side will also give us some tax breaks as well come 2015.

Gugu: on the fiscal policy side, you did refer that the fiscal deficit is expected to improve. Andre, you had some strong words when we started that discussion that that's where the problem lies, and it does seem like a difficult problem to solve within a year maybe.

Andre: it's a very difficult problem to solve within a year and totally unsolvable within a year, it takes time to solve that. The one that we need to see in February is the actual

commitment to it. At this point in time, Mr Nene said quite a few things and he mentioned quit a few things that he will do, it was mentioned by the governor now in terms of increased revenue from taxes, having a ceiling on spending, noting was in concrete measures in terms of "How will I get the extra money? How will I put a ceiling on it? How will I curb the increases in salaries?" we need to see commitment, we need to see steps and that will only be outlines in February. Until then we're a little bit in limbo as to what will come out in February, but we need commitment and then we need that to be carried throughout the year. And that will give us confidence that the government will address those issues.

Gugu: it almost seems that there are so many elements to this as well. There are the state-owned entities that are also significantly under pressure, you made mention of the capital raising. Should we be paying attention as to what the rating agencies are reading into as we approach February next year?

Mangaliso: I think it's something that we need to keep a close eye on. And with all the positive news coming through in December that's driving consumption and with the sentiments of the new year we're hoping to get a positive upgrading from the Moody's of this world.

Gugu: that sounds difficult to achieve especially after the number of the revision of 2015 growth is at 2.5%, for this year it's at 1.4%. Are we putting ourselves into a corner here Alex?

Alex: yeah, I don't think we'll get any upgrades anytime soon but encouragingly I don't think we need to worry too much about the rating agencies following the Moody's downgrade we have now been placed on a stable watch, S&P also have us on a stable watch so its only really Fitch where we're likely to see a downgrade in the near-term. And Fitch is one notch above S&P in their rating of South Africa so even if we see a downgrade from them it probably wouldn't disturb the markets too much because it would only bring the in line with S&P. the one we really need to watch out for is S&P because they have us one notch above investment grade rating so if S&P downgrades South Africa then we're in junk bond status and that big move. But encouragingly I said they have us on a stable watch is it's unlikely that would

happen in the next 8 months or so, so I think we can breathe easy from a ratings perspective in the short term.

Gugu: I'm going to ask you something that I should probably ask all of you off air but when it comes to ratings agencies, does it really matter because a lot of it is based on historical data. Andre?

Andre: it matters in the sense of asset managers that look at carefully as to where they can place their investment – what amount of money can they place in a specific country. So, it is vitally important, and I think the ratings agencies after 2008 is far more vigilant nowadays and as I said the asset managers look at it very closely, so it is very important.

Gugu: coming to bonds now Alex, we also did mention that we had some significant sell-offs there, I recall there were times where because the emerging markets had higher interest rates the yields were better as a result we found favour, that does seem to be changing especially with what's unfolding with the more developed economies – the US in particular and the UK.

Alex: yes, look last year initially when there was talk of tapering of the feds asset programme we saw a big sell-off domestically. And then we saw another sell-off in January when there were broad based EM fears but in the last couple of months the South African bond market has done well, we haven't seen those international flows coming in, but bond yields have come down – the bond prices have firmed. So, at this stage the bond market is looking relatively firm and think the fact that we've got strong commitment on fiscal sustainability from Minister Nene last month and the fact that inflation is now coming off, it's a pretty bond friendly environment that we find ourselves in now. Also, I think a lot of people had anticipated it a few months ago and I think more importantly if you look at it from a global asset allocation perspective, a lot of fund managers sit in London and New York, they look around the EM universe, they've got money to allocate to EM bonds and they think well I'm not going to go to Russia because there's massive geo-political issues there, there's a lot of issues in South America as well so South Africa actually doesn't look like such a bad place to put your money. Although we

have our own domestic issues in many cases we're maybe the best of a relatively bad EM lot at this stage especially following the decline in the oil price which is placing major pressure on those oil producing emerging markets.

Gugu: so, we not great but we the better of the bad lot which can't too be a bad position to be in. But the sustainability of this? Are we living on borrowed time especially as there's uncertainty as to where the US might hike interest rates?

Mangaliso: no, I think it's something we need to keep a close eye on especially, as Alex has alluded to, we're still the better of the lot and we still present great investment opportunities for most of these fund managers globally. So, in terms of borrowed time, I would say let's ride the wave while it's here and then think are things going to change with the markets – with global sentiments, like Asia contracting and moving into a more consumption spent profile we will most likely see that they are also trying to drive those direct investments

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	6 (33.33%)	1 (5.55%)	0 (0.00%)	3 (16.66%)
inflation	2 (11.11%)	2 (11.11%)	2 (11.11%)	2 (11.11%)
Sub Total	8 (44.44%)	3 (16.66%)	2 (11.11%)	5 (27.77%)
Total	18 (100%)			

CNBC AFRICA MPC Panel video-29th January 2015

Nozi: Hello and welcome to the CNBC Africa special where we shall preview and review the South African monetary policy committees latest rates decision. I'm Nozipho Mbanjwa. My guests today are Annabel Bishop from Investec group. We also have Andre Cilliers from Treasury one and Joseph Busha from JM Busha investment group, but before I get to my experts, we do have other experts and they are standing by in the CNBC Africa newsroom with Tumisho Grater and what they're going to do is give us their predictions for today's decision and then we'll see how it tallies with what the governor does today. Over to you too, Tumisho.

Newsroom: From a panel of 6: 3 unchanged, 3 25 basis point drop

Nozi: We heard what they had to say, but let's get some quick opening remarks from each of our panelists and let's get a sense of how you tally what we're hearing in the newsroom. Annabel I'm actually going to pick up something that you wrote earlier this week and you say that you expect 25 basis point hike

Annabel: later in the year, not Today. no, we're looking at no change in interest rates this meeting. And then as we move towards the midpoint of the year, we believe that the United States will start hike its interest rates. It's a signal is It's going to hike by as much as 75 basis points. So I think we could certainly see one 25 basis point hike in interest rates in South Africa in the second half of this year and we'll come back to that relationship between what the Fed does and how it impacts on emerging markets. But, Andre, your prediction for today,

Andre: my prediction is absolutely flat no change and that's based on downward pressure on the inflation rate and a continued sort of levelling out of the oil price at the current levels.

Nozi: Right and you were saying just off air that you think this is perhaps one of those meetings which really, really doesn't matter. There's no movement that should come out of this.

Andre: I think it's expected that there's going to be no movement. There was a poll out, nun out of 29 economists said that there's going to be any change. I think the emphasis lies on what he says and what his expectancies are going forward.

Nozi: And we'll certainly be looking out and reading between the lines in terms of the outlook that he shares for us. Joseph, let's get your tally in.

Joseph : Well I think the consensus already in this room is that nothing's going to happen, but I think also, uh, in the market, but this is possibly going to be the easiest of the

MPC meetings in the sense that I think all the members of the MPC, are going to just keep flat. I don't see any surprises given the fact that we've been helped by the oil prices and everything that's happening in the country.

Nozi: Well, we've got consensus here. But certainly other voices have been calling for or expecting that they might be a cut Annabel let's maybe entertain that thought for a second and maybe get a sense of what would push a, the Sarb to revise down with the rate decision.

Annabel: Well, I think what the Reserve Bank certainly would do is look at what the outlook is for inflation, so they're not actually as interested in what inflation is in the last print compared to what it's going to be in six to 18 to 24 months' time. And that's because that's the inflation targeting period. Not what happened today, but certainly not the print in December. So if you look out to 2016, unless we get substantial further cuts in the oil price we're not obviously going to see inflation come off quite substantially but of course, if we do, if the oil price continues to fall this year it would moves towards $20 a barrel perhaps even goes to $9 a barrel, where it was 50 years ago. I think the point really is that, you know, in that environment the Reserve Bank would look to capitalize. What would push it to cut. If it believes that in the inflation targeting period, inflation could drop below three percent, then certainly I think that would prompt it.

Nozi: Andre, Would you say those two indicators for you as well would make sense for a cut? Maybe not this particular meeting, but tracking the price of oil and tracking that inflation band could push or force the Sarb to consider a cut?

Andre: Well, I cannot voice any opinions and I will not voice any opinion on a cut because I'm a firm believer of there should be no change in interest rates and if there is any movement then it should be 25 basis points up rather

Nozi: let's go to that potential upward movement I mean with the US likely to be hiking their own rates sometime around the middle of this particular year, surely Then we expecting South Africa to follow suit.

Andre: I think in the second half of the year as, Annabel correctly mentioned, uh, they could be an interest rate increase and that would be followed on what happens in the United States. Yes, very correctly. And the consensus view is that in a second half, we will see interest rates going up in the US.

Nozi: Joseph, I think I'm going to ask you to play referee for me on this one, just to touch on the key indicators to be tracked for movement, whether it's going to be a cut or whether it's going to be a rate hike in the future meetings.

Joseph : I think if we look in terms of the South African economy, obviously we've got two other issues other than the oil price. So, we've got the rand which obviously would be an influencing factor. So, if the rand remains strong, already the way it is now possibly, you know, we'll get the MPC to hold now and possibly, on the next meeting. Then we also have the Eskom, you know, in terms of the GDP, how much our electricity shortage will affect the GDP. So those are the two factors I think, you know, our energy. Um, and in the rand dollar exchange rate, how stable that is going be, but I think the reserve bank minded is obviously to keep inflation between three and six percent so as my colleague said if the inflation comes down below three percent and certainly they might look at cutting. But we have historically been lagging at the US in terms of the interest rate cycle. So I don't think we went to lag behind. So I think they're going to keep on hold so that when the increase come it does not shock the market.

Nozi: Right. Annabel you're nodding, maybe this gets to you, your addition to that, but maybe also bring us into what we're seeing with this embracing of quantitative easing in the euro zone and how that fits into the broader picture.

Annabel: Certainly, you know, I really think that South Africa can't afford to miss the upward interest rate cycle in the United States, because obviously the interest rate differential between our interest rates and the United States would erode and then of course would erode the risk premiums that would certainly result very substantial currency weakness. Indeed, you know, the rand has obviously weakened against the US dollar but strengthened against the euro and the pound and other currencies because of this particular dollar street, because there's an expectation interest rates will be high in the United States. And I think that really brings us to this split between monetary policy, quantitative easing and Japan and the eurozone. And of course high interest rates. The United States. What does that really mean for South Africa? Well, unfortunately for us it still means high interest rates because we all obviously going to have to follow what the United States does. And I think, you know, unless we obviously see a very substantial currency strength, we know this, the situation is not going to turn around.

Nozi: to find out if we're going to be getting that currency strength or not. We will be continuing our conversation and certainly Andre will have some views on that. But for now, let's take a quick break. When we come back though, let's take a look at what the markets are doing before the governor's speech so that we have a good comparison to see how they have reacted once the governor steps off the podium.

Nozi: Welcome back to the South African MPC special. Now before we hear for the governor. Tumisho will be taking us through the markets to get a sense of the trade prior to the announcement.

Tumisho: Thanks, Nozi, let's start with the dollar rand: at the opening of the bell today we're sitting at R11.61 to the good that was around 9am, now we're at R11.64 so this is one of the key indicators we'll be tracking to gauge the response to the governor's speech. Let's move on to the JSE ALSI to see how we're doing there, still above that 51 00 points make so we are currently flat, we have been circling around that level for the past couple of hours. Moving onto the sector bases so we can see where we are receiving pressure and support from today. Financial are sitting at 0.1% weaker, industrials are firmer by almost a quarter of a percent, seeing some pressure coming through from resources by half a percent and banks also in negative territory. So, we'll be keeping an eye on all these factors but that's how its looking right now. Nozi, back to you.

Nozi: Andre let me bring you into this because we're seeing R11.64 to the dollar and you're expecting no currency reaction to the decision that's about to be made.

Andre: very little reaction, I think it's going to be bit of a non-event, the movement on the dollar rand right now is not so much driven by local factors. Its driven by factors outside South Africa – European factors and factors in the US. I think that's mainly going to be the continued one for the next week or three.

Nozi: Let's bring it into the global monetary policy divergence that Annabel referred to earlier joseph, and maybe take into effect comments that Andre just made. What is the outlook for currency then in a global context where we're seeing an unwinding of QE as well as an aggressing embrace of that stance?

Joseph: In terms of policy from all the central banks around the world so there's no unified type of approach from really the rest of the world to slow economic growth so we saw what happened in Switzerland and we're also seeing what's happening in Greece. So certainly, what's happening globally is going to influence the rand more significantly than possibly local factors. So, this year I think what happens in Europe in terms of the quantitative easing and secondly when and by how much the fed is going to increase their rates by is also going to be a major factor. So, the rand by our view is going to tread in the range of about R11.40 to about R11.70 for a while until there's more certainty from a global growth point of view.

Nozi: What are the red flags that might be moving that pendulum between R11.40 and R11.70 Annabel? What should we be looking out for in the global monetary policy space?

Annabel: And, domestically. Certainly one of the issues for me is that we've seen since December last year is the Forward Rate Agreement curve, South Africa's Markets, factor out the possibility of an interest rate hike, any interest rate hike in South Africa, its actually completely flat now and I think that concerning because the currency has weakened in response because of that anticipation that in US Fed hikes interest rates by 75 basis points this year and we don't then we'll be left behind and there'll be a rouge of the interest rate differential. And that quite important for the

carry trade. So, I think that anticipation is why we've seen the currency weaken a bit. But as for the red flags: I think is the US didn't hike their interest rates that could cause our current to track down to the bottom end of the range possibly move towards R11

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	3 (10.71%)	0 (0.00%)	3 (10.71%)	12 (42.85%)
inflation	3 (10.71%)	1 (3.57%)	4 (14.28%)	2 (7.69%)
Sub Total	6 (21.42%)	1 (3.57%)	7 (25.00%)	14 (50.00%)
Total	28 (100%)			

CNBC AFRICA MPC Panel video-26th March 2015

Tumisho: Welcome back, you still with us on CNBC Africa with a special board broadcast of the MPC special, still with me in studio is Mahbahyeeni Phiri. He's a portfolio associate at ACM Gold. Chris Hart, Chief strategist at investment solutions and Clive Rahmatibela Smith investment specialist at Kivera incorporated. Gentleman. Thanks again. That proved to be interesting. I was writing down a few key mentions. Whatever Janet Yellen speaks at the fed, they always were looking at some key things, data dependent or patience, uh, the governor spoke about a few things, electricity constraints being one of them, uncertainty with regards to the normalization of the US interest rates and inflation outlook. Talking about wage negotiations. Uh, let me start with you. When it comes to the inflation outlook. Spoke about those wage negotiations and electricity constraints.

Mahbahyeeni: So definitely some domestic issues in terms that are going to have an impact on the inflation outlook. And I think one of the main concerns is that wage inflation is actually outstripping productivity, but then also we definitely have that exchange rate issue. Um, and that's going to have a bigger impact if we must consider when the Fed is going to raise rates and uh, that we might see the rand depreciated quite significantly against the dollar.

Tumisho: So that we saw from the governor was definitely a lot more hawkish Clive I know that you've been all about the consumer. You're hoping the consumer would see some, respite the governor said this downward movement in the oil price has been short lived. So your consumer story is it looking less and less positive?

Clive: Oh, I was very scared. I'm worried about that because I always knew that the reason why we have seen the recent, decrease in the oil price we've seen, it's not going to be long lived. We've always known that. But here's the thing, when you've got a new global economy structure where you've got a lot of people struggling, especially in difficult markets about inflation, and you're sitting here, you're sitting comfortably and you see the kind of inflation that we've seen in recent months. You start asking yourself questions. One of the questions is the growth is there because inflation creates growth. We will know that. We will agree with that, but the question, but here's my point. My point is that we're not seeing the growth that we should be seeing because the reason why things economy growth, one of the spikes to economy growth will be the fact that prices do increase, but if your consumer is under pressure, they're not going to be able to live up to those increments and that's what the problem is.

Tumisho: That's a problem. Chris, you are disagreeing with Clive?

Chris : I think inflation is an obstacle to growth because it does decrease exactly what Clive was saying. It decreases your spending pie and it diverts resources effectively and we see this in countries for long run growth, but that's another debate and it's one of the reasons why we've got inflation targeting policy, but it's quite clear that this inflation targeting policy is in fact a duel mandate. They're looking at growth and they're looking at inflation. If, if it was a pure, just look at inflation that would have hiked right because the cost pressures and this is cost inflation which actually embeds itself in the economy. It's not something like that when you get demand pull inflation and that you could say, okay, you can reduce demand, you know, that inflation will, will go away, but in fact this is a because it's costs pushing, inflation it's wages, it's electricity, it's to the strength of the rand. You're pushing up the cost base of the economy at the productivity of course is not there to compensate for it. And you would need to have raised rates because of it, but the one thing it does put the South African Reserve Bank at odds with the community of central banks, which is tilting towards easing already the fact that the US has. So we removing the word patience, which we're not going to be hiking anytime soon. Kind of stance is already sort of put the cattlemen* pushes as far as the dollar is concerned and their slowdown may mean that they don't hike rates at all this year. But the Fed has painted itself into a bit of a corner in terms of rates, so there may be sort of forced to, to, to hike rates in any cost. But the, the main thing is that we need to be, our rates at such a level that is not conducive to saving a, not compensating our savers for inflation let alone the time value of money. And if you don't get the savings up, you will not get the growth.

Tumisho: Let me come to you Mahbahyeeni, Chris has said if this was not a dual mandate, if it was just about inflation, you would have hiked from what you heard the reserve bank governor saying that the scope, uh, for being more accommodative, if you'd like to say, has lessened. So when can we expect the next interest rate increase? And by how much would you say?

Mahbahyeeni: Well, look, I'm not going to speculate a lot, but it was quite clear from the governor. They, that they are looking at the effect that uh, the Fed rate hike or if they keep it the same, uh, they, they're going to look at that effect. And obviously given the instruments that are they have, they're going to assess how it's impacting the rand or the economy. So, I, I predict that that's probably going to happen when the Fed raises rates or decides to move and take a more hawkish stance and start to normalize policy.

