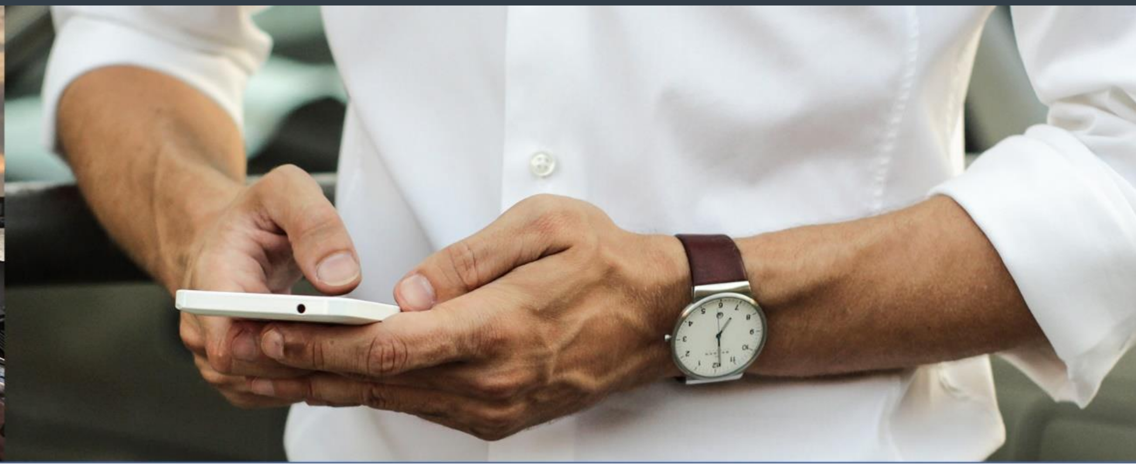
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: August 2023

Introduction

In August, the South African equity market mirrored global trends, with the FTSE/JSE All Share index falling by 4.77%. Weakness in the Resources sector (-8.38%) was mainly due to poor performances in gold and platinum group metals. SA Industrials (-5.05%) suffered from Naspers and Prosus, linked to Tencent's performance. Financials managed a modest -1.59%, weighed down by Capitec's -11.6% decline, while Industrials gained 2.35%. SA listed property rose 0.83%, led by Nepi Rockcastle (+5.8%). Local bonds, driven by the FTSE/JSE All Bond Index, saw a slight decline of 0.23%, as sentiment towards SA assets, a weaker currency, and fiscal concerns pressured the yield curve.

In August, global equity markets faced headwinds as sentiment soured due to expectations of prolonged high-interest rates to combat inflation, supported by robust economic data. Concerns about China's economy, the second largest globally, added to worries about global economic health. Emerging markets, including China, struggled more than developed markets due to weaknesses in Chinese assets, impacting the broader emerging market landscape.

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Domestic highlights

- **BRICS Summit 2023 Highlights**
- **Unemployment Rate – Q2 2023**

BRICS Summit 2023 Highlights

In August 2023, South Africa hosted the 15th annual BRICS Summit, an international conference that brings together the heads of state or government from the five member countries: Brazil, Russia, India, China, and South Africa. These nations collectively represent a significant share of global gross domestic product (GDP), which has grown from roughly 17% in 1995 to approximately 32% in 2023.

A noteworthy development at the summit was the announcement of Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates joining the BRICS group officially in January 2024. This expansion aims to reduce the group's reliance on other developed markets.

Unemployment Rate – Q2 2023

In Q2 2023, South Africa's unemployment rate improved slightly to 32.6%, down from 32.9% in Q1 2023, marking the lowest rate since Q1 2021. The number of unemployed individuals decreased by 11,000 to 7.921 million, while employment increased by 154,000 to 16.346 million. Additionally, the labour force grew by 143,000 to 24.268 million.

Key sectors driving job gains included construction (+104,000), likely benefiting from a gradual recovery in fixed investment activity. Trade (+92,000) and community & social services (+63,000) also contributed to employment growth. However, job losses were reported in manufacturing (-96,000) due to factors such as load-shedding, rising operating costs, and weak demand both globally and locally. The finance sector also saw a decrease in jobs (-68,000), likely reflecting the impact of rising interest rates.

The expanded definition of unemployment, which includes discouraged job-seekers, was 42.1% in Q2 2023, down from the previous 42.4%. Youth unemployment (ages 15 to 24) decreased to 60.7%, showing a 1.4 percentage point improvement from Q1 2023.

SA economy

In July 2023, South Africa's annual headline consumer inflation (CPI) rate dropped to a two-year low of 4.7%, down from June's 5.4% and below market expectations of 5%, falling within the central bank's target range of 3%-6%. This drop was mainly due to lower transportation prices (-2.6% vs. 1.8% in June) and slower food and non-alcoholic beverage price growth (9.9% vs. 11%). However, prices increased in other CPI categories, especially housing and utilities (5.1% vs. 4.2%), notably electricity (14.7% vs. 7.9%), due to an 18% municipal electricity tariff hike in July.

Annual core inflation, which excludes key items, reached a 10-month low of 4.7% in July, down from 5% in the previous month and below market forecasts of 4.9%. On a monthly basis, consumer prices rose by 0.9%, driven mainly by housing and utilities, contributing 0.7 percentage points to the headline figure.

In July 2023, South Africa's annual producer price inflation dropped significantly to 2.7%, down from June's 4.8% and below market forecasts of 2.9%, marking the lowest level since October 2020. This decline was mainly driven by falling prices for coke, petroleum, chemicals, rubber, and plastics (-8.3% vs. 2.9% in June). Costs also slowed in various sectors, including food products, beverages, tobacco products (5.8% vs. 6.4%), paper and printed products (10.6% vs. 14.5%), non-metallic mineral products (5.6% vs. 6.7%), transport equipment (9.6% vs. 12.3%), and furniture and other manufacturing (7.6% vs. 9.8%). On a monthly basis, producer prices increased by 0.2% in July, following a 0.3% decrease in June, slightly below market expectations of a 0.4% rise.

In August, the South African rand faced downward pressure due to lackluster domestic economic indicators and a strengthening US dollar. During this period, the local currency exhibited a depreciation against the three primary global currencies, with declines of 5.72% against the US dollar, 4.41% against the British pound, and 4.25% against the euro.

	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23
CPI (y/y)	7.1%	6.8%	6.3%	5.4%	4.7%	4.9% (forecast)
PPI (y/y)	10.6%	8.6%	7.3%	4.8%	2.7%	3.0% (forecast)

Sources: Trading Economics

	31 August 2021	31 August 2022	31 August 2023
USD/ZAR	14.51	17.11	18.87
GBP/ZAR	19.96	19.88	23.91
EUR/ZAR	17.13	17.20	20.46

Source: IRESS

SA markets

In August, the local equity markets closed the month on a negative note, with most sectors experiencing declines. The FTSE/JSE All Share index recorded a 4.77% loss for the month. The Resources sector (-8.38%) was the primary underperformer, primarily due to weak performances in gold and platinum group