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Borrowing requirement to come down

Privatisation puts the spurs on bond bulls

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Johannesburg – The government's renewed privatisation drive would ultimately lessen the supply of stock in the bond market and enhance already bullish predictions for the capital market next year, despite some recent bearish signals, analysts said last week.

The government announced further privatisation initiatives in telecommunications, forestry and defence last week.

"Privatisation does not reduce government debt, it only reduces the government's borrowing requirement in the market," said Dawie Roodt, an economist at PLJ Financial Services. A simple equation of supply and demand meant that the government would need to issue fewer bonds. This would result in lower yields and higher prices, he said.

In the next five months, two bond issues would have to be redeemed by the government. This would cost about R13 billion. In the same period the government would issue new stock to the value of R8 billion. There would thus be a net reduction in debt stock of R5 billion, said Roodt.

One of the main reasons for this reduction in government funding was the privatisation of the South Africa Special Risks Association (Sasria) which amounted to about R7,1 billion. "This is an added reason to be bullish about the bond market," said Roodt. He predicted a run on the capital markets in February. "The market will realise there is no funding pressure in the next five months."

Pressure on government borrowing had been further reduced by improved revenue collection. Roodt predicted that income tax revenue would exceed the budgeted amount by R5 billion for the current fiscal year.

However, recent economic data had provided some bearish signals, said Colen Garrow, an economist at ABN-Amro. Growth at 3,1 percent for the third quarter was reason for caution because higher inflationary expectations would place pressure on inflation-sensitive bonds. The recent rise in producer and core consumer inflation had also raised doubts.

But foreigners would continue to be attracted by the relatively high real yields, the lack of capital restrictions and liquidity in the local bond market, he said.

Yields may also go lower on the fact that the government needed less than the R13,5 billion previously estimated to cover losses incurred on the forward book when the Reserve Bank intervened to protect the rand last year.

It bought dollars at a peak of R6,86 in August last year and was selling them back at a cheaper rate, currently R6,14. "The message is clear. Bond yields should go lower," Garrow said.