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South African Reserve Bank

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Title of paper

The impact of volatile commodity prices, exchange rates and interest rates: reflections of a former business economist

Biographical details/achievements

Gavin Keeton was born and educated in Grahamstown, South Africa. He obtained a PhD in Economics from Rhodes University in 1984. Gavin worked as an economist at the Development Bank of Southern Africa and then at Standard Bank Investment Corporation before joining the economics office of Anglo American in 1990. As Chief Economist from 2001 until March 2008, Gavin was responsible for advising the Anglo American group on developments in the global economy and in financial markets, and their implications for the mining industry.

In 2009 Gavin returned to Grahamstown as an Associate Professor in the Department of Economics and Economic History at Rhodes University. He writes a fortnightly macroeconomic policy column in the *Business Day*.

Abstract of paper

Based on the author's experiences as Chief Economist of South Africa's largest company, the paper argues that large South African corporates were mainly cash-flush at the advent of democracy and so were more concerned about fiscal policy and the rand exchange rate than interest rates. The long-term weakening and extreme volatility of the rand exchange rate have important implications for long-life exporting businesses such as mining. The paper examines this importance and the reasons why exporters are nonetheless reluctant to reduce their exposure to exchange rate volatility by selling their dollars forward. In addition to their exposure to exchange rate volatility, businesses may also choose to remain exposed to changes in flexible interest rates. That they do so is a tribute to the stability of short-term interest since inflation targeting was introduced. This encourages businesses that today are borrowers to borrow at flexible rather than fixed interest rates. Finally, the paper questions whether South African corporates are indeed as cash-flush as official data suggest.