Tumisho: Yeah. Clive this divergence in the different, uh, ways that to the central banks are going, we've seen what the BRICS countries and are doing. And the governor did speak about Russia being under pressure. They did speak about Brazil, India looking better. And then we've got to the situation for the developed markets like the US and Europe. Where does that leave us and how are you making sense of this?

Clive: It upsets me in actual fact because we seem to be utilizing other pockets of the economies within the South African context and comparing ourselves the rest of world. There's nothing wrong with that. The problem becomes when you start to copyright whatever the rest of the world is doing and doing it and adopting it domestically, that becomes a serious problem for me. And what are the other factors is that our economy is very, very different from the rest of the BRICS countries start to different as well from the United States economy. So what is it that the governor has said today? It reminds me of what Alan Greenspan actually said not so long ago when he was governor and he says, he says, if you understand what the Fed is saying, then you are not listening because you shouldn't be. You shouldn't be able to actually tell what they actually say. And I was, I sense a mixture of unrealized realities that they've come to rely on. The fact that there's this, they've got Chris rightfully says they've got a situation where you've got a conducive situation where you can actually hike rates, but they haven't because they've got this dual policy that they've applied. But what is the policy saying about both the consumer and the growth prospect going forward? When you're targeting two percent for 2015? You're not looking good, especially in the South African, resource based economy. So that's what worries me.

Chris: I think we need to also clarify the dual mandate, it's not an explicit dual-mandate if you ask the reserve bank directly, they'd be quite horrified for me to say it's a dual mandate. They say it’s an inflation targeting mandate and that's, but of course the letter that was written to Gill Marcus's, you go to keep an eye on inflation on, on economic growth as well. And that says it’s an asset dual mandate and the moment you do that, you tend to defer to the growth side because of the, you know, the, the need to generate growth, especially to resolve social problems in South Africa. With the Fed also, dual mandate, they defer to the growth. Um, you know, more than they actually defer to the inflation side of things. I would suggest that the reserve bank are reluctant hikers, um, that the next move will probably be another 25 basis points, but maybe at the next meeting, 25 basis points up at the next meeting. Because I think by that stage we've got a whole host will have the reality of the electricity price hikes, for instance, whatever that will, that will be, does the rand weaken or hold, even if it holds the current level,

there's a cost pressure in it because the rand is quite a bit weaker than it was say a few months ago. Um, so those are the difficulties and I think there's other administered price increases if you see what the, the, the city councils are starting to propose in terms of rates and taxes and um, and services, things that refuse removal and that kind of thing. It's quite a sort of, my goodness gracious. It's quite a bit. It's double digit increases that you're seeing. You've got the weak rand and administered prices that are pushing that, the cost base and the economy.

Tumisho: Mahbahyeeni I would want to know what are the key things that really stood out for you? For me it was really about the fed and the fact that we just don't have the same type of scope when it comes to monetary accommodation. Um, I know that you look at forex and you do look at currency. Do you think this type of tone from the Reserve Bank governor would satisfy rating agencies?

Mahbahyeeni: Well, I would think so. And uh, just also I'd have to agree with you there. I did pick up the inflation targets and the fed being quite a significant factor. So, um, look at the end of the day, I think the challenges that South Africa is facing they're very, unique to South Africa and I think I would agree with Clive and say that policymakers need to take a more proactive stance and start dealing with this issues that we're facing as opposed to just waiting to see what's going to happen on a global scale and then sort of copying that.

Tumisho: Policy makers need to be more proactive. I'm going to pick up with you in just a moment. Clive?

Clive: Yeah. I mean we want to be a unique economy. You want to be different and one of the most bravest things I've seen this year, at least is Vladimir Putin taking a stance and saying, look, if you guys are not going to support me then I'm going by myself and sometimes like I always say to take those bold decisions, there's going to be casualties. The casualties in this case might be that South African consumer has to tighten further their belt at might be that business has to compromise a little bit, but we're sitting with the situation now where we have to dictate natural fact on the part of the entire African continent. We've already been overtaken by Nigeria in terms of growth and in terms of GDP numbers. The question is now what is it that we do have? What policies do we put in place that are practical to the South African economy so that we actually advance and we are not creating the kind of job that we should be creating. If the consumer continues to be under pressure. Unfortunately, that will put more pressure even on the budget, will put more pressure on government to create opportunities, whether it's 6 million opportunities for jobs or whether it's anything else, but the point of

the matter is our unique circumstances of why economy needs to be alluded to and the Reserve Bank has a mandate, a monetary policy mandate to make sure that that is put into the right, the right light.

Chris : I'm going to pick up with you straight off to the break. I would like to talk to you about investment boost and what this would mean in terms of growth in South Africa. That is one area that you were particularly interested in, how you get into a short break, but we'll have a lot more analysis, so stay with us.

Tumisho: Welcome back, you still with us with this post-mortem of the South African MPC decision of South African Reserve Bank, let's say chat, Lesetja Kganyago has decided to keep rates on hold for now. Still with me is Mahbahyeeni Phiri, Chris Hart and Clive Rahmatibela Smith. I've cut you off before we went to break.

Chris: I think the difficulty that the reserve bank governor has is he's looking at monetary policy and to speaking about externalities and we think ok that's the fed and you know what's happening in Europe and Japan and that's true to certain extent, but I think there's externalities to monetary policies that also domestic specific. He left just three live unrest. It was just a very, very brief briefing, but he can't as the Reserve Bank governor he can't be seen to be trying to influence or direct domestic policy because you're supposed to have a separation but you the independence of the central bank. Uh, and that's, I think mutual, but the odd difficulties, electricity, you can't avoid. That's an enormous elephant in the room. Um, but I think the certain, um, uh, externalities like for instance, the budget deficit as you know, the budget spending, he's saying this fiscal consolidation Will Kearney's* saying, well, fiscal consolidation when government expenditures running at, is projected to rise at seven-point nine percent. That's above wage increases. Uh, the, the actual wage settlements and of course wage settlements is an easy one to target. But of course if you get the productivity growth, you can have the wage settlements at that level. And so, we need to appreciate that is grappling with difficult issues that all you could say internal self-inflicted problems. South Africa has and that's a big theme that you starting to hear is that South Africa's problems are self-inflicted.

Tumisho: Yes. Chris, I want to stop you there. The corner of my eye behind you. I've got the dollar rand and I've been seeing that sitting at R11.93. We were sitting at R1.86 before then, is this a reaction to what happened now is just these are the external factors that are coming into play.

Mahbahyeeni: I think it's very difficult to tell, but what I can say is that obviously the rand did recover quite significantly after it went up to a R12.50 against the dollar, so it's just been weakening, but I don't think there's a direct impact in terms of what we've just heard from the, from the speech and what we've seen in the markets currently. You've got to see how it persists.

Tumisho: How, how closely do you think the reserve bank is going to be watching the movements of the rand. We obviously watch inflation, but when it comes to the rand?

Mahbahyeeni: Yeah, I think again, he did mention that there is upper risk when it comes to the inflation outlook and that's definitely caused by the exchange rates, so they're definitely going to be keeping an eye on that

Tumisho: Clive when it comes to, again, these mandatory policy waves it be seeing from other central banks. You did talk about the ECB quantitative easing that we've seen taking place. Also there, just the different outlook for the sectors. He spoke about banks, building sector retailers. Uh, you again, all for the consumer. So what do I do with this information?

Clive: You take this information that you take it for what it is and you literally want to apply to the rest of the consumer market and think is it going to create confidence is not one, of the biggest jobs and I'm sure Chris will agree with me that the central bank is supposed to do the MPC In this particular case, the Reserve Bank governor supposed to do is give confidence to all these rating agencies that the country's got itself under control. They know what they're doing. They know how to control monetary policy to make sure that the country sustainable and I felt, I felt today a bit disappointed that, you know, I didn't get a sense that he's sending a message out to the likes of, you know, there's three women I fear the most in the world; One of them is obviously my wife, then you've got Christine LaGuardia*, and then you've got Janet Yellen. I don't want to talk about Angela Merkel because she's, she's a different kind of can fish. So what I'm saying here is you would expect that the government, the central government, the governor of the Reserve Bank, would send a message out that is strong, that shows the stability and the, the actual policy making strength of the governor, of the Reserve Bank. I didn't sense that and I think if I personally don't feel it, how is that the consumer is going to feel confident themselves, you know, within that same context. And in terms of what he said today.

Tumisho: But bring up an interesting point there because if we are not looking at the different reserve bank governors Lesetja Kganyago is now settling in, if we look at Tito Mboweni he was known for tantalizing the market. And then

we look at, uh, at Gill Marcus she was very down the middle. But now, this is what you get. I, we heard what Clive to say about his thoughts on our governor. Now Chris?

Chris: what I suspect, what you're going to see is a bit of volatility between statements we first had raising its wind in an upward cycle. Then we had to pause. Now we go back to a hiking stance, we need to appreciate if the rand reaches its weakest point and starts to appreciate and the inflation rate eases and the world goes into maybe greater risk off for instance, and more central banks are cutting and we the odd one out doesn't preclude that we'll go into a cutting stance later this year. You can build a scenario around which this whole thing turns on its head and it's cutting and that's the problem I think Lesetja has, is that there's a quite a bit of volatility in the data. So the data dependent, but the data that's coming out is quite volatile so you can just see the, just the fuel price effect of the statement. So we, uh, so, so bear that in mind that it's a hiking stance for now probably we'll get a hike, you know, maybe the next meeting, but it's possible that circumstances and no hikes. And by the end of the year we were back into cutting stance.

Tumisho: I'm going to start an informal poll here, we always have one of the newsroom. Chris, you said a 25 basis points up next meeting.

Chris: Yes, perhaps the next one because obviously I'm referring to the volatility of scenarios. I'm not necessarily talking about a forecast.

Tumisho: Okay. Back to you have Mahbahyeeni. Are we talking about the different management styles for the central bank governors, so we've heard from Chris and we've heard from Clive. What were your impressions of him?

Mahbahyeeni: Well, look, I think he's a pretty straightforward guy. Won't entertain much speculation, but I think I'll give him a bit more time to sort of assess what is going to be like and. Yeah, but it seems to be pretty straightforward,

Tumisho: pretty straightforward. Just to know as of course, my informal poll, 25 basis points up. Next meeting. Were you sitting?

Mahbahyeeni: I would have to agree as well. I think the next meeting there's going to be a raise of about 25 basis points as well.

Tumisho: I take that you're not going to be controversial at all. Clive. Is there a scope for a cut at all?

Clive: No, there isn't and that's why I believe that we'll keep the rates at five point seven five until the end of the year. Because I don't see the US doing any

drastic measures. Um, if you studied the initial data that's coming out today, it's still very stable, still shows growth, so there's no immediate panic, uh, to Janet Yellen. So that's why I reckon it will stay the same for the rest of the year.

Tumisho: Okay. So you say it again, stay the same for the rest of the year. At least we've got a little bit of disagreement. So the, both of you gentlemen on the outskirts of saying 25 basis points up, Clive you saying we go to remain unchanged. Just to recap some of the key things that came out of this, uh, electricity constraints being one of the things that were mentioned a lot by the reserve bank governor, he spoke about uncertainty on the global events, central bag movements. So in particular the normalization of interest rates by the US Federal Reserve and of course the inflation outlook, wage negotiations that have kicked off and how this is going to translate.

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	3 (7.31%)	0 (0.00%)	4 (9.75%)	8 (19.51%)
inflation	11 (26.82)	1 (2.43%)	12 (29.26%)	2 (4.87%)
Sub Total	14 (34.14%)	1 (2.43%)	16 (39.02%)	10 (24.39%)
Grand Total	41 (100%)			

CNBC AFRICA MPC Panel video-21st May 2015

Gugulethu Cele: A warm welcome back to the CNBC Africa special, taking a look at these other African MPC announcement, which has been kept unchanged. I'm still joined by my guests in studio, Lesiba Mothata, head of market and economic research at investment solutions, Annabel Bishop Group economist at Investec, Michael Keenan, a currency expert with Barclay's Africa South African expert that is, and Joseph Busha managing director of JM Busha Investment Group, interesting announcement that was made and an overall it seems as though it's a hawkish statement that has come through from the South African MPC. But before we get my panel's view on how this unfolded and the interpretation and analysis of the speech. Let's get a quick recap of the market performance following the MPC announcement today. Now you would recall that the ALSI was in negative territory when we started The conversation seems to be at the trend still and that will continue to update, but currently down by a third of one percent at 54,015 points. The rand is obviously one that we've also been keeping an eye out on if I'm not mistaken. We were at R11.80, or R11.81 just before the discussion started and we've currently sitting at R11.83 we will obviously continue to monitor that by the time the close of the market takes place just after five o clock today. But the time now to get my panels views on the MPC discussion and I want to get a feel for Lesetja Kganyago delivery today as we understand it his third MPC, Michael and maybe to get you a very sharp to the point and precise with his answers.

Michael : Yeah, I think so. I think we've seen that in a couple of the MPC is now already. Um, and, but I mean if one looks at sort of interrogates the actual MPC statement more of the same really the style that we've seen for a number of years now. So not too surprising. They went through all the normal facts and figures and the outlooks as they always do. So, um, no, not much. Not much of a change on that front.

Gugulethu Cele: Annabel want to come to you and overall as Lesiba pointed out that they were what? Two hawks and four doves on the table, but overall it does seem as though they are making it very clear exactly at that look, we are in an interest rate rising cycle as to when it's going to happen. Just watch the show. It will come like.

Annabel: I think certainly the tone was more hawkish than in March and it's very interesting. You know as you said thatthere were two people who voted for a hike can believe it was flat in the March meeting, so it does seem like they're preparing the markets for hike come as early as July. I think Lesiba was spot on with this concern. There could be a hike given that they've

revised the inflation forecast for 2016 up to 6.1%, which is outside of target, which normally would indicates that they would hack interest rates now were it not for the particularly weak economic growth and the negative output gap that they're highlighted amongst some other factors.

Lesiba : I think they've shown an olive branch to the consumer here, the discussion around the impact of electricity prices and the high debtedness and the slowing credit numbers. I think that's what tilted the olive branch to say, let's leave it, but the, the, they're ready to hike.

Gugulethu Cele: Would the timing be right? Especially given the nervousness around the US?

Lesiba: in my view, is the window of opportunity to hike is narrowing because should anything happen now, as he had rightly pointed out, you're going to get runaway inflation, inflation expectations are at the upper hand. The settlements consistently remained at the upper end and the rand depreciation that although the transmission to the CPR number is not as robust as you'd said, it's uncertain and it could turn to the other end. So where I'm sitting, um, and we're just taking the trip now globally to talk to managers who managed money. And out of 23 that we have seen, all of them are expecting a rate hike out of the US. In fact, the end of the q1 data was soft because of weather related phenomena.

Gugulethu Cele : Sounds like an excuse we've heard before though coming from the US.

Lesiba : It was really a tough q1 in terms of snow, it was really worst on record. So that impacts economic activity. So the headline numbers that we see look soft, but the underlying momentum, although it's not robust to what we used to, it actually is better. So the window of opportunity for the Sarb is narrower I think. I think the nature of it now, there's certainly should show soon.

Gugulethu Cele : Living on borrowed time. Michael, I think that's a key phrase that I've used with you quite often when we've been on the show together. Just to follow up on Lesiba's sentiments there is it that way inclined.

Michael : I think there's one of the facts that we've got to think of that is what's happening in the oil sector in the US that was quite a large engine room of growth in the US after the big downturn in 2007, 2008. If the oil prices do you remained suppressed and that sector might not provide the impetus that we were hoping for, uh, in the coming quarters. So we are actually also expecting the Fed to hike rates from September, but we all watching the data very, very closely. I mean I think, you know, it's a bit of a cliché but it

is going to be very data dependent going forward. Um, and I think if we see more pressure in the oil sector then perhaps those rate hikes might be pushed out. I think, you know, we've seen it in some of the unemployment figures. It's a bit of a, a lag. It was a bit of a lagged effect, but actually some of those nonfarm payrolls haven't been very encouraging. And that oil sector as I say, it was an engine room for growth and a big employer in the states

Gugulethu Cele: And if that's not enough of a headache, electricity crisis in South Africa Joseph is clearly adding to this as we heard the governor mentioning that the 13 percent increase. And again, the application that's been made by Eskom, like Lesiba says, they've extended an olive branch here to both business and consumers Overall.

Joseph: certainly, I think if you look in terms of obviously electricity, it has been a headache for the gold miners, for all the miners really and some of the retailers also have mentioned that, the shortage of power, basically is affecting their businesses. But if you look in terms of what the governor said, the underlying sentiment is that we might get currents induced inflation. I think that's what he said, in overall, which means then if the rand breach is possibly R11.12-20 - R12.25 and the oil priced as a picking up, we're going to have a problem. So you mentioned three things. Certainly electricity, coal and petroleum and the wage increases. Government has come up, in seven percent. Your miners are coming above that. But overall I think if you look at it is, it's definitely a hawkish, um, kind of, um, delivery from, from the governor himself. Um, and is going to have an impact in the economy. So we have always liked America in terms of, um, you know, our, our samples with that or hiking or reducing. So, we go into a wait, I believe possibly it was the best decision to do, to delay it a little bit, uh, rather than, uh, you know, to, to rush ahead and possibly, you know, the rand is going to find a comfort between R11.80 and R12.

Gugulethu Cele: I want to keep with the global economy theme, because we do understand US Fed minutes will be released later on today. And again, Lesiba you've alluded to the fact that it's a difficult one to read, a difficult one to call when it comes to the U. S economy. From your perspective, if we get your views on the market performance overall, uh, are we still going to be seeing a lot more increased volatility, especially from an equities front despite the fact that since the beginning of this year, there's been record highs recorded on Asian markets, US market and even from a local perspective.

Joseph: certainly I think our market has been kept low because of the resource sector. I think if we get an pushing where it's the miner's or on the oil we're going to get other highest coming through, but the market has been driven

by industrials and financials now off light, which I think obviously have kept the market close to the highest or 55,000 level. Now if rates increase, certainly your banks, uh, or some of the financial stocks are going to take a breather is you saw earlier on that. I think the financial sector was down point five. Whereas the other sectors we're not purely because, you know, provision for bad debts must increase and if the implementation of Basel Three is provided obviously it will tighten credit provision and, and just induce a little bit more pressures or consumers and sprinting and profitability of banks purely because you know, consumers are not paying

Gugulethu Cele: and about Lesiba we've seen many central bankers across the globe slashing their interest rates, China, uh, even those in, in Europe. But I take it then the stances for us not to try to keep up with the rest of the globe. Uh, but all we take an inappropriate measure here, uh, uh, despite what we've seen in other economies,

Lesiba: rightly so in other countries, they must ease policy, in China, the producer price inflation has been in negative territory for over 24 months. So they're risking deflation, which is a new concept out of that economy. And the required reserve ratio is quite high. There's much room to ease in order to stimulate the economy that is materially slowed. Five percent is a slowdown in China, admirable by any stance. But it is. So all other central banks, it makes sense. They're all importers. There's been a lower oil price that has given the opportunity for growth to come through, but moderated the inflation outlook so more easing potential in others, including Mexico, which is well liked in the world because of its reform, they're making reforms that are keeping price inflation quite moderate. So it, we, we in a different jurisdictions our inflation pressures at cost is not really from demand. Um, so you could say there'll be transitory, but I'm not sure if that transitory phenomena are going to be there because it's sticking at the upper end of the inflation target. And that is a concern.

Gugulethu Cele : What can we learn from India here though? Annabel especially when the governor made the emerging markets comparison. It seemed as though fine, we're not as bad as Russia and Brazil, but Geez, we need to learn something from our counterparts on the other side of the world.

Annabel: You know, I would say that South Africa's unfortunately moving towards greater regulation, greater state intervention, greater government control, and also if you have a look at a lot of the bills before parliament, um, increased threat to property rights and I think that in turn is quite negative for business sentiment and in turn business sentiment is negative as the governor mentioned. Um, it is at the moment. Then obviously you have a

situation where it's not very likely there's going to be a lift or strong lift in private sector employment of course investment as well. And of course economic growth. So I think that's one spear that South Africa needs to read to look at quite closely, do we really want to as you mentioned, follow the path of Brazil and Russia or would you rather move to a freer economy? More dynamism and obviously now less market oppression and I think, you know, that's something that our policymakers are going to need to come to grips with,

Gugulethu Cele: especially on the back of the growth numbers that he had highlighted two point one for 2015, two point two for 2016, two point six for 2017. This is nowhere near what the NDP actually wants. So I want you both to weigh in here, Michael, you too on what can be done. You mentioned the legislative changes, but this is not going to boost any kind of confidence in local business owners. Never mind foreign direct investors.

Michael : I think with anything, you know, we continue to walk this tightrope. It's a balancing act that's not going to go away. And I think that's what makes the central bank's job that much more difficult. And I, they explicitly said they can't do this by themselves. So, hiking policy rates aggressively, I just don't think that is what's going be warranted in an environment where, you know, you've got this weak growth. So yeah, I think they going to probably must just look at the holistic picture rather than just sort of certain pockets and I think, and I think that's going to be key. I think also we need to get electricity situation sorted out asap. I think we all know that that's a key concern. Um, so those are the things we need the infrastructure we need the capacity.

Gugulethu Cele: something else I want to follow up on is if these numbers were surprised to all of you because you all represent financial institutions which have their own growth forecasts, that two point six for 2017. Does it match your forecast Annabel, Lesiba?

Annabel: We've got two point eight for 2017 and um, they've got two point seven, so I think it's close.

Lesiba : It's close to make sense. There could be some upsides, um, numbers out of Europe. Europe is looking good. It's looking better. It's not as bad as it was. It was a few.

Gugulethu Cele: Does that count given that they are one of our biggest trading partners?

Lesiba : It does. It contributes to exports and it could support an economy. That's what I'm saying that the number seems plausible, although it's actually quite low considering the needs of these economy unemployment, the youth that

are actually walking in the streets not running a business, not in school, not working. It's problematic.

Gugulethu Cele: Problematic and what we want are solutions. But let's go back to the investment angle just for a moment and talk about the bonds perspective, Michael, I come back to you here. A given this bleak outlook not only for economic growth, but also a hawkish statement coming out from our MPC. Your view on what this might do to our local bond market going forward.

Michael : I'm going to be very interested to see how the markets reacted because I think I would agree that on balance the statement was a bit more hawkish, especially with that vote count going now for two as opposed to unanimous and changed. That was key for me, but I think we've got to bear in mind that a lot was priced into the bond market going into this meeting. So I wouldn't be surprised if we see the curve actually steeping up because I think some way down the line I would agree that we need a tighter monetary environment. But in the very short term, I think they can hold off for a little bit longer. So, uh, I favour a steeper curve and I think with the shorting coming in a bit on the back of, of, of a market that was very hawkish into the meeting

Gugulethu Cele: to come to both Joseph and Lesiba is that steep curve that you favour vulnerable now, especially on the back of a developed economies. Also being punted to increase rates like the US.

Joseph: if you'd looked at the address they had obviously priced in that we're going to get something, but I think we not going to see massive move in the, uh, in the bond market because this has been praised our market massively up to, um, uh, to January before we've got some losses. So, I do not expect too much movement now, but I think as America becomes more set in terms of when they're going to increase, possibly going to see a kick enormous, you know, going to see, unless if we increase by 100 basis points, you're going to see another 50 basis points move in the longer end. Say in the benchmark of 186, you wouldn't see that much move because already I think we are in there. I'm certainly any increase you're going to see that your fixed income, your bond portfolios will underperform a case. Um, um, and we would back into 2008 and so on. Um, so I, I think they're going to hold on for, for a little bit longer.

Lesiba : Well, I think the euro, the euro bond sell off that we've seen in the last week, I don't know if it's a canary in the mine, but um, but in it, it suggests that perhaps, you know, the peripheral Europe is, is, is improved. So the irony here is that before we used to look at higher yields out of Europe as a

problem, but now it doesn't mean that growth has returned. It doesn't mean that drag you will be successful in pushing up inflation back to two percent, which I'm potentially beginning to think. So, yeah, it bonds see off, it's in the cards

Gugulethu Cele: which brings us to the currency. Uh, the governor mentioned that on a trade weighted basis, it's depreciated by zero point three percent. Annabel, In your view, is this fair or does it mean that the rand is not sitting in a position which we thought was as dire to begin with?

Annabel: Oh, zero point three is pretty close to zero. I think it's fairly flat, but I think on a trade weighted basis, there's not enormous inflation pressure coming through but on a dollar basis. Obviously a lot of, well, our key import is oil and obviously if we do see currency rand appreciation, we obviously see the dollar oil price translate through into high petrol prices inside Africa. So clearly that that's a worry. But I think going forward, you know, he did allude to the risks that obviously if we see high interest rates, the United States, if we see some changes in global dynamics, the rand could be volatile and obviously they see that as one of the three key risks with the, to the inflation environment with obviously electricity and wage price picked. You actually talked about and exchange rates spiral. So it seems like this is quite, you know, this was playing on their mind. It's quite key to them.

Michael : I agree. I think we've been speaking a lot about how this Fed, how this whole thing can come sort of unravel. And, and, and I think the fact that people have been going down the risk of buying up equities, buying emerging markets, uh, shows you that everyone's waiting until the very last minute to actually get out of those risky positions. Uh, when the Fed actually moved because everyone kind of expects it, I think but everyone, no one really knows the exact time and I think people are going to that envelope right up until the 11th hour. So that's why I think we could have a situation where the rand, uh, you know, dislocates as a result of a fed hike, at least in the short term. I don't think there's a lot of bad news is already priced into the rand. I think initially we will see a bit of a sell off,

Gugulethu Cele: certainly hope not, but uh, let's touch on the consumer element now, what you mentioned the olive branch. So you and I can certainly breathe a sigh of relief as our Expenses don't go up to sharply, but it does seem as though it's a tough environment Lesiba. Electricity costs going up, the food cost, so, so moderating for the moment, but expected to increase the fuel costs as well. And the business sentiment and confidence that just isn't there, at the moment

Lesiba : And the taxes we need to put in the mix both direct and indirect. It's really quite as squeezed consumer situation and the employment picture is also not looking great because you're getting, particularly in manufacturing and mining sector, you getting layoffs and that will contribute to even weaker spending power. So the outlook for the consumer is actually quite not positive. I want to get both about Annabel and Joseph on this one here because if it's that difficult to boost that confidence in the consumer, how do you encourage these people to help build and stimulate the economy for growth?

Annabel: I think there is this tension that we talking about between the cost escalation within direct and indirect taxes, the concert certainly about potentially high interest rates. Obviously consumer confidence itself suppressed because of the fact that they know many of the survey respondents feel that economic conditions are going to look worse going forward. So I think, you know, that's certainly one part of the tension. The other side, interestingly, we've seen some reports come through on the retail banks looking to perhaps ease some of the credit standards going forwards. The retailers as well saying this, also might be a possibility. So I think that on balance we'd probably say that we think consumer growth's going to be modest this year, household consumption expenditure roundabout two point two percent that's really going to be the engine or the driver of GDP growth this year, it does account for two thirds of GDP growth and certainly the interest rate sensitive services sector is really going to be key for us. So if we do see, um, interest rate hikes come through this year, more than perhaps 125 basis point, that's when we could see the consumer looking a little bit less optimistic. Now, not to be saying they're optimistic at the moment that we saying that it's, it's, it's a tension, you know, you've got some positives coming down the line, but you got some negatives as well. And I think overall we look in consumer spending possibly around three percent.

Gugulethu Cele: Joseph sounds to me like I wouldn't invest in retail space anymore in the back of that, but uh, just very quickly in your view or on the back of Annabel's comments before we get closing comments from all of you.

Joseph: Certainly I think they will be a delayed response and I think as you said, you know an olive branch being extended to us so that we can enjoy some of the few good years for a bit longer, but certainly I think for me the ease that stress in the market intention in the market, you know if you look at the unions. They're to looking for double digit increases in wages, but if you then look in terms of who is creating jobs, what's happening, and also what will be the government's intervention. We've just seen one of them moved - the e-tolls - where government eventually is going to end up using

legislation in their power to ensure that they get what they want. You know what the budget is a trillion but Sars is collecting just about $900 billion. So the deficit is still there in terms of a revenue perspective. So government really is in a type sport and the best they can do for now is basically to delay the inevitable. You do not want them to increase by more than 100 basis points because then the shock becomes too much. Possibly. That's where Lesiba came to say, well, get 25 basis points now, so we do not get a hundred or 50 or 200 basis points to September

Gugulethu Cele: one step at a time. We'd have to wrap unfortunately Joseph, but thank you for your time and feedback in one word. Your next expectations for the next MPC hike or keep flat.

Joseph: I think the next one to have to hike

Gugulethu Cele: Michael?

Michael : Unhanged

Gugulethu Cele: Unchanged and Annabel?

Annabel: I'm worried they'll hike.

Gugulethu Cele: Hike well it seems as though the MPCS is split as our panel here in studio, but thank you all for joining us for this discussion. A great insights that have been shared from all of you and we appreciate your time today. Well, that's where we have to leave at the MPC analysis for today, here from South Africa. A big thank you to my guest once more.

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	5 (19.23%)	0 (0.00%)	3 (11.53%)	6 (23.07%)
inflation	4 (15.38%)	0 (0.00%)	5 (19.23%)	3 (11.53%)
Sub Total	9 (34.61%)	0 (0.00%)	8 (30.76%)	9 (34.61%)
Grand Total	26 (100%)			

CNBC AFRICA MPC Panel video- 23rd July 2015

Gugulethu Cele: Welcome back to the South African CNBC Africa MPC specially where we're taking a look at our local MPC. We've just got the decision coming through from Lesetja Kganyago telling us that it is an increased 25 basis points, taking the repo rate to six percent, but we're going to take a look at a quick market update for now and if you look at the ALSI it was just shy of one percent stronger when we started the market update. It's at 52,294 points now up by two thirds of one percent. So it does seem as though a positive territory nonetheless still, but we will continue seeing the impact and the reaction from investors as we do here to the close of the market today. The currency though is one of interests. Before this we took a look at the rand and how it was trading against the US dollar before the speech came through R12.47 was where we were immediately after that it dropped to R12.40 and now we're sitting at R12.46 - 47. So it almost seems as though what's something that came in line with the several expectations as we have previously seen with the economist poll where it was close to a 50/50 split on either keeping it standard or a hike. But let's take a look now at the consumer impact and more importantly, for those of you with bonds, well, property prices and your repayments might go up slightly. To tell us more thought I'm joined by Jacque du Toit who is a senior economist at Absa to share his views. Jacque Thank you so much for joining us today. Maybe a rough estimate. The average person with a million rand property, how much more can they expect to pay now on their bond?

Jacque: So yes, obviously the 25 basis points increase. Will have an impact on debt repayments, including repayments on mortgage accounts in terms of a mortgage loan of a R1 million the increase will be R163 per month, which is not a lot of money based on the sum total repayment of around about R9,000 a month. But I think what definitely makes a difference here is that the cumulative effect that we've already seen since interest rates started to, to rise in January 2014 and on a million rand bond, the total cumulative increase now sits around about R643. So that definitely is making a major difference in consumer pockets at this stage.

Gugulethu Cele: Jacques something else that obviously is of concerned is property prices going forward, is there a significant increase that we can expect here?

Jacque: Well, we've already seen since late last year, that property price growth has started to taper off to a large extent. We believe against the background of the broader economic environment, lower economic growth, low levels of employment, household consumption, relatively low, low levels of savings, disposable income growth, relatively low. Also consumer confidence that

has dropped to a 14 and a half year low in the second quarter of this year. So all of these factors are contributing to property price growth and currently price growth is tapering off and we expect this to continue into the second half of the year. So we really foresee price growth of around about six percent for 2015 in total and if you take into account inflation, we do not really foresee a lot of real price growth in property prices in 2015.

Gugulethu Cele: Just to close off with Jacque in the long-term. Does this mean that the lower LSM groups, consumers who aren't really managing to make that much money are the ones who will really feel the pinch at the end of the day?

Jacque: I believe that the consumer sector over a wide front will start to feel the pinch. Although as I've said earlier on that 25 basis points increase is not a major development based on what has happened recently. But if you take into account the cumulative effect, I believe that the consumer sector over a wide front will be impacted. And obviously most consumers having debt that the debt payments will start to increase further, which will put some further financial pressure on them against the background of rising inflation, rising electricity costs and rising fuel prices as we've seen in recent months. So the interest rates hike will add to further financial strain for the consumer over a large front.

Gugulethu Cele: So thank you so much for your time today and giving us your analysis of the post briefing rather of the 25 basis point hike that we saw today that was Jacque du Toit. He's an economist at Absa. While we still continue with my guests in studio, I have Lesiba Mothata who is the head of market and economic research at investment solutions, Annabel Bishop Group economist with Investec, Andre Cilliers currency expert from Treasury one and Rob Price investment analyst at ETM analytics while it seems as though you all called it. And despite the different views it has taken place. And I take it the last time we saw an interest rate hike as well as July 2014. It's a year later with the new governor in office. Andrea, take it to you. Pleased with the decision.

Andre : I'm pleased with the decision. And during the break I said around the table that if you cannot afford this 25 basis points increase on your debts, then you have incurred too much debt. And then that's your problem because when you make debt, make provision and as Annabel said for at least a two percent increase before you incur it. For those who have incur too much debt, look at your spending patterns. Buy local. Stop buying the imported goods and change your spending habits and you'll easily get back into line and affording your debt.

Gugulethu Cele: I like what you say because the governor did already highlight the fact that electricity prices still might go up, food inflation. He basically was very adamant in the fact that, look, the long-term outlook doesn't look too rosy. Lesiba I take it you are so, uh, happy with the call that was made.

Lesiba: Well in mind is finally the Sarb shows the muscle because this is critical. Not to say that I rejoice paying more on the home loan. However, for the integrity of this institution that has built up a great reputation internationally, they needed to do this. I do, however, don't see them doing much more from here because it can't be a steep cycle. We have weak economy. You needed to just do a little bit to say I need that inflation expectations to come down. People need to understand that we can't have inflation that are anchored at the upper end of the inflation target range. So I don't see. I don't see them hiking quite steeply, notwithstanding the Fed, even if they hike, I don't even see them doing a steep hiking cycle because the economic conditions are so fragile.

Gugulethu Cele: Rob I want to get your view, because you did allude to the fact that if we see a hike and maybe another gradual hike, then that might be long-term pain, but a short term pain, excuse me, but what the long-term gain of a, hopefully a managing to improve economic growth in South Africa, but you happy with the call nonetheless.

Rob: Sure. And, um, I'm still maintain that call. The big thing we have to ask ourselves the question is why only now, why didn't the Sarb hike at the previous meeting. What's, what's changed that much between now and then and if the situation stays the same at the next meeting. Why should they not be hiking more? Um, and I hate to beat on the same drum here, but I think interest rates need to be substantially higher than where they are now. Twenty five basis points isn't enough to correct imbalances in the economy. I would've liked 50 basis, I would have liked 50 basis points at the previous meeting too. I really Do think interest rates. From my perspective, if I was the Sarb governor should at least be 100 basis points higher than where they are at the moment,

Gugulethu Cele: In that case consumers would not want to take out any kind of debt, huh Andre. Annabel your views.

Annabel: Well, we all expected 25 basis points hike today and I think we've been expecting one since the start this year because the Reserve Bank has communicated this very clearly and they have been quite hawkish. I do think however today that they balance this by saying that the economy is particularly weak. So I don't think we can expect much more in terms of

interest rate moves for the rest of this year. And I think the Reserve Bank itself has to be very cautious because there are a lot of risks for the economy to weaken and there's not much chance of it actually being stronger than expected this year and do this there's a lot of facts that could put it down substantially weaker. There's no reason why consumer confidence weren't fall again, because obviously an interest rate hike is very negative for confidence. So I think the Reserve Bank's got to be very, very cautious now because if we see economic growth come out again close to one and a half percent and actually have that proves to be the norm for South Africa. The credit rating agencies have said that they are going to likely downgrade us if our economic growth, remain subdued, and those were the precise words from standard and Poor's. And that of course would result in substantial currency weakness. I think, you know, these are some of the risks we face. So from that perspective, don't expect another hike this year.

Gugulethu Cele: You mentioned the word cautious and maybe if we go back to the numbers, it seems as though four members of the MPC were for two against as this obviously show just how much of a tightrope they all are walking here,

Annabel: I think there is a tightrope, we have to be cautious because remember the flip side of the weakness or the result of the weakness of economic growth in China is the fact that commodity prices are particularly weak and the real reason why we actually saw a rise in oil prices in the middle of this year was because there was actually refining capacity issues and now that those are coming back online, we actually likely to see oil prices come off a bit further and actually likely remain low for this year and the same for commodity prices in general. I don't think we're going to see much upward pressure from that source. So you know, we are really running the risk that if we do see substantially higher interest rates inside Africa, corporate borrowings could actually start to tail off quite dramatically. And you know, the governor did mention that corporates are still significant borrowers and that of course is very negative for business confidence and for expansion of businesses for fixed investment and of course for employment as well. So these are the risks I think the Reserve Bank is very aware of and that is why I think they are being cautious at the moment.

Gugulethu Cele: Andre, I want to bring it closer to the currency for a moment. Uh, we did see it in the market response. It takes slightly down, but going back up to what the R12.47. So it seems as though in line with what the market reaction that several investors had anticipated, but if you listened as well, the, the Reserve Bank governor speech as well, he did mention that, look, it has been incredibly volatile with the ongoing factors regarding Greece

regarding the US, but will this 25 basis points actually do much to tighten the range that the rand might move around going forward now,

Andre : as I said earlier, I don't think it puts us into a new range. I don't think that it moves into any specific direction. The volatility in the markets, that was there two months ago, three months ago will persist. Greece is not totally on the backbone at the moment. China, the benign growth out of China is still there and great increases out of the US is still expected, so all those factors are still there that created the volatility. I think this 25 basis points assists in keeping us in relatively tight trading ranges.

Gugulethu Cele: If we look at our trade numbers though, they always. Government always has a stance that what a weaker currency will equal better exports, but has this necessarily translated into those figures? Where it benefits the economy from an export perspective.

Andre : I'm one of the people that don't think that a currency, whether it goes up or whether it goes down, should assist the exporter in these export programs. He should manage his company, manages his export process in terms of productivity and effectiveness and competitiveness in the markets. If he relies on an exchange rate to pull him through, then he's not running his business properly because that cannot always be the safe haven of your business.

Gugulethu Cele: Rob Your thoughts?

Rob: No, I, I agree that I think that the real elephant in the room is still remains the Fed and I agree with Lesiba that it's going to be difficult for the Fed to raise interest rates significantly over the coming years. I just, just on a technical perspective, I'm not sure how they do it, considering that they conducted a huge amount of QE over recent years, but, but nevertheless, uh, an increase in the Fed funds rate up to one percent is a dramatic increase from where it is at the moment and I still think that can have a huge impact on the rand. And as we've seen this rate decision hasn't provided much protection to the rand. Even another 25 basis points is unlikely to provide much protection to the rand. So when the Fed does move on interest rates, we could still see the dollar rand moving north the rand moving weak versus the dollar and that, that has huge risk for South African financial markets. So yes, the Sarb might have taken a somewhat delayed, pre-emptive decision to, to hike interest rates. But the risk is still higher on interest rates if the rand weakens versus the dollar

Lesiba: Yeah. Although I think if you did a purchasing power parity evaluation of the rand, although it's on the cheap side, it's oversold and what needs to happen is it needs to gravitate towards a PPP value and that's why it explains that each time we congregate, we sit down, we talk the rand weak, but the outcome is often the opposite is because people forget that on a PPP valuation, it's oversold and asset managers in the globe understand that matter. In fact from our recent trip when we listen to what the asset managers are talking about it, it's time to buy. Volatility is at a record low, well not record number but is close to the record low EMBI sprays, which are the risks to your major markets also quite low and that's why we're not seeing a precipitous fall in the rand, yet commentaries often the opposite

Gugulethu Cele: Annabel?

Annabel: you know it's quite important to note as well about the purchasing power parity of the rand is that we are in very abnormal monetary policy times globally and when you move back into normal monetary policy times, then you would actually start to see the emerging market currencies in particularly the rand here we discussing. Moving back to the fair evaluation. I think also as well a point that hasn't been mentioned yet today is the fact that when the United States does actually hike its interest rates for the first time and we see lift off, it's actually going to provide some certainty in the market and markets indeed has had a lot of uncertainty which in turn creates risk aversion, which in turn causes our rand to weaken as it is often a proxy. So from that perspective, we actually think that there is scope potentially for some strength in emerging markets down the line emerging market currencies and indeed even the rand. Once the Fed actually increased interest rates once there's some certainty on the trajectory and once market start to see risk again and looking at risk aversion. Risk on risk is risk off, so at the moment, certainly in the shorter term we might, we'll probably see further volatility and the rand can see bit of weakness. Medium to longer term I think we could see some strength and indeed I do expect to see ultimately the rand attempting to return to purchasing power parity or fear evaluation even if perhaps it doesn't get there and that's because it's going to take a long time for us to see monetary policy globally returning to normal levels. But as it does when we should start to see our currencies trying to return to their fair value.

Andre : I think if I can just add there. We've seen in the Greek situation there and I mentioned that at some point during the program. That we got to a point where whether they stayed in the euro or went out of the euro became immaterial. What the markets wanted was certainty and I always say it becomes a little bit like the dog barking at the car and when the car stops.

He's actually caught the car but he doesn't know what to do with it. And we've been speaking about interest rates in the US and it's going to weaken in this and it's going to do that, going to do that until it happens. Then there's certainty then we can move on with our lives. We can settle things down and carry on. So I don't think a change in interest rates in the US is necessarily going to mean a move on the rand to 13 and a quarter. It might very well be the move down to R11.80.

Rob: Just to pick up on that purchasing power parity point. I mean we at ETM have done some purchasing power working and think that the rand is probably closer to fair value then maybe a little bit lower than low on the dollar rand than where it is at the moment, but not that far off it. But it's what's really important to remember about purchasing power parity models is they often over and undershoot the evaluation. So the rand can get notably overvalued as it did through, you know, 2009, 10 and 11 and can get notably undervalue on the other side. So just to say that we are approaching fair value does not mean we won't undershoot that valuation.

Gugulethu Cele: I want to come back to the word certainty, which has been used around the table for quite a while now. What does this mean though for our capital markets and bond markets, though? Are we still concerned about short term outflows into develop economies. Once the US does increase interest rates.

Lesiba: Well we need to remember that the People's Bank of China is easy liquidity in the market. The ECB is pumping QE, right? The Bank of Japan continues to print. Switzerland is a negative interest rates. All the liquidity that's awash in the world still needs to find a home. That's why I believe that we'll continue to see influence in a development in a highly developed capital markets in South Africa barring a credit rating situation that could change that. But we remain a favoured destination for foreign capital after out there.

Rob: we live in a dollar world though. And if you denominate Chinese easing, Japanese easing, Euro easing into dollars, it's not the same picture. If we were trying to replace a dollar carry trades, you need to replace it in dollar terms and ECB QE is not living up to Fed QE in dollar terms. Something we need to bear in mind that don't think that something like ECB QE is suddenly going to just replace Fed QE anytime soon.

Annabel: ECB QE has actually resulted in rand weakness because we've seen the flows into the dollar and that's obviously caused dollar strength because you've obviously seen a widening and the spread between the US dollar and the point. But I think an important point on South Africa in terms of bonds is that we actually have seen quite substantial influence the bonds market

this year as, as our governor mentioned and obviously it's because of the good deal that's an offer and you know, 25 basis point hike in the United States is really not going to change that at all. When you look at the yields and our long rates compared to that at the United States. I think what's also quite key as well is that on the rand front, you know, everyone will probably get a different purchasing power parity valuation because it depends very much on what base year they use, but I think in terms of the ones that we've calculated, we actually have a very good fit historically and as a consequence, we actually see the rand's purchasing power parity of R9.50 at the moment. So we continue to believe that the risk to the view that's consensus on the rand is if you could see rand strength and that could be predicated by emerging market assets finding favour again and I fully agree with the debate on certainty. We actually get a huge dividend in South Africa once there's certainty on direction. Where are we going in globally in terms of emerging markets and in terms of a global monetary policy. And of course we saw the opposite of that with Greece, you know, the uncertainties that was created around that. That's where we saw the rand weakened. So such as a sensitivity of our currency to what happens internationally.

Gugulethu Cele: Exactly. I want to sidestep now and move on to something that to the Sarb doesn't necessarily focus on which is growth with the last two minutes that we have remaining and maybe get your views on the South African economy if you view the glass as half full or half empty and more importantly what we need to do in order to get growth, right. I take it to get Eskom to give us constant electricity supply, Andre would be a good start?

Andre : I'm always the optimist, the glass is half full for me and I always think that there's something behind the scenes that we don't see that the work people work on. I think Eskom will come on board in the next two years. I think it's moving in the right direction. What I would like to see is a firm grip on corruption and I'd like to see people actually moving out of negativity areas and criticizing and actually looking at plans moving forward. Um, I'd like to see some structural reforms. I'd like to see incentives for long-term investment, for fixed direct investment into the country. Those are the things that I think will really facilitate growth. But I remain optimistic that over the next two years we'll see that we are actually moving in the right direction.

Gugulethu Cele: It's going to take a while, but you believe we'll get there. Lesiba?

Lesiba: Just on the data, I actually think that they could be upside surprises on GDP. Europe, Our largest trading partner is coming. It's coming. Well, it's not

growing strong, but there's improvement there, the U.S, I believe will surprise on the upside on GDP situation. Although China has slowed. Um, but with its information that we all know, and it will come through. I'm not talking about growth that is four percent, but it could have surprise two and a half to three percent as opposed to one point five.

Gugulethu Cele: Rob, your vote?

Rob: Well, I agree on with Lesiba on the US story. I think the US economy is showing some signs of life. I think that China for us is a bigger story though unfortunately because we such a big trading partner. So in the short term, I do think the risks are still there to the downside on domestic economic growth. But I agree with Andre, I think, the real power is actually in the hand of the policymakers. Yeah. There they have the ability to change fiscal policy notably to improve economic growth, but that that's a political story and not so much economic one.

Gugulethu Cele: That's why you guys play with the numbers and about. Annabel, You've got three seconds, three seconds.

Annabel: I think the point really is that if you look at your consumer confidence, business confidence, your leading indicator, all those forecasts or give you an idea of where economic growth is going to be in about three months' time in those various sectors. All of them are actually quite depressed or suppressed. So the risk I think does remain on the down side and of course our key trading partners China and the eurozone also present risks to us as well. Think In terms of what government can do, they need to implement all the chapters of the NDP. In other words, they need to triple the size of the private business sector and the absence of that, we will not get strong economic growth because governments cannot sustainably on a longer term basis spur economic growth that is only down to the private sector.

Gugulethu Cele: Not to forget the NDP has what growth expectations of five percent, which we're nowhere near at this present moment. Well, that's where we leave it today, and if you haven't tightened your belt before while you might as well start spending wisely now as Andre suggested, cutting back on at that debt in order to make sure that you stay afloat while that's where we leave things for today's MPC special inside Africa. As we heard it, the repo rate increasing by 25 basis points now sits at six percent. A big thank you once more to my guests

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	3 (10.34%)	3 (10.34%)	3 (10.34%)	14 (48.27%)
inflation	3 (10.34%)	1 (3.44%)	2 (6.89%)	0 (0.00%)
Sub Total	6 (20.68%)	4 (13.79%)	5 (17.24%)	14 (48.27%)
Total	29 (100%)			

CNBC AFRICA MPC Panel video- 21st July 2016

Gugu: Hello, and a warm welcome to the CNBC Africa special. I'm Gugulethu Cele, with me in studio as you can imagine we are covering the MPC, local speech which will take place at three o' clock. Where our Reserve Bank. Governor Lesetja Kganyago will give us an update as to what their stance is with regard to interest rates. Joining me in studio is Dr Azar Jammine, who's the director and chief economist at Econometrics Riaz Gaudy investment principle at Momentum Investments and Andre Cilliers director at Treasury, one economist. Later we will be joined by Lesiba Mothata in the show who joins us from investment solutions. Well, before we actually get into the conversation, where the reserve bank governor. will take to the podium and give us his view. Let's perhaps pick up on how the markets are performing for the moment and look at the currency to get a gauge as to how expectations are faring for the moment.

Gugu: Well, we pick up with our conversation now taking a look at the expectations ahead of the MPC meeting and looking at the rand we at R14,22 to the US dollar, R18,76 to the pound and R15,73 against the euro. But the big question is everyone's been saying that this might be the most timid meeting we've ever had since the beginning of this year because things have definitely changed in the last six months. Andre, I want to start off with you. Quick view on expectations. Hike, no hike, and we'll make our way through the panelists and getting your key thoughts as to what the justification is behind your answer.

Andre: If we just quickly look at the dollar and the performance of the currency over the last months against all major currencies, and I look at inflation, uh, then I am on we keep interest rates as it is. There's no need to change it. Internationally, Everybody's on hold and I think they will remain on hold. The governor's got to breathe here.

Gugu: Dr Jammine?

Azar: I think this has been the easiest MPC to forecast, there's certainty that interest rates will be left unchanged. Andre's mentioned the point the rand has actually gained by 12 percent against the euro, 20 percent against the pound and nine percent against the dollar. Since the last MPC meeting, inflation is going to be dampened. The actual inflation numbers have been low. Um, it's a no brainer. And internationally the whole environment is shifted towards a lower interest rates for longer. So I mean there's no way that they are going to increase interest rates. The big question is should they cut interest rates and right now the inflation rates above the inflation target, so they won't be a cut to either

Gugu: Riaz your quick view?

Riaz: Yeah, I would agree with them and I would think that it gives the governor reprieve, you know, at least for a good couple of months until things change. If they do in the next couple of months.

Gugu: Lesiba on your closing comments?

Lesiba: I'm very interested to hear what the Sarb says because I think on the table should be a discussion of later easing. I'm not preparing markets for a sustained period of high interest rates, but preparing a market of a peaking of interest rate cycle and potential easing. I'm very keen to hear what the language he's going to use around that, that area, because food price inflation is driving this inflation higher, those same base effects, they're going to pull it drastically down in the next six months and I think that will begin to show in the re-calibrate their model.

Gugu: Are you saying this because as we've mentioned at the top of the show Brexit it took place and nobody saw that coming beginning of this year, January, Everybody had expectations that we'll see. at 425 basis points hikes coming through from the US Federal Reserve and we can say for certain now that that's very unlikely to take place.

Lesiba: True. It's partly that it's partly that Britain has financial linkages with SA, which I think will make the Sarb very uneasy. We're talking about more than 40 percent of liabilities that SA has with, with a 40 percent of GDP that SA has with the UK. Uh, so that's a financial link that will leave the Sarb concerned. Uh, but the whole Euro area is likely to see lower economic activity. Which SA will feel the pinch of. We're almost in a recession and I don't understand why inflation is as elevated as it is, it's partly because of this cost push factors and when they turn around, inflation should be falling quite descaling. This should be a conversation to actually start thinking about easing.

Gugu: Let's talk about that big element being growth. And whenever there's a question posed to the governor, he always says that's not our priority. We look at inflation. Should that be an element of concern now given what we've had comments from the IMF coming through, what revising our growth, to 0.1% and also saying that we really need to take a look at the alternative measures to bolster economic growth in the country. I don't know what your view is on the panel.

Riaz: That's critical. I mean, and at the end of the day the growth will determine, you know, the job creation and it will feed into the inflation number as well. So the same way that we focused, you know, every quarter on inflation rates my question is who's ultimately responsible for the GDP growth and should we have a similar focus on that at a regular basis as well.

Gugu: Andre, do you agree?

Speaker 2: When you look at who's responsible for GDP growth, it's not just the government, it's not the central bank, it's industry combined with the Central bank and government Its fiscal It's monetary and private enterprise, all jointly we can do whatever we want to. If internationally we enter into a period with even lower growth going forward, we are going to battle to get our growth off the ground. You know, I would almost be inclined to say as long as we keep our growth above the average of what the world growth is, then we are doing pretty okay. That's the one that we should focus on.

Gugu: Its projected at what? Three point one percent by the IMF and we had point one percent. Andre, I don't see that happening anytime soon.

Andre: That's the one we should be looking at. I don't think we should aim at five and six and seven percent at this stage. We should get ourselves to the average growth or around that area at least so that we position ourselves correctly and for that we need a couple of structural reforms within the country when we speak about labour laws, I'm afraid to say that I think we have to look at our people within South Africa and we have to start motivating them not to be lazy but to actually start working because I find that people now in our country is turning a little bit lazy and waiting for something to happen and not really working.

Gugu: That's a whole other conversation. Andre. We don't want to open a can of worms, but Dr Jammine, share your insights with us as to how we get things right.

Azar: I agree with Andre, the more than half of our economic growth is determined by what happens internationally. Not Jacob Zuma, this, that, the unions, etc. It's International. Yes, there Is a residual that is dependent on local factors. Talking locally. I think everyone has got carried away on the downside now with over-pessimism and the IMF I think is behind the curve. I think the economy has turned and I'm not forecasting a boom, but I think the two percent next year is not impossible. No more drought. People have underestimated the impact of the drought. We don't have an electricity constraint anymore. We have an environment where inflation is turning out to be far lower than expected and interest rates might even start coming down and commodity prices have rallied quite nicely. I think that, uh, we could be surprised on the upside and the most recent figures suggest that maybe that is starting to happen and I think people got carried away with pessimism with the first quarter figures not realizing how much they had been depressed by the configuration of public holidays at the end of march that saw people going away on leave for an extended period of time taking only three days working leave away. And I think that really shattered a lot of production in mining, manufacturing and the like. And people didn't take that into account

Gugu: is the pickup though that we are seeing in two particular sectors, mining and manufacturing, given the latest data indicators that came through, is it sufficient enough to, to really bolster economic growth.

Azar: Well then you say bolster, when I Talk about two percent let's not get too excited about two percent.

Gugu: but it's a relief given where we come from, right?

Andre: I think what we should keep in mind is it's a psychological effect on people. If you see a mining sector slightly on the up, you see a manufacturing sector slightly on the up and the pessimism and the doom and gloom is stopped being breached all the time. Then your retail sales people actually come out of their homes. They start spending a little bit because they feel a little bit better. And that sort of changes the tide once again.

Lesiba: So it's basically a confidence thing. Um, just to add on that, on that uptake, that potential could arrive. Data out of China is proven to be better than we'll have in the main street. Electricity production, freight volumes and also bank loans. Just the stimulus that's coming out of the people's bank of China, this seemingly have engineered a soft landing, in fact, the numbers elsewhere, including services, PMI and PMI indices in the manufacturing look much better than we would have seen in the beginning of the year. So, with China coming at a softer landing with IMF's work that shows that SA is much more interwoven with the outcomes in China, it may mean that we may find ourselves in a better growth outcome, although it's not shooting the lights out.

Gugu: Well, that's a positive coming through from China, but I take it the uncertainty still aligns itself with this B word. And despite Teresa May, having discussions with some of our European counterparts now, François Hollande, as well as Angela Merkle are we still concerned as to how that will develop. Because we've also had ratings. Agencies like Moody's saying that a country like South Africa will feel the brunt of the exiting of the UK. Should it still go ahead, Andre?

Andre: I said directly after Brexit the one thing that we should keep mind is that they said they must press a button and say we are now exiting and then we have a two-year period, so we've got two and a half years, two years and four months to renegotiate trade agreements with them. In that two and a half years they have not stopped and as I call it, they have not stopped eating apples and berries. They have not stopped buying cars. They are still. They still trade going on and I think people got a bit ahead of themselves about the whole Brexit thing. I give it another two months and then they'll start realizing that hold on it's not all doom and gloom. There is light at the end of the tunnel.

Riaz: Yeah. I think. Okay. Um, you know, the other concept is confidence and people want certainty and confidence and when investors don't have that, you know, that's exactly what happens. They panic, they move quickly in and out of market. So, as it settles, and we get more clarity in terms of what Brexit exactly means for us specifically, you know, the market should stabilize.

Gugu: And speaking of the markets, we have seen that some of the, bosses* especially from the us perspective, really touching on significant highs in South Africa. Are you expecting certain sectors to perform?

Riaz: Again, sectors will perform differently depending on the underlying drivers and maybe just coming back to a point in general, ultimately the productive capacity in all of our country would determine, uh, how competitive we are.

Gugu: I also want us to do what bring into the conversation the element of the attacks that we see taking place in some of the European parts of the world, the failed coup in Turkey, which some might have said it might've contributed to emerging market sentiment. Uh, your take on that and not to forget the Bastille shootings as well before we do cross to the governor because I do see is making his way to the podium very briefly.

Lesiba: Very interesting that, uh, that the rand, even in that scenario of emerging markets risks was held, was holding up its ground, which is very interesting. But there are, I think for me, the three types of risks that are happening, one confidence crisis. Two There's a political crisis, which is what we're talking about, and I'm not sure that being a financial crisis as yet. Not yet. Well, they, we've heard it. The gentleman taken to the podium himself there, reserve bank, governor able to commence at whether he speech regarding the MPC announcement.

MPC SPEECH HAPPENS

Gugu: welcome back to the CNBC Africa special where we continue with our analysis of the MPC. As we heard some news coming through that they've decided to keep the repo rate steady at seven percent. That's moving the prime lending rate to 10 and a half percent. Still with me in studio, I have my guests, Dr Azar Jammine, a director and chief economist at Econometrics, Riaz Gardy investment principle at Momentum Investments, Andre Cilliers director at treasury one and Lesiba Mothata who is the chief economist at investment solutions, but before we get more analysis and their quick responses to where the estimations that they gave and forecasts, which were all quite accurate. So again, it shows you the level of individuals that we're dealing with here today. Let's take a look at the market reaction. In particular, the rand dollar exchange rate just before the conversation kicked off, the rand was trading at R14,22 to the us dollar will bring up that screen

on the graph rather onscreen in just a moment. But for from what I see, R14,28 is how we fit. See R14,29, R14,28. So again there's slight weakening coming through from the currency. But will be interesting to see how it does a fair towards the close of the market. Not forgetting the all share index still in positive territory but not significantly. So just over a 10th of one percent at 52,914 points, bearing in mind that we did start off the week, in, at about 53,000 points. So a slight pressures coming through there. But again, those are some of the trends and dynamics also followed on the back of some company news that has been released today. But let's get back to the desk, gentlemen. You were all right. So again, a congratulations to you all. Your forecasts were quite correct, but Lesiba, I want to start off with you, uh, your immediate reaction to the numbers and again, the view that the governor put in put forth that, look, we dealing with credibility here. We're not going to chop and change our stance are given that a lot of my colleagues in the industry wanted clarity as to really, this was all unanimous. No one thought of a cut your take on that.

Lesiba: I appreciate that. Uh, that, uh, the central bank will always err on the cautious side. When I, when I listened to the statement and the message that's coming out, there are clear signs that base effects on the forecast horizon are going to actually pull inflation down quite a bit. He said, so himself, he said he wants certainty of a few factors because if they were to turnaround, they could change the inflation outlook and in mind I think he's referring to the rand and this inflows of capital to emerging market countries. It was interesting that the international monetary fund in the beginning of the year did a study that found that during capital flight scenarios where we come from last year, emerging market countries, saw fewer crises relative to the 1980's and the early 2000's.

Gugu: Is this because we have a more pessimistic view or quite cautious in our stance?

Lesiba: No meaning that more sound emerging markets, they have employed policies that make sense. At this point in time, all I'm saying is these inflows with this lust for yield, may be sustained given that research that has come out. The second thing was the weather, so this La Lina phenomena that's developing. They need to know if it's true or not, but clever people in that industry talk about a 70 percent probability that we may see rains that are substantial with probabilities of it being excessive, which can be quite destructive. now when he said he needs certainty on those two numbers, I'm of the opinion that when they rerun the model again, they are likely to find the inflationary pressures that are receding and a conversation which is always an opportunity to chat about as he had said of easing presents itself in much stronger.

Gugu: Dr Jammine, I want to get your view on this because we were discussing of air very briefly that perhaps this was the opportunity to cut or consider a cut in the long

term. Lesiba's just obviously justify the view that the governor has with regard to data indices, but looking at what's happening abroad, surely we've been two steps ahead. As we started off beginning of the year with a very aggressive half a percent hike. Uh, was this not an opportunity for even more breather?

Azar: I really don't think it would have sent the wrong message now to cut. However, the other side of the message that wasn't forthcoming was the virtual dismissal of a thought of any rate cut in the future. Um, and I think overriding that sentiment and the key to this MPC outcome was that their model is still based on an exchange rate that is considerably weaker than what we have seen in the past month or so. In other words, they don't believe that these inflows into emerging markets that we've seen will necessarily be sustained. And I have some sympathy with that and that is why he says, you know, we can't just chop and change, they're cautious in that regard. And I think that is the most critical factor. The other thing, he, he kind of dropped a hint that they were looking at oil prices rising further rather than falling. He said, well, they may actually fall at the end of the day, but, but I think in their model they will looking at still high oil prices. I haven't got the model forecast in front of me to see whether that was the case.

Gugu: Riaz Let's get you a quick response and a reaction to the meeting. Are you content?

Riaz: I think I was um, I mean the most important thing that surprised me was the governor doesn't take sugar in his tea, but I think, you know, everything that you said was in line with what we expected is looking at the same numbers and models that we considered and it would be difficult for him to come to any other conclusion and he would on the side of caution when we're uncertain and he said that the main things are the exchange rate, the food prices, the impact of Brexit. So those are very difficult things for him to forecast in the next six months. And hence I think his answers were cautious in that manner.

Gugu: Andre, your response?

Andre: standard and poor's and the ratings Agencies use stable, negative and positive. And I think your governor has just told us that they prefer going to the negative side. It is my opinion that if you look at the figures as they come out over the last month, last couple of weeks, it's actually more on the stable side, even most probably going to the positive side. And I think the world as such and, it's been my prediction in my, what I've been saying for quite some time. That second half of the, uh, we'll see world growth coming out looking a little bit better, uh, and, and we're not looking at massive increases yet, but at least the stabilization and that will help us in South Africa that will help our governor, that will bring us to do a medium budget speech where he will actually reach these targets that will bring us to January, December where We will once again not have a downgrade. I think things are

looking better and I think towards the first quarter of next year. That's my prediction. We will see a cut in interest rates in South Africa and I think when we see that cut in interest rates by June next year, we might very well have ratings agencies that say's negative change to stable.

Gugu: Let's explore that theme as regard to the inflation and perhaps I would my time to the possible inflation cut there, the governor mentioning that he expects inflation to average what, six point six percent for 2016 and come back down to six percent in 2017. Again, does this perhaps then give us direction as to this conservative measure and structured approach to what not being irrational in the decision taking.

Lesiba: It is a quantitative model and if you move a few parts of it, they give you different answers. You can have a qualitative overlay over quantitative outcome, which I think the qualitative overlay was to say, you know, we're going to err on the, on the more hawkish side. In other words, where's the inflation? The core number was revised substantially lower. In fact, it's only going to breach once in the new year. Um, and that means that the underlying inflation and pressures are forecasted by the Sarb to be less subdued than there was in the last MPC, the headline model, admittedly they are weaker depreciating currency that they put it in their relative to where you currently sitting. And this assumption of whether we're talking about, I'm seeing a disconnect of this qualitative overlay that was put out on the quantitative model. And increasingly as data comes, certainty arrives, which will be my belief if they sit down again , it will have a decisive outcome where things are lower. Inflation is lower, where's inflation coming from in this country? There's no growth, there's no demand side. Inflation is cost push with the weather influencing such, you know, I'm of the opinion that things can get better going forward.

Gugu: I'm hopeful that your colleagues share the same sentiments as well, but perhaps we can tie it into that growth story that you bring up. I'm not sure if we can call it growth, if it is zero percent, as you alluded to Riaz, but your thoughts with regard to how the international community might respond to this growth at zero percent expected to take up to one percent next year. Uh, is the Sarb perhaps sending mixed messages that, look, we will be conservative, but perhaps growth will pick up significantly. We're 2017, might be South Africa's year. Riaz and Andre?

Riaz: As I said, you know, growth of zero percent is very bleak and I think for us to, to make a meaningful dent on unemployment and the other challenges that we face, we need higher growth. So all the factors that were discussed in my view are symptoms, but it doesn't seem like that we are adequately dissecting the causes and going into those things in detail in terms of how we address it. Obviously not for this debate, but in general. I mean that's what we need to focus on more the cause rather than the symptoms.

Gugu: I'd like us to get into that conversation very briefly because I think that's where all the excitement might come from. But Andre, your sentiments as well?

Andre: I listened to what the governor has said, then what's the message that he's just given investors in the world? The message was we at the central bank would rather err to the negative side than to the positive side and that's a very positive message to the investor out there that is still sit with it independent central bank monitoring the situation very well and taking care of what they have to do, looking at their business very, very carefully and doing a good job.

Gugu: If I was an international investor I probably view that the Sarb is really showing the independence. So vote of confidence coming through this. Coming back to what Riaz and both you, Andre at the top of the conversation alluded to about really stimulating economic growth and a bolstering south Africa's performance. It goes back to the economic policies and how all of these go hand in hand in job creation, improving productivity as a result to economic growth. But we know that whenever we speak to government officials, the NDP is the bible that they put forth, uh, to inform their decisions with regard to a bolstering economic growth. In NDP, if I'm not mistaken, relies on what, five percent GDP growth with us at zero, one percent mixture and perhaps one plus odd percent in the years to follow. Is that still a relevant document? And are we still buying into a policy that is actually implementable, Dr Jammine?

Azar: I think one needs to be a little careful in just focusing on the forecast growth in the NDP. I think what one needs to look at all the contents of the NDP and the prescriptions. Now they cut to the heart of the fault lines that exist in the south African economy. The NDP was formulated with the markets, with business, with investor friendly policies in mind. and if the entire country we're in support of that, I think we could shoot the lights out. The trouble is there's a vast section of the population and many within government themselves that have ideological, um, issues with the NDP, derived from the imbalances created by apartheid who say the only way in which you can tackle our structural problems is for government to get more, not less involved in the economy and that is the way we need to go. And so we can finding difficulty to forge a unified central political theme. And that's why on the one hand you had one section of government proposing the NDP, which I think has a hell of a lot of merit if focusing on education, sorting out labour market sensitivities, encouraging small business, encouraging trust between private and public sectors, fighting corruption and fighting state capture indirectly. And on the other side you've got those who say no, it's a neo liberal copout a pandering to the wishes of the IMF and, and the investor friendly communities who are still driven by white, predominantly white owned capital in this country that benefited from apartheid. And the only way to address that is through more government

intervention, more regulation, a stronger union, no privatization, more state intervention and possible nationalization and we're not sorting out that fault line.

Gugu: And that's where the hurdles are.

Andre: as It's being said, the mouth says one thing and the actions he's doing something completely and totally different and we need what are being said and what's being done to join forces and get ahead with it.

Lesiba: This fault line. I think what we need to do as a country is go a little granular away from the macro, which is nicely put out in the NDP, the micro is quite important. I think the solution rests in looking at specific regions, doing economic zones and having targeted policy responses that are inducing cretic in a specific place like the Chinese do. Not a big bang macro approach but that which is focused and tested in micro areas. I just think the solution for the country is to take one, two steps. This a wonderful macro that we have set out into the micro. We need a lot more discussion around the micro.

Riaz: Yes, I agree that, you know, special economic zones would go a long way in terms of helping us, just by way of an example. Um, sea transport is much cheaper than land transport, so to transport the container from 8,000 kilometres to Durban is about R20,000, on a container full of shoes that's only about to rain more per pair of shoes. So, you are competing with people who are thousands of kilometres away in manufacturing goods. So, the competitiveness of the labour force of the infrastructure is highly important and special economic zones could address that in various other things. We're trying the NDP. So, I think we have the recipe, it's just in terms of like alluded in the start of this discussion, who in government is responsible for the GDP growth specifically as we have the governor who is responsible for inflation? Anything goes wrong, you know, he's the guy who tackled

Gugu: implementation and accountability. But I'll tell you what, we're going to take a quick break.

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	7 (17.94%)	0 (0.00%)	6 (15.38%)	1 (2.56%)
Inflation	18 (46.15%)	2 (5.12%)	5 (12.82%)	0 (0.00%)
Sub Total	25 (64.10%)	2 (5.12%)	11 (28.20%)	1 (2.56%)
Total	39 (100%)			

CNBC AFRICA MPC Panel video- 24th January 2017

Gugulethu Cele: Hello and a warm welcome to the CNBC Africa special. I'm Gugulethu Cele, well it's the official first MPC meeting for 2017 and expectations that rates will be held steady while we'll hear in a moment from the governor of the Reserve Bank. But in the meantime, let's get some analysis from my special guests in Studio, starting with Lesiba Mothata, who's the chief economist at investment solutions Tim Naamo associate director at global financial innovations and Ashraf Mohammed of JM Busha investments. Gentlemen, good to have you with us. And thanks for making time. I think the last time we probably had a conversation like this again, expectations were fairly muted, but, everyone was still on tenterhooks to hear what the governor would say. But around the table, your opening thoughts Ashraf with regard to rates, held steady or perhaps a hike?

Ashraf: No, I think it's going to be held steady. A hike will be a negative surprise for the markets, especially given where households are at the moment in terms of their disposable income. So my expectation is steady as she goes, but he may sound a warning to say, look, the last CPI read was at six point eight percent and we uncomfortable with this. So definitely no rate cut outlook I think for the next six months,

Gugulethu Cele: Tim?

Tim: expecting no rate change today, I'm going on through to the rest of the year. It will be interesting to see if there's a cut, probably not. But uh, overall I think on the American side only expecting, I think I'm a little bit of an outlier expecting one, hike instead of two and the rand performing really well for the, for the time being, which is good. And we just hope that the political side of things stay as stable as possible.

Gugulethu Cele: Oh, fingers crossed. We'll get into that in the moment and hopefully things will heat up then. But your thoughts Lesiba?

Lesiba: Domestic factors have dominated the discussion. Now, if you recall the last 12 months we were looking at this potential fed rate hikes, the weak rand at that point drought was ravaging the economy. And in fact, when you look in the outlook, inflation is going to improve. I will expect them to cut rates later, although he does nothing today and he will hint to that a lot. Like the Russians lately, they were met with an improved inflation outlook and the reduced interest rates, similar outcome will happen.

Gugulethu Cele: Let's talk about that inflation figure that you've also brought up. Yeah, I should have six point eight percent we understand was the figure that we most recently saw. And again, rising concerns, but again, as you say, the outlook looking significantly more positive for the moment though we are struggling against these elements, but let's get into the inflation picture, uh, with regard to the future outlook and the risks there.

Lesiba: So it was expected that inflation will go up in the, in the fourth quarter of this year. So when we said 12 months ago, we were talking about a peak at seven and a half. It became apparent in midyear, but a 100 basis points need to be taken out of that forecast, which is what happened. That explains the bond market outperformance over most asset classes in South Africa, but when we continued, it became clear that six and a half could be the outcome. Um, so at six point eight, although the average will be much lower if you take the three months to December, the average is closer to six point five, which is where we were expecting it to peak. So this peak is slightly higher, but it's all expected.

Gugulethu Cele: All expected and priced into the market. You mentioned the currency, perhaps a venture onto that note starting off the year, very stable despite the many risk factors that we look to face. Uh, but from a fixed income perspective and the currency crosses are you still confident that even after the MPC's meeting we'll still be holding our level at R13.34.

Tim: Uh, well we should do. I mean, I think one of the things that's driving the currency now more is, you know, last year we had the whole Brexit thing which affected the EU and the UK sort of growth, um, and um, and economic performance outlooks, which then gave us a little bit of breathing room because we then started to see flows going back into emerging markets. There's a lot of uncertainty around what the Americans are going to do in terms of the fed versus Donald Trump, uh, one way to look at it as that to a certain extent people might just sort of leave the US out of the equation and then you then start seeing flows back into emerging markets, which is South Africa, Brazil, Russia especially.

Gugulethu Cele: Let's speak about those international factors which we certainly can't ignore, especially with the news today that uh, the British parliament will have to vote on Brexit, a new dynamic into the atmosphere. The pound is certainly taking a bit of a beating. I'm a little bit concerned as to which way this might flow.

Ashraf: No, I don't think parliament is going to swing it any other way, but towards Brexit, um, before I came here I was watching a Labour MP being interviewed and he said the decision's been made and he certainly won't vote against the Brexit decision although the Scottish National Party have come out and said that they now want to

exercise the right to vote for independence again, which technically they're not allowed to for another two years because they lost the previous one.

Gugulethu Cele: Worst case scenario, if they do go ahead and vote to not have a Brexit, does that mean go back to a referendum or is that even something that is possible?

Ashraf: Theresa May is threatened to have a snap election if that is the case. Um, so my view is that, go ahead with the, with the Brexit, they trigger article 50 or 51 on the, um, on the 31st of March, and then we see how the negotiations go. But, uh, I mean, if you hear what the EU negotiator for Brexit, he's saying it's not going to be an easy discussion at all.

Gugulethu Cele: That's obviously something that the MPC needs to take into consideration, right? Our relationship with them.

Tim: Um, possibly, but I think was one of the things with the Brexit thing, I think Theresa May have pulled a bit of a fast one. So parliament is not voting on whether or not to invoke article 50. They voting on whether or not they approve of the negotiations after the fact. So there will be this long period. Maybe there's a long period of all these discussions back and forth and then it makes it a lot harder for parliamentarians to turn around and say actually, you know, we, we don't want to invoke article 50. So, um, but outside of that, I think a lot of that has also been priced into the market. A sterling is recovering. But, you know, I've seen some analyst reports sort of talking about possibly seeing parity on the euro dollar. I don't quite agree with that for the time being

Gugulethu Cele: So what do you think we'll see with regard to the levels between Euro dollar?

Tim: Um, well the main thing is whether or not you view the US dollar is being overvalued because trump has come out and said that he feels that the dollar is overvalued and inserting trade. Um, but you had a lot of inflows with people chasing after stock market returns. Um, so you really have the situation, where if the dollar does weaken it could weaken an extra 10, 20 percent over a period of time and then you know, you'll have invested in the US markets to get a hold of equity returns, which they get cancelled out by the currency, which is why I also say to a very large extent, you might just look at it and sort of leave a US equity markets for the time being. There are some very good areas where you can go into like the infrastructural plays. Bloomberg had what they called the oligarch index, which was all the stuff trump likes or talks positively about. you know, you watch and wait, but overall there's this thing, uh, for example, the rand apparently is 50 percent undervalued. So if the dollar weakens, does that mean we end up sort of drifting what, politics aside, do we end up drifting even below R12.50 towards

R11's and that kind of a thing. But that's sort of looking into the sort of very medium to long term.

Gugulethu Cele: coming back though to this commentary and the International Dynamics, which we certainly hope the governor will touch on, given that again, he was present at the World Economic Forum just last week and made it very clear that there's a, you know, a lot of noise regarding developed economies and kind of leaves emerging markets in Africa in particular, kind of lost for the moment, from your perspective with the trump element, uh, and all these things that he needs to take into consideration.

Lesiba: What's interesting is that we talk a lot about politics, but when you look at markets, increasingly they're beginning to behave contrary towards conventional wisdom would say, look at how bond markets played out last year. You'd have expected a huge really because we had trump because we had Brexit. But what we find is that equity market held their own, with Brexit, for example, a weaker pound helps, exports are better, M&A activities stronger, it rebases the economy for a fresher start. As hard as it sounds, as difficult as it is "uncertainty, article 50" but when you look at the economics of things it begins to be interesting and that's what your asset managers have been looking at where there's a lot of value that can be found in some of these countries. Back home here. What it means is that when you setting policy, it is uncertain in terms of where trade, could go. The biggest component is if all these results with a trade war, because that could prove problematic. In other words, China and Mexico and the US, all retaliate against each other. That could pose a very difficult scenario for emerging market countries, but on the base, and that's on the periphery actually, but on the base, if you want to build ports, you're want to build airports. You want to create infrastructure in terms of electricity production, you need commodities. I do think it's an opportunity for Africa to now enjoy some cyclical rally that's more sustainable on commodities than what we have seen previously, although it won't be as the previous commodity super cycle

Gugulethu Cele: I was about to bring that up that perhaps the hunger for commodities in the US isn't as great as what we saw previously with China. So even if we do see a pickup in commodity prices, we probably need to focus on a few other sectors as well to boost that.

Speaker 1: I suppose. So, diversifying is a key for most of these economies, including ourselves. I'm reading the Welbeck report that talks about how we need to re-engineer the focus it towards industrial sector. Somehow both policy and private investment has been very weak around the manufacturing sector. You need to re-engineer to that end, so you can sustain a high level of potential growth. Yeah, you need to diversify, but we do benefit on a tailwind that comes from commodities.

Gugulethu Cele: are we so cautious about what trump might say just recalling his inauguration speech. America first America first. So Africans are certainly a bit worried about that even though there hasn't been a lot of clarity with regard to what that means.

Ashraf: Trade with Africa is fairly small, I think the Mexicans and the Canadians have more to worry about than us in Africa. Um, and we more likely to see him going ahead and giving more concessions as far as a goal is concerned than we got out of Obama. So my view is trump won't necessarily be bad for Africa, but he's not going to encourage investments, American investments into Africa. So it's, it's the secondary effects that we need to look out for. And as Lesiba's mentioned before from a pickup in commodity prices, it's those industries that benefit around that that we need to focus on.

Gugulethu Cele: That brings up another theme, which is I know an element that the MPC doesn't focus on, but growth, which is always quite necessary. And maybe we can also delve into that after the conversation, but how best to develop this, especially given that 2017 is a year that's also plagued by some political issues in South Africa.

New Speaker: Well, the World Bank and their report is quite instructive given that they actually looked at where we are as a country and then made proposals and one of the proposals is that we need to look at tax incentives to bolster industrial sector in manufacturing. It seemingly is there in mining to some degree in construction, but it needs to be a lot more on the manufacturing sector because where we are now, the many levers that we've tried since democracy, they argue and they come to a conclusion that a private investment is the knob that needs to be turned to make sure that we can lift up potential growth that actually where the answer is, I think is around that private investments, which is in depression if you look at growth first capital formation as coming from the private sector has contracted for 24 months now. Um, and it's a deep contraction. We're talking about more than two percent.

Gugulethu Cele: That sounds like it might take a while to fix though. Lesiba because you need confidence. That's certainly an element. You need certainty when it comes to policy to.

Lesiba: Appreciate, we all ought to try. Um, it's a challenge for those who, that are putting policy together. Now there is a cyclical rally, a cyclical recovery. I'm talking about the, the GDP number. Uh, we potentially going to see one point three percent, which is better than 2016 outcome. That's cyclical. In other words, if we've done nothing it’s just international recovery. But I do think that if we were to put a plan, there is a long-term plan, which is great, but bring it forward with a lot more clarity. Like, as has been suggested in this, in this fashion, we could go a long way including totally averting a downgrade. So, showing a potential growth that's much

more improved. In fact, we could go a long way as a country because they are green shoots that are emerging

Gugulethu Cele: opportunities are certainly there It's just a matter of tapping into them. We are seeing some activity taking place says, uh, the media has gathered at the moment, so we will be anticipating the governor of the Reserve Bank to head to the podium in just a moment or two, but coming back to another element which is obviously quite critical, the consumer effect and I think we all saw it last year with regard to black Friday and uh, that boosting the retail sales figures. But again, consumers have felt the pinch of the increase in interest rates over the last, few meetings, the last four actually. Uh, and I guess if we hold steady again today, welcome relief for them, but that doesn't mean we out of the woods yet, right? For 2017 concerns still remain.

Tim: Uh, yeah, I suppose they do, one of the things I suppose that's coming through also is with the stability of the rand. If inflation has peaked, uh, I'd be interested. Well, I'd be of the view to say that, you know, if, if there was to be a cut later on in the year, regardless of what the Federal Reserve is doing, they're definitely be a bit of a consumer effect on our side and I don't think would necessarily be from sort of a perception perspective as bad as it would have been. Say you know, this time last year, and I know Lesiba last year was advocating for a cut in rates,

Lesiba: which continues to be the view. But what's interesting is that wage growth whether mainly in the public sector, private sector wage growth is less than five percent. Actually. Wage growth on average is more than six percent. And that continues to support retail activity. That why some of those numbers are surprising three point eight. And with this recovery, real purchasing power improving, um, we may see some recovery from the household sector although remain all beat up with high debt levels. Um, but with wage growth is strong as it is in the country. It's a structured outcome. The three year wage negotiation that lasts for that long and renegotiated. Similarly as we continue, which continues to uphold wage growth about six percent. It helps the consumer. I think we'll, we'll see a better consumer experience this year than we have seen your 2016.

Gugulethu Cele: That's not too much of a bad complaint, uh, from your perspective. I'm assuming that that would obviously have a positive income to some stocks selections naturally when it comes to the banking as well as the retail sector.

Ashraf: I think the retailers are still relatively expensive, but consumer related stocks.

Gugulethu Cele: Any in particular that you'd like to punt? I know, uh, we recently got updates beginning of the year with regard to some of the performance and Mr Price clearly not one of the shining stars of the lot.

Ashraf: Mr Price and Truworths not, but I would certainly look at Massmart

Gugulethu Cele: Massmart on that level. Well we'll continue to give you feedback? We do understand that the reserve bank governor has taken to the podium.

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	3 (20.00%)	2 (13.33%)	2 (13.33%)	2 (13.33%)
Inflation	2 (13.33%)	0 (0.00%)	3 (20.00%)	1 (6.66%)
Sub Total	5 (33.33%)	2 (13.33%)	5 (33.33%)	3 (20.00%)
Total	15 (100%)			

Fifi Peters: well welcome back to the CNBC Africa special. Still have in studio with me Tim Naamo who's associate director at the global financial innovations Chris Becker, economic strategist at Investec Bank, Chris Gilmore an independent investment analyst and a Qweku Okarateng the senior asset consultant for Absa consultants and acturities. Thank you so much. Once again, I must say I am so happy that everybody here at this table was wrong because as a consumer 25 basis points is a welcome relief to me even if it is small, but Tim, let me kick it off with you. As you said that the rand did react to the surprise of statement. Where do you think we got it wrong?

Tim: I suppose a lot of it was just in terms of interpretation of where they might choose to take things. I mean from the comments that he made. I suppose it's more, you know, one of the things you mentioned rather outside of the little breakdowns in terms of the change in forecast going forward is the government policy and the political risk issues. So my interpretation of it would be to say that by cutting today the reserve bank has done its bit and now everyone else has too mainly government has to come to the party in terms of, you know, increasing confidence, trying to get more stimulus or more active investing in the economy rather than sort of building headquarters in Sandton and that sort of thing.

Fifi Peters: But I must say the Reserve Bank governor really was stressed the fact around the public protector and how it did not really have an impact on its independence. But that was the key question on everybody's minds right now. To what degree the attack on the Reserve Bank's independence had on monetary policy decision. Clearly that the bank, uh, it didn't. But Chris, what did you make of the Reserve Bank's governor today? What did you make of his presentation?

Chris B: I just want to say I'm Investec securities quantitative strategist Chris Holdsworth has been completely out of consensus in this call. He's been calling a 25 basis points rate cut. Um, as far as I'm concerned, I was kind of on the fence. Here's the thing, if this is the route that they're going to take for the central bank to try and reduce the perception of risk in the economy by lowering interest rates and by inflating artificially the value of future cash flows by reducing interest rates. I'm surprised that at a 25 cut, it could have been even bigger than that. And this is where it gets really interesting and in cyclical seasons of rate cuts historically. So in the last four rate cutting cycles to the bottom of the cyclical cutting cycle, on average, the Sarb cuts interest rates, six point seven, five percent. Okay. So nearly seven percent. We're at six point seven, five percent right now the question to me is, in terms of the behavioural economics of what's going on in this country, the policy backdrop and some of the dynamics, I mean, where do rates go from here if they've just started cutting rates, could go low in the cycle. And so that's what's kind of

interesting to me and really negative growth assessment, still inflation high inflation outlook. I mean he's talking about inflation still being at five point five percent in 2019. So back to my point earlier, although he paid lip service to try to target four and a half percent, which is the midpoint of the target band. We aren't going to get there for any sustained period so they're going to start cutting. And so I think to me that's what's more important. But to your point earlier around the mining charter and some of the issues. So I just want to say, I mean effectively what's happening here, it's like a sedan traveling down a road and the government's putting, uh, putting speed bumps in the road. But not these normal little vanilla speed bumps, those little half circle, steel ones that are really slow you down and more of these are getting chucked in the road and it, it's difficult to push a car, faster over those speed bumps when you have this government policy uncertainty, what the Sarb's effectively trying to do now is just increase the size of the engine, of the sedan to accelerate the rate which it goes over those speed bumps. And my concern is it creates unintended consequences because if the Sarb is effective at trying to distort the perception of risk and overinflate the future value of cash flows, it, it should blow up in their faces because the credit cycle should go back into a boom and then into a bust. And that's where this car starts to come apart. So, so, I mean, from a strategic perspective, I don't think it's a great move. Government should sort policy out. It's not the Sarb's roll. Um, he's very strong still on independence of the Sarb. But I'm concerned that if they're starting to cut now, still high inflation outlooks or maybe there is an element of needing to start loosening up in order to help government and policy and not make things be as bad as that could potentially be.

Fifi Peters: Chris, let me stop you there. In terms of your view, do you think that the Sarb made the right call in cutting by 25 basis points?

Chris G: I can understand the difficulty that he had and I think to follow on from what Chris was saying there you know, I think explained it very, very well and it was a very, very difficult balance. But um, but on balance I think it probably was the wrong call because I do believe he's going to have to reverse this. I mean, the two questions arise here. One, how long is this going to go on? Are we going to go deep into, into negative real interest rate territory, or is this going to be a token gesture? I think the latter, and I think he's going to have to reverse it. I don't think this is good.

Fifi Peters: he said that they would be on guard if it needs to be reversed, they'd be ready

Chris G: [inaudible], but he also made the point that, you know, to change things profoundly and fundamentally to get, to really get some proper growth in this country is not his remit, this is treasury and I mean, I attended this presentation by Malusi Gaba last Thursday, the JSE here, and I was profoundly disappointed because it was nothing new. There was nothing innovative. There's nothing profound at all, that has to change. You have to get structural reform, this economy before we can start getting

the kind of growth rates that the S and P's and the Fitches of this world will sit up and take notice.

Fifi Peters: And before we get to the discussion of what this means for people's portfolios and the personal investments, I'd like to ask you Qweku what were your key takeaways from what the Sarb governor had to say today?

Qweku: I think the Sarb finds itself in a very challenging position regarding, you know, in economic growth and the inflation outlook and you know, um, the uncertainty. So on the balance, um, I didn't think that the actions were completely wrong, but like the other participants, you know, said perhaps they could have, you know, waited for a bit because it does make, you know, the path as we build up towards the end of the year, it makes things a little bit more uncertain.

Fifi Peters: It makes things more uncertain. But let's get onto what this means for your portfolios. And I'm going to ask, uh, Chris and Tim, given that you manage a lot of clients' portfolios on that front, what is this a rate cut mean for that?

Chris B: Look, I'm an economic strategist. I'm in the banks are not in the asset management side of, of, of Investec. Um, my concern relates to low interest rates. At this point I was saying comes with unintended consequences. One of the unintended consequences here is that you have less buffers to a flight of capital from SA because effectively though they are driving real interest rates lower, which is less of an incentive for foreigners to invest in a market and economy which is already struggling to attract investment inflows. And so it kind of exposes us and makes us more vulnerable in terms of overall equities in South Africa. Um, you know, these businesses are run by really good management who have taken care of a lot of the political risk and various risks that we face in the country. Institutional managers keep investing in the country because they know that the businesses and the managers running those businesses are diversifying their risk offshore. All these things. I think when you start looking at bonds now and the risks around that further downgrades policy uncertainty, more and more issues, very bleak growth outlook which has significant fiscal consequences. I mean, debt to GDP is going to go up on the back of this. The deficit may need to go up. And that's another interesting one. Typically in recessions, the government's budget deficit widened by around six percentage points, so, so what happens when you add a budget deficit to GDP of around eight percent nine percent and the next year or two sounds a bit radical, but that's tends to happen in recessions and we in a recession right now and you get further down grades and you get a shock off shore and interest rates are really low and they're trying to cut to drive this car over those speed bumps which causes the rattling all these issues and that's where the bond, the bond market to me is a concern we can come down and rally but short term worries me.

Fifi Peters: Right. But Tim, tell us about the expected implication for the bond market here. I mean, will a 25 basis point cut really be material in terms of uh, making our bonds less attractive to those emerging market peers.

Tim: Um, it's a little bit difficult to tell at the moment in terms of because there's a lot of... Economists have this debate about, you know, do central banks follow bond yields or bond yields react in relation to central banks? Um, I think my interpretation from just adding up bits and pieces of what he said, one of the things he pointed out was that the exchange rate environmental was stable, though vulnerable. And then for example, one of our other key drivers of inflation is the oil price, which you said the full cost with benign. So in terms of a slight shift, possibly an approach is to my mind it seems that he, the Reserve Bank is now more playing the game along the lines of well for example, given all the political things going on in the country why is the rand not at 15 for example. So if we have this very strong rand and you don't really have that much of a, an inflationary threat from oil prices, maybe what you can start to do is ease interest rates and sort of take the view that it won't really upset the rant too much or appetite from offshore investors for the bonds, which is, it's not a bad plan, it was there. Although, you know, all things, look, it's easy to do in terms of hindsight, but a cut like this would have been really good say a year ago because, um, it would have been it a little bit more of a surprise, but there was more buying in to happen because we hadn't had the Pravin issues and all those other things

Fifi Peters: before we started. Qweku did say that we should be expecting higher taxes and therefore a cut like this, at least it could be a potential buffer for consumers in the environment of expected tax increases.

Qweku: Yeah. I mean the cuts was not that deep to make a significant difference in the average consumer's lives. But like you said, I mean we are facing certain fiscal challenges and by next year taxes, you know will increase. So I guess from a consumer perspective there is a bit of a balance where on the one hand you have short term interest rates decreasing marginally. But on the other hand, a year out, whether it's through direct or indirect, you know, tax movements the net net is not that positive over that period when, when I look over that period.

Fifi Peters: All right, so net net not being that positive, but Chris, in terms of being a consumer, what should you be doing now in this environment? Should you be saving more? Should you be using this slight reprieve to pay more of your debt? Tell us what the consumers should do

Chris G: exactly that. Sophie. I think repay as much debt as possible. Um, don't go jumping out and buying an awful lot more because there's very little respite in, in this, as I said before, unless this is the start of a trend and we're going to go significantly

lower, which I don't think we are then, uh, take advantage of this and get as debt free as you possibly can.

Fifi Peters: And in terms of the credit rating downgrades that we've been speaking about now, the Reserve Bank, uh, I think he said something along the lines of the risks being minimal of a downgrade. Did I hear that correctly? And if so, then we're in a particularly more comfortable position aren't we? Chris?

Chris B: I guess so, didn't he say some of the things before we started getting downgraded to. Wouldn't hang my hat on that. I think necessarily, I mean, anyone can get these wrong, these things wrong because the future is a closed book. Um, I mean maybe we get miracle reformers out of the December conference that's very pro-business and does all the good things and it change the whole game. Could happen then most people are going to be wrong about the outlook for ratings, but we don't quite know. What was your question though?

Fifi Peters: He said that in terms of the credit rating downgrades, did I hear him correctly. He said that, uh, they will possibly minimal.

Chris B: Yeah. So I guess my answer to that is, um, I think the risk is still significant. We, we're in a, in a wintry season for South Africa's macros with, with, I mean global high yield credit markets are still quite loose with spreads tight, commodities have kind of recovered, but these things can unravel. Um, yeah, there's a whole bunch of risks, macro risks that, that one could see manifesting on the horizon and coming nearer that could derail this very fragile recovery, not even recovery, and make the recession actually worse, which I think will impact the ratings outlook more negatively.

Fifi Peters: and in terms of some of those macro factors that you are speaking about, what's happening in the rest of the globe, he said basically that what's happening out there is quite favourable for emerging markets. And he said that, you know, even though you've got a situation in the US where Donald Trump's policies are struggling to come through, it's still quite a good environment for emerging market flows. So I suspect not too much risks there again.

Tim: One of the things you did mention that I noticed he mentioned that, uh, we'll call it a slight improvement on the, on the Chinese outlook, you know, we tend to follow that in terms of China's demand for resources and so on. So there's potentially that. I think so. I think overall it was a, probably speculative is not necessarily the best word to use, but I think it was a, maybe a measured easing and he did point out that, you know, they wouldn't hesitate to reverse the rate cut should, um, should things tend to destabilize a little bit.

Fifi Peters: Okay. And in terms of that, uh, in the worst case scenario that we do get downgraded further and we do become sub investment grade, he also said that they would be investors obviously, who'd be willing to still purchase our bonds at sub investment grade. Can you tell me who all these investors that would be looking to do this?

Qweku: I'm mean you get different, you know, categories of investors. So, for instance, you can have hedge funds, you know, who can take positions because of the potential to achieve relatively high yields, but the risk of that is that, that type of investing may not necessarily have a long-term view or a long-term position, so it can quickly unravel. And then it leaves, you know, the various financial indicators and economic issues quite vulnerable.

Fifi Peters: Um, well we are going to have to leave it there. Thank you so much for your time.

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	5 (20.83%)	3 (12.50%)	7 (29.16%)	2 (8.33%)
Inflation	1 (4.11%)	0 (0.00%)	4 (16.66%)	2 (8.33%)
Sub Total	6 (25.00%)	3 (12.50%)	11 (45.83%)	4 (16.66%)
Total	24 (100%)			

CNBC AFRICA MPC Panel video- 21st September 2017

Fifi Peters: Well, hello and welcome to the CNBC, Africa special for the MPC. Of course, the monetary policy committee is meeting or has been meeting this week to decide on the way forward for interest rates. Now with August's inflation coming in just below economists' forecasts the increased rand weakness and the US starting it's a great unwind. What will the South African Reserve Bank do with interest rates? We're going to unpack this right now with our panel of experts. Allow me to introduce Tim Naamo, who is the head of a trading at Iron Head, Isaah Mhlanga, an economist at RMB rand merchant bank and Cornette van Zyl who's an investment analyst and portfolio manager at Absa Asset Management. Lady and a gentlemen, thanks so much for joining me. Now the consensus is that we are going to see a possible rate cut of 25 basis points. Most economists have this view except you Isaah when we spoke on Monday, you said that you expected the reserve bank to hold interest rates. You base this mainly on the inflation print that was released on a Wednesday that came in slightly below RMB's expectations. Do you still hold the view that we will see a hold in the rates this time around?

Isaah: I think we have to take into account that the Sarb does not necessarily look at the current inflation print. They projected inflation that matters for monetary policies forward looking into the extent that is forward looking. If you look at the indicators that the Sarb takes into account, for instance, electricity prices, you know, Eskom applied for 20 percent increase next year. And also if you look at the oil price, if increased slightly about 56, 57 US dollars per barrel, you look at currency, there's also weakened on the back of yesterday's Fed decision and that should indicate at least an increase in inflation risk going forward. And on the basis of that, we think it's likely that the sub is going to keep rates on hold today

Fifi Peters: Cornette would you agree that inflation risk has increased going forward, especially after the Fed announcement yesterday, that the market has all been led to believe better December interest rate hike from the Fed is now back on the table.

Cornette : It's not clear for me at this point because food inflation did come out below expectations yesterday. So it's difficult to see that within the foreseeable future that the Sarb will actually breach their band. So, we are still calling for 25 interest rates, a basis point cut this time round

Fifi Peters: and Tim the markets man, the rand has certainly reacted to a yesterday's news. Inflation risks they looking like it is definitely back on the table. We could see even further dollar strength from where I'm sitting. But how are you assessing the situation?

Tim: Oh yeah. The dollar has strengthened after the fed announcement at the end of the meeting yesterday, especially against us, I think the yen that stood out we're more or less unchanged from where we were at the sort of open the previous two days on the rand, but we have weakened a lot. Um, the weakening from the start of September though has been a general, there was a bit of a diversion. So generally the dollar has been weaker throughout. Most of the year, what was interesting was that euro and the pound, continue to appreciate this month, but then emerging market currencies as in general weakened and out of that, the rand is the weakest of the bunch. So, it's sort of rand Turkish lira and the Rubel which weakened a Latin America was less affected. Uh, so I'm inclined to think that there'd be a cut more because the last meeting was a surprise cut. If they're wanting to continue cutting this time, they'll probably find that, you know the pressures that we alluded to earlier will be coming through and make it a little bit harder to do later on in the year or next year.

Fifi Peters: Right, right. And how are you guys reading the political pressures? I mean we come into this meeting with an announcement that ANC's Makhosi Khoza has quit the ANC now actually she's no longer part of the, ANC saying calling them essentially a new alien and being rather corrupt and then of course Nkosazana Dlamini Zuma also being sworn in as an MP. So perhaps a cabinet reshuffle, uh, being back on the table, how are you assessing the political scenario right now? Cornette?

Cornette: So, look, I'm not a political analyst, but it must be playing on the MPC's mind at this point in time. I think that um, everybody in South Africa is concerned about the uncertainty and I'm sure whatever they do, they have that in the back of their minds all the time.

Fifi Peters: Concerned about the uncertainty on the political front. How about the uncertainty at the private sector front? KPMG. It's understood that they were being called or rather South African banks were being called to a meeting with the Reserve Bank because these concerns about the fall out and systemic risk that this may cause. How are you assessing the KPMG scenario and how do you think the bank is reading this?

Isaah: I think, look, this, this just plays into the general uncertainty you have seen it's nothing really new in terms of where, to the extent that we view political uncertainty in the eyes of the private sector, you know at RMB we conduct together with the BER the confidence index which improved slightly, but the general trend study that has been low for a very long time and nothing has changed since, since we have released that business confidence. So to that extent, yes, the Sarb may take into account political uncertainty, but we should know that the Sarb is an inflation target. They care primarily about price stability, which is what they are going to look at. So, to the extent that the resignation of Makhosi Khoza that does not impact

inflation and we know it does not impact in any way and she doesn't control any enterprises that impact inflation. So it's unlikely to, to feature much or if any is unlikely to feature in today's decision or even in future decisions.

Fifi Peters: Right? So in the event as the mode, the consensus is that we're going to get a 25 basis point cut in the event that we do get that I suppose we're not going to see much of a reaction from the market says it's mostly a priced into in. Tim?

Tim: slightly priced in, if we see a cut, rand might weaken a little bit, but I'd bet that going back into next week would be probably closer to say I don't know, R13.30 to R13.50 or 60 I guess.

Fifi Peters: Right. But what happens if we see more of that? I was telling Cornette before we started, I was speaking to Dr Roelof an economist at Absa who has a different view. He sees that we could possibly get a 50 basis points cuts in that event. Is the market ready for that?

Cornette : Well, I think that'll be a positive surprise for equity markets generally. And if you look at previous interest rates, cutting cycles, when we have low interest rates, equity markets go up. So even I think if we have a 25 basis point cut today in the short term, yes, it's priced in, but um, I think that it, it could give the market a little bit of a positive boost into the medium term as your interest rate sensitive stocks like general retailers, banking stocks, property stocks will react positively to an interest rate cutting environment.

Fifi Peters: Now, Isaah as we were speaking on Monday, you had said that a 25 basis point cut not really making much difference to the overall consumer, how about a 50 basis point cut.

Isaah: Well, a 50 basis point cut would make a big difference. But I think, uh, if you, if you look at consumer cash balances in banks at over 800 billion, which means the problem, within the economy's not because people don't necessarily have money. There is enough cash which consumers can spent. Their big issue is confidence. If consumers are not confident, they're not going to spend whatever they save from lower debt service costs, it's going to be just put away in savings. So to that extent, even if the Sarb cuts is unlikely to stimulate economic activity because of the general lack of confidence in the economy, you need confidence to be improved and on the back for that, if we see interest rate cuts continuing, then we can see economic growth to pick up. So I think those are the balances which the Sarb have to take into account, at what extent will add 25 basis point cuts it's going to impair to stimulate economic growth, visa vi penalizing those that can save, which is what we need to invest in the economy, savings. Now if you cut the interest rates, that means the return on savings is going to decline while you don't have consumers

that are spending because of lack of confidence. So the real medicine for these economies to get a confidence boost, which is going to stimulate both the private sector to invest and the consumers to start spending. That's how you kickstart an economy, not necessarily by cutting interest rates.

Cornette : I just want to make a point to that. I absolutely agree with you from a fundamental point of view, but purely from a sentiment point of view, you could actually have the market's reacting positively, but fundamentally to make a real difference to the economy. I absolutely agree.

Fifi Peters: So from a sentiment point of view, we could have perhaps more buying going into your retail and your banking stocks. Should they be a bigger cut than expected. Okay. But let's also touch on the bank of Baroda now, what the court case earlier on today that the, uh, the high court had ruled in favour of the Bank of Baroda in terms of cutting the Gupta bank accounts. I know this has nothing to do with inflation and interest rates, but how do you see that scenario playing out?

Tim: Um, I suppose I'm somewhat indifferent, but I guess there has been this sort of weighing of uncertainties. Not really the word, but in terms of, you know, with all the banks that had had cut off the Gupta's and the Gupta's were running around trying to get some of those decisions reversed or trying to reinstate, reinstate their banking agreements. I suppose it does show that at least from a phrase that's always used as a rule of law and a consistency basis at least that's been upheld and it probably is probably a little bit too late now. But do you know if, if Pravin was still minister of finance would probably would have taken a little bit of pressure off him in terms of some of the things that were being pushed in his direction? Uh, but, uh, yeah, I'd say overall it's, you know, it's a positive development in terms of, of not leaning too political or quasi political pressure.

Fifi Peters: Yeah, positive development. Not so positive I suppose for the Gupta family. But guys, please remind me, the last MPC meeting did Lesetja signal clearly that we are now at the starts of a rate cutting cycle.

Isaah: I think we heard the statement, he said something to the effect that a should conditions change. They will not hesitate to reverse that cut, which implies that they are very data dependent in some of the data that we have seen as I just mentioned earlier on a potential electricity price increases and to the tune of 20 percent that is very important or significant factor which affect the inflation, so we haven't seen much to indicate that the Sarb is going to revise that inflation forecast downwards. Our expectations is that inflation is going to, they're going to keep the inflation forecast unchanged and to the extent that they're not going to change the inflation forecast and if you look at where the trough in the inflation forecast is first quarter 2018 from there onwards just start seeing inflation start to pick up to five point two

percent at the end of next year. We're not quite convinced that the Sarb is going to do to cut interest rate this time around, but at least we will have to agree that, the balance of risk are very narrow. Fifty five percent probability of a rate cut versus 45 percent probably to cut. That's how we assess the probabilities at today's meeting.

Fifi Peters: And Tim, how are you assessing the oil price right now because it's just been strengthening and despite the fact that US inventory had data coming out yesterday saying that that was on the rise, we still have a stronger oil prices. How will you reading it and to what extent will it, uh, perhaps alter inflation forecasts going forward?

Tim: Look, a lot of it has to do with base effects, so if you call the bottom of the oil price cycle around $50. If you go from 50 to 55, that's 10 percent. Um, you know, the rand is weakened a little bit as well on um, you know, in the last sort of 2 months, whatever it is. So, um, and I think that's probably the one thing that's going to complicate the outlook for the Reserve Bank because you've got the oil price going up, you've got the rand weakening, um, call it unexpected would be just the change in sentiment away from emerging markets has been a little bit, a little bit unexpected so that, that does tend to complicate the picture a little bit because it doesn't take much if you look at the US dollar around the time when trump came in, the US dollar index was around 100, it bottomed at 91, so you don't want to be in a situation where we, and this is a complication for the Reserve Bank and they don't really necessarily look at it because the inflation target is, but there's a situation we have a weak dollar and then the rand weakening as well. And then that makes things really complicated from a, from an inflationary perspective. And then you now have to start looking at, you know, do we reverse the cuts that, um, that were made earlier, earlier in the year or again, potentially today as well. Um, so yeah, it's,

Fifi Peters: it's a complicated one and talking about cuts and complication of I do understand that Lesetja is there and we are going to throw to him in just a short while.

After MPC decision announcement

Fifi Peters: That concludes the business of the day as Lesetja Kganyago said. I must say I held my breath there for a second. When he said he had an important announcement to make, I was expecting a resignation of some sort. Thank God that that did not happen. Well, you have heard it. There is a bank has kept interest rates on hold as as Isaah Mhlanga of RMB has predicted. We're going to take a quick look at how the markets have reacted to that interest rate decision. Well, it looks like the rand is slightly firmer at R13.25, but only marginally, so we'll ask Tim Naamo if it's got anything to do with what the governor has just announced. The JSE still not doing that much. It's been trading a flat for most of the day and the Brent crude, a slightly

weaker down zero point seven percent at this stage, but still holding firm at that $55 per barrel mark. Well, general retailers are feeling the pinch, well, it looks like a household will not have much more room to spend at clothing stores because interest rates have not changed, which means their car repayments have not really changed, nor has their credit card debt. And the banks are slightly weaker then retail is at the stage down one point six percent. Same goes for banks, so the consumer's not in a much better position right now. Of course we did have the government saying that he noticed that consumers continue to pay down their debt, so we expect to see that trend continuing. Well, we're back with our guests for some posts, MPC analysis. How am I going to get your surname wrong when you're the one guy who got the interest rate cut right? Well, the interest rate being on hold, right Isaah well done, but he spoke to many of the things that you had warned about a particularly coming quite strongly on the, uh, Eskom electricity tariff hike if approved, what this would do to inflation.

Isaah: No, that's correct. But I think what is also important to note as the governor highlighted this infatuation with the recent data point which is already in the past. What is really important is that inflation projectile into the extent that is, it hasn't changed. That's why we thought look, possibly the Sarb is not going to change the interest rate in this point in time, but again, the balance of risks is now assessed to be on the upside in terms of inflation because of the many risks that we highlighted earlier. But I think, look, we must also consider it was a narrow decision given that three members expected rates to stay on hold while the other three members expected for the preferred rates to be cut. So we have to concede to, to that effect that even our probabilities are also just slightly different. Fifty five percent for your holding. Not necessarily luck, look, I think we highlighted a lot of the risks which the Sarb also highlighted in that statement.

Fifi Peters: And Cornette the decision obviously taking you by surprise, you being one of the economists that had called a for an interest rate cut. What was it exactly about what he had said that you found a bit surprising?

Cornette: Well, I think that um, I mean it's very slight and as we just said, it was a very narrow decision, but it is a little bit surprising that they are a little bit more worried about inflation than there was previously.

Fifi Peters: And the rand, it's marginally firmer right now, but he did come across as very concerned about the outlook for the Rand Tim, your assessment on what the governor had to say.

Tim: Uh, I guess, um, this was one of the things to say I should probably skip November, otherwise I'll have been wrong three times a row. But the market said largely on the margin had priced in a cut. The cut didn't come through. So then obviously we'll

see a little bit of a and call it a knee jerk reaction in terms on the, in terms of strengthening. But like I pointed out, you know, I think even if we had seen a cut, we would have seen it but a weakness today, tomorrow, but then recovery next week. So, without the cuts, I would expect the rand to sort of stay on the, call it below a 35 or 40. unless theses' some of other developments in the greater emerging market picture. So I think on that side we stabilized. Um, and yeah, you know, the issues are concerns, you know, if, if the rand continues to weaken to towards 14 and going towards the end of the year and the oil price drifts and say the 55 to 57 area, you know, those sorts of numbers do affect the inflation picture

Fifi Peters: and also the growth of the US economy and the Eurozone. He did say that if that grows by more than it is expected, we could see faster a balance sheet reduction from the Fed, more outflows of capital from emerging markets. What is the outlook for that growth in the euro zone enter particularly the US?

Isaah: if you'll read through the feds statement yesterday, they do alludes to growth projections that still relatively better than what previously and also the reconstruction that is associated with the, with the hurricanes also going to give a short term boost to economic growth. But that is not something that is sustainable beyond for fourth quarter of this year. So that's to that extent growth is still a positive and improving in the euro area. It continues to improve in the U S, but if we look at South Africa where we have decoupled in terms of our growth, with the rest of the world, which means even though growth improves, we are not getting the full benefit of that growth on the domestic economy is simply because we're not producing enough. Our corporate sector is not investing because of the usual lack of confidence that it would have been speaking about for many years now. So to that extent we are not producing enough for us that we can export to this global environment that is supportive of demand.

Speaker 2: Alright. So what do we do now in terms of our portfolio management? What should we do not, I mean banks, retailers in the likes. They were supposed to sort of come in favour. If we did get that rate cut, we didn't. Should we still be looking to hold these in our portfolios?

Cornette: I think it's important to stress that we really talking about very marginal changes. Because at 25 basis point cut while it might shift sentiment a little bit in one way, it's not going to make a massive difference. And I think you should bring into discussion what you think is going to happen with the rest of the interest rate cycle. Currently we still expect another cut in November. So, if we are still then on an interest rate cutting cycle, you would still want to be in your interest rate sensitive stocks. Obviously today as we've seen with the retailers and the banks, the market was pricing in a cut. It didn't come through. So you do have these signing off slightly, but again, they're not down 10 percent, they one percent, one point six

percent. So it is a sort of thing of thinking of what's going to happen in the future because markets are forward looking. So if you still looking for interest rate cuts, you should still have an overweight position in interest rate sensitive stocks.

Fifi Peters: Can I ask you two gentlemen? Are you also forecasting another or an interest rate cut at the next meeting for the year?

Isaah: At RMB certainly we are, if we look at where neutral rates are, it's at six percent with the current repo rate at six point seven percent, it would imply a 75 basis point cut is still necessary. At least to a point of break even in terms of monetary policy being neutral. So far it remains on the tighter side, but we do not expect rates to go as low as six, at least in the over the short term. We expect it 25 basis point cut in November it remaining flat for the rest of next year.

Tim: Um, my bias would be to, to be inclined to think that, uh, they wouldn't cut in November

Fifi Peters: going against the grain.

Tim: Now I say that because of what will likely come through potentially on, on exchange rate developments largely. So well just the rand in line with emerging market currencies has weakened. If we continue to weaken, then it makes it a lot harder to cut. Um, and that's, that's basically a lot of what's driving it. I also tend to be, um, a little bit more of a bear or a quantitative easing sceptic. So I, whenever I see things about shrinking, whether the fed is shrinking its balance sheet or, or hiking rates, I tend to be a little bit more, more bearish than that. I think it's because I come from a country where we just had quantitative easing and then just things just got out of control.

Fifi Peters: from a portfolio management point of view from yourself. I mean Cornette keeps on emphasizing that this, even if it was a cut, it was going to be a marginal cut. Now that it's on hold, is that going to change the way you are managing your portfolio?

Tim: Um, no, not entirely. I think the issues that, that had looked at what we will look at is that more the EM weakness in general rather than, um, rather than the rand. Because like I said, there'd been a decoupling between what sort of call it your eurozone currencies sterling and euro were doing versus what the EM complex, whether it's Latin America or you know, Turkey and in Russia we tended to outperform those before. Whereas and then this probably also because of this expectation of a cut, it tended to be the weaker out of a pretty much the entire deck of emerging market currencies that you look at

Fifi Peters: and Isaah what's the outlook for the bond market Lesetja did refer to the fact that foreigners or had been net purchases of bonds this year to the tune of some R63 billion what is the outlook under this environment?

Isaah: I think you just have to look at what's happening globally. To the extent that an accommodative monetary policy continues, at least we know in Europe we're not expecting any major changes in terms of their monetary policy. Yes, the US is killing their quantitative easing and the continue to hike interest rates, but that is likely pricing in the market, but on the net basis you have the Bank of China continuing with the stimulatory mantra policy of the ECB continuing with the stimulator manage policy if the Bank of Japan also continuing with the stimulatory monetary policy. So to that extent on a net basis, global monetary policy still very loose, we are going to continue to see inflows into emerging market and for us, as long as we remain included in the city world government bond index, we are going to get fair share offer or whatever that is allocated to us. And so it's a positive story for now until of course if we get a downgrade in the local currency sub investment grade, then it could be a completely different picture.

Fifi Peters: And that's the thing though. He did highlight those rating downgrade concerns. Are you a little bit more concerned about that given that he, he highlighted it quite a bit in his speech?

Cornette: look, I think it is an overhang on the market in general. Um, and I think anybody investing in South Africa at the moment has got to be concerned of the impact of losing our investment grade rating across the world. When countries lose their investment grade rating, you do see a correction in the market. It might recover subsequently, but you do see a correction initially.

Fifi Peters: Right? And just a quick one, should we be reading anything into the fact that they've lifted the growth forecasts for this year slightly?

Isaah: I don't think you should read anything into that. The growth forecast has been lifted by zero point one percent point from zero point five to zero point six percent. This is just a, it's a minor adjustment it has no bearing whatsoever in terms of what you see on a day to day basis on the street. Uh, unemployment is going to remain high, no job growth. And actually, I've seen some mining companies announce possibility of cutting 3 500 jobs much more recently and this is likely to remain the case until of course business confidence improves, companies invest and then we can see some job growth.

Fifi Peters: Alright? Isaah I actually just a quick one, they're going to kill me because I need to wrap. What was the announcement of the model that the Lesetja announced in simple English? What is that?

Isaah: this is a model that can analyse an economy wide impact of any change in policy.

Fifi Peters: Right. Okay. Well, I am being told that it is time to wrap. It's been such a pleasure being with you. Thank you so much for your insights and saying goodbye to my panelists.

Monetary policy variables' frequency.

	Present	Past	Future	Global Perspective
Interest rates	25 (37.87%)	1 (1.51%)	10 (15.15%)	3 (4.54%)
Inflation	15 (22.72%)	0 (0.00%)	8 (12.12%)	4 (6.06%)
Sub Total	40 (60.60%)	1 (1.51%)	18 (27.27%)	7 (10.60%)
Total	66 (100%)			

APPENDIX 4

CNBC Africa production team Questionnaire responses

UNIVERSITY OF THE WITWATERSRAND,
JOHANNESBURG

Dear Sir/Madam,

My name is Arnold Segawa, and I am a Master's student in Journalism and Media Studies at the University of the Witwatersrand (Wits University) in Johannesburg, South Africa. As part of my studies, I have to undertake a research project, and I am investigating the media coverage of South Africa Reserve Bank Monetary policy committee work: A case study of CNBC Africa 2014-2018. The aim of this research project is to find out how panellists are chosen for the monetary policy committee meetings.

As part of this project, I would like to invite you to take part in a survey research interview that entails answering a set of questionnaires. The first part of the interview deals with collecting background information about you in terms of your professional area(s) of work and background Information such as current position and role in newsroom; employment type; work experience; and gender. Secondly, you will be asked to describe the considerations and process of choosing panellists when CNBC Africa had the monetary policy meetings. Lastly, you will be asked if correct pre-MPC forecasts from panellists influence CNBC Africa to invite the panellist back for another MPC panel.

The respondent's voice recording will be transcribed and used only for academic purposes in the context of my research. You will not receive any direct benefits from participating in this study, and there are no penalties for not participating. You may withdraw at any time or not answer any question if you do not want to. With your permission, I intend to use your full name in the case of exact quotation(s) from the transcribed interview in my final research report. The use of your full name is intended not only to make my research more authentic but also to amplify your viewpoint and voice on the imperative topic of journalistic role in South Africa's monetary policy transmission.

In the cases where you wish to exercise anonymity, I will be able to use the data extracted from you without your name but rather a pseudonym to represent your participation. If you experience any distress or discomfort, we will stop the interview or resume another time.

If you have any questions afterwards about this research, feel free to contact me on the details listed below. This study transcribed as a research report, which will be available online through the university library website. If you wish to receive a summary of this report, I will be sure to share it upon your request. If you have any queries, concerns or complaints regarding the ethical procedures of this study, you are welcome to contact the University Human Research Ethics Committee (non-medical), telephone +27(0)11 717 1408.

Yours sincerely.

Arnold Segawa

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PROTOCOL NUMBER (for office use only): _____

UNIVERSITY OF THE WITWATERSRAND,
JOHANNESBURG

Consent Form

Title of project: "Media coverage of South Africa Reserve Bank Monetary policy committee work: A case study of CNBC Africa 2014-2018."
Name of researcher: Arnold Segawa

I CHRIS ANTHONY BISHOP ..... agree to participate in this research project. The research has been explained to me and I understand what my participation will involve.

I agree that my participation will include use of my full name. (YES) NO (please circle)

I agree that my participation will not be anonymous. (YES) NO (please circle)

I agree that the researcher may use quotes from my interview in his research report. (YES) NO (please circle)

I agree that the interview may be audio recorded. (YES) NO (please circle)

I agree that the researcher may take photos of me (But not my face). (YES) NO (please circle)

I agree that the information I provide may be used by other researchers following this study. (YES) NO (please circle)

I understand that the final research report will be Available online through Wits University's ETD database. (YES) NO (please circle)

..... (Signature)
CHRIS BISHOP ..... (Name of participant)
19/12/18 ..... (Date)

APPENDIX 1

Master's thesis Questionnaire

A1. Which of the following categories best describes your current position in your at CNBC Africa? (List to be Read by Interviewer or Answered by Respondent.)

1. Editor in chief

2. Managing editor

3. Desk head or assignment editor

4. Department head

5. Senior editor

6. Producer

7. Reporter

8. News writer

9. Trainee

10. Other, please specify.....

A2. What informs CNBC Africa's choice for South Africa Reserve Bank (SARB)'s monetary policy committee (MPC) coverage panellists?

1. Newsroom consensus ✓

2. Editor's decision

3. Availability ✓

4. Panellist's workplace

5. Panellist's title

5. Panellist's knowledge of Macroeconomics ✓

6. Other. (Please specify)

A3. What are the core variables that CNBC Africa and the commentators examine during the pre-MPC coverage?

1. Inflation and price stability ✓

2. Economic Outlook ✓

3. SARB's policy actions

4. Impact of SARB's actions on South Africans ✓

5. Other. (Please specify)

A4. Does a panellist's workplace influence their choice for CNBC Africa's MPC panel discussion?

(Yes) No

A5. Does a panellist's knowledge of macroeconomics and monetary policy influence their choice for CNBC Africa's MPC panel discussion?

(Yes) No

A6. Do correct pre-MPC forecasts from panellists influence CNBC Africa's to invite the panellist back for another MPC panel?

Yes (No)

A7. Is media training and experience a variable CNBC Africa considers before inviting panellists for the MPC panel discussion?

Yes (No)

A8. What are the core considerations when inviting a panellist for the CNBC Africa MPC discussion? (Please share three)

1) EXPERIENCE
2) DEPTH
3) ELOQUENCE

UNIVERSITY OF THE WITWATERSRAND,
JOHANNESBURG

Dear Sir/Madam,

My name is Arnold Segawa, and I am a Master's student in Journalism and Media Studies at the University of the Witwatersrand (Wits University) in Johannesburg, South Africa. As part of my studies, I have to undertake a research project, and I am investigating the media coverage of South Africa Reserve Bank Monetary policy committee work: A case study of CNBC Africa 2014-2018. The aim of this research project is to find out how panellists are chosen for the monetary policy committee meetings.

As part of this project, I would like to invite you to take part in a survey research interview that entails answering a set of questionnaires. The first part of the interview deals with collecting background information about you in terms of your professional area(s) of work and background Information such as current position and role in newsroom; employment type; work experience; and gender. Secondly, you will be asked to describe the considerations and process of choosing panellists when CNBC Africa had the monetary policy meetings. Lastly, you will be asked if correct pre-MPC forecasts from panellists influence CNBC Africa to invite the panellist back for another MPC panel.

The respondent's voice recording will be transcribed and used only for academic purposes in the context of my research. You will not receive any direct benefits from participating in this study, and there are no penalties for not participating. You may withdraw at any time or not answer any question if you do not want to. With your permission, I intend to use your full name in the case of exact quotation(s) from the transcribed interview in my final research report. The use of your full name is intended not only to make my research more authentic but also to amplify your viewpoint and voice on the imperative topic of journalistic role in South Africa's monetary policy transmission.

In the cases where you wish to exercise anonymity, I will be able to use the data extracted from you without your name but rather a pseudonym to represent your participation. If you experience any distress or discomfort, we will stop the interview or resume another time.

If you have any questions afterwards about this research, feel free to contact me on the details listed below. This study transcribed as a research report, which will be available online through the university library website. If you wish to receive a summary of this report, I will be sure to share it upon your request. If you have any queries, concerns or complaints regarding the ethical procedures of this study, you are welcome to contact the University Human Research Ethics Committee (non-medical), telephone +27(0)11 717 1408.

Yours sincerely.

Arnold Segawa

Researcher name: Arnold Segawa

PROTOCOL NUMBER (for office use only): _____

UNIVERSITY OF THE WITWATERSRAND,
JOHANNESBURG

Consent Form

Title of project: "Media coverage of South Africa Reserve Bank Monetary policy committee work: A case study of CNBC Africa 2014-2018."
Name of researcher: Arnold Segawa

I .....Monique....Vonk..... agree to participate in this research project. The research has been explained to me and I understand what my participation will involve.

I agree that my participation will include use of my full name. circle)	(YES)	NO	(please
I agree that my participation will not be anonymous. circle)	(YES)	NO	(please
I agree that the researcher may use quotes from my interview in his research report. circle)	(YES)	NO	(please
I agree that the interview may be audio recorded. circle)	(YES)	NO	(please
I agree that the researcher may take photos of me (But not my face). circle)	(YES)	NO	(please
I agree that the information I provide may be used by other researchers following this study. circle)	(YES)	NO	(please
I understand that the final research report will be Available online through Wits University's ETD database. circle)	(YES)	NO	(please

..... (Signature)
..... (Name of participant)
..... (Date)

APPENDIX 1

Master's thesis Questionnaire

A1. Which of the following categories best describes your current position in your at CNBC Africa? (List to be Read by Interviewer or Answered by Respondent.)

1. Editor in chief

2. Managing editor

3. Desk head or assignment editor

4. Department head

5. Senior editor

6. Producer

7. Reporter

8. News writer

9. Trainee

10. Other, please specify....News editor.....

A2. What informs CNBC Africa's choice for South Africa Reserve Bank (SARB)'s monetary policy committee (MPC) coverage panellists?

1. Newsroom consensus

(2.) Editor's decision

(3.) Availability

4. Panellist's workplace

5. Panellist's title

(5.) Panellist's knowledge of Macroeconomics

6. Other. (Please specify)

A3. What are the core variables that CNBC Africa and the commentators examine during the pre-MPC coverage?

(1) Inflation and price stability

(2.) Economic Outlook

(3.) SARB's policy actions

(4.) Impact of SARB's actions on South Africans

5. Other. (Please specify)

A4. Does a panellist's workplace influence their choice for CNBC Africa's MPC panel discussion?

Yes (No)

A5. Does a panellist's knowledge of macroeconomics and monetary policy influence their choice for CNBC Africa's MPC panel discussion?

(Yes) No

A6. Do correct pre-MPC forecasts from panellists influence CNBC Africa's to invite the panellist back for another MPC panel?

Yes (No)

A7. Is media training and experience a variable CNBC Africa considers before inviting panellists for the MPC panel discussion?

(Yes) No

A8. What are the core considerations when inviting a panellist for the CNBC Africa MPC discussion? (Please share three)

Knowledge

Standing/Name in the industry

Suitability for TV

UNIVERSITY OF THE WITWATERSRAND,
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Yours sincerely.

Arnold Segawa

Researcher name: Arnold Segawa

Email: segawarr@gmail.com

Phone number: +27740105070

Supervisor name: Dr Bob Wekesa

Email: Bobwekesa@gmail.com

Phone number: +27763457839

UNIVERSITY OF THE WITWATERSRAND,
JOHANNESBURG

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Yours sincerely.

Arnold Segawa

Researcher name: Arnold Segawa

Email: segawarr@gmail.com

Phone number: +27740105070

Supervisor name: Dr Bob Wekesa

Email: Bobwekesa@gmail.com

Phone number: +27763457839

PROTOCOL NUMBER (for office use only): _____

UNIVERSITY OF THE WITWATERSRAND,
JOHANNESBURG

Consent Form

Title of project: "Media coverage of South Africa Reserve Bank Monetary policy committee work: A case study of CNBC Africa 2014-2018."
Name of researcher: Arnold Segawa

I ...Amogela.....Modise..... agree to participate in this research project. The research has been explained to me and I understand what my participation will involve.

I agree that my participation will include use of my full name. YES NO (please circle)

I agree that my participation will not be anonymous. YES NO (please circle)

I agree that the researcher may use quotes from my interview in his research report. YES NO (please circle)

I agree that the interview may be audio recorded. YES NO (please circle)

I agree that the researcher may take photos of me (But not my face). YES NO (please circle)

I agree that the information I provide may be used by other researchers following this study. YES NO (please circle)

I understand that the final research report will be Available online through Wits University's ETD database. YES NO (please circle)

..... (Signature)
Amogela Modise (Name of participant)
18.11.2 (Date)

APPENDIX 1

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2. Editor's decision

3. Availability

4. Panellist's workplace

5. Panellist's title

5. Panellist's knowledge of Macroeconomics

6. Other. (Please specify)

A3. What are the core variables that CNBC Africa and the commentators examine during the pre-MPC coverage?

1. Inflation and price stability

2. Economic Outlook ✓

3. SARB's policy actions

4. Impact of SARB's actions on South Africans

5. Other. (Please specify)

A4. Does a panellist's workplace influence their choice for CNBC Africa's MPC panel discussion?

Yes ✓ No

A5. Does a panellist's knowledge of macroeconomics and monetary policy influence their choice for CNBC Africa's MPC panel discussion?

Yes ✓ No

A6. Do correct pre-MPC forecasts from panellists influence CNBC Africa's to invite the panellist back for another MPC panel?

Yes ✓ No

A7. Is media training and experience a variable CNBC Africa considers before inviting panellists for the MPC panel discussion?

Yes No ✓

A8. What are the core considerations when inviting a panellist for the CNBC Africa MPC discussion? (Please share three)

- Availability of panellist
- The quality of commentary
- Diversity in commentary (gender and race diversity)