

INSIGHT

social networking site Twitter tends to be on the more positive side. A recent post read: "No US recession and only mild Fed balance sheet action should keep the dollar in modest decline and rand in R6,50-R7,50 territory for the next 12 months."

That would continue to be negative for exports but would ultimately help keep a lid on inflation.

Using the same medium to disseminate his thoughts, 2008 doomsayer Nouriel Roubini has a strong global following: he's a proponent of the double dip theory.

It's hardly surprising sentiment has turned negative. The past six weeks have seen the attitude of central bankers do a 180 degree turn. In July, bond markets were starting to price in rate hikes but the slowdown in Europe – with the ever-present threat of a sovereign debt default lurking in the shadows – has put pressure on policy makers. While inflation may have been regarded as a big threat in first

core inflation, which is more dependent on demand-driven factors as opposed to the pressures brought by administered costs, is well under control, broadening the scope for further interest rate relief in SA.

Terrible news for those desperately preserving their life savings in money market accounts but potentially good news for equity investors, whose portfolios tend to benefit from low rates.

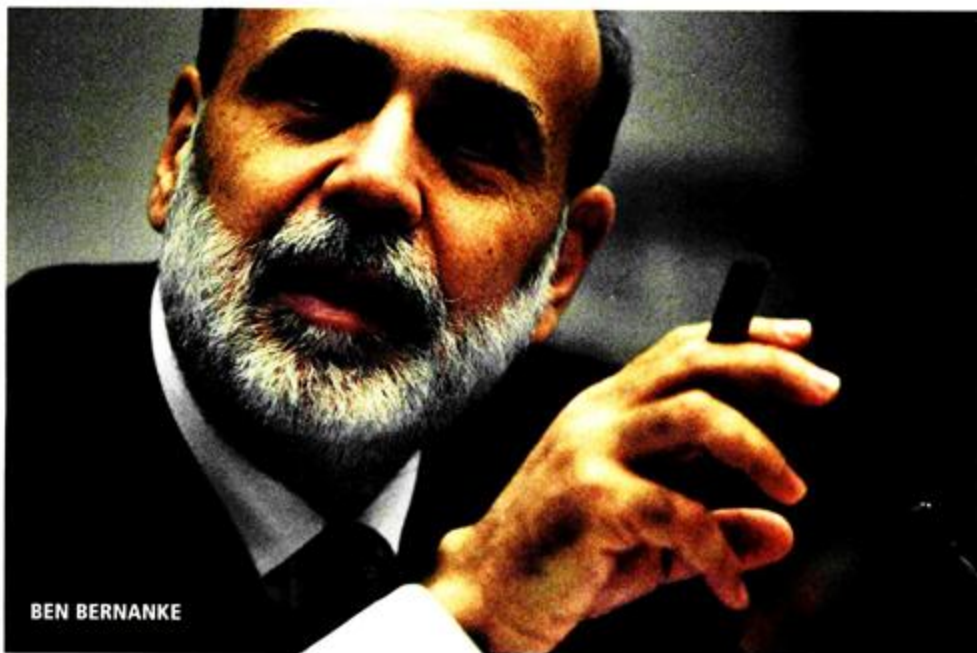
However, Standard Financial Markets chief investment strategist Rudi van der Merwe remains unconvinced by the medicine being dished out by the central banks. He's worried not only about the levels of sovereign debt – which he argues can't be repaid – but also the saturation of markets, which may soon refuse to underwrite new paper regardless of yield potential.

"Governments have reached the stage where they'll need to rebuild balance sheets through lower spending and higher taxation. That isn't an environment that

which isn't an ideal situation to be in during retirement. A very real worry is a large proportion of middle class pension fund investments are still in sovereign debt, which has potentially disastrous consequences should the defaults happen."

Recent retirement surveys conducted by Old Mutual and Sanlam revealed similar trends, with the majority of respondents expecting to have to work past what they had previously regarded as a normal retirement age. Old Mutual's 2011 retirement monitor put that number at 58% who will continue to work through necessity rather than choice.

Old Mutual Corporate MD Bongani Madikiza said education in retirement savings was necessary to change mindsets when it came to saving. But that's just one part of the puzzle. SA's National Treasury will this month unveil its long-awaited discussion document, in which it's expected to make announcements about forced



BEN BERNANKE

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half 2011 the focus has shifted to driving growth.

Commitments by US and European central banks to keep rates low to 2013 illustrate the severity of the problem: as does the suggestion by Marcus that despite growing pressure on CPI – which now stands at a higher than expected 5,3% –

fosters growth. Also, some sovereign debt defaults are inevitable and the result is that retirement ages get pushed out, public services become poorer and it's harder for governments to provide medical care and education," says Van der Merwe.

"Low and negative real interest rates rob savers of the return on their capital –

savings. A second phase will introduce a form of a national social security fund. Government is going to have to tread carefully. Those plans, conceived in the heady days of the mid-noughties bull market, will sit less kindly in the current environment, where not only are markets much tougher but growing numbers of workers also continue to lose their jobs. While SA's savings rate is flagging and action is broadly required, committed savers won't take kindly to being forced into funds with prescribed assets; nor will they respond well to any obligations that might undermine their current investment strategies.

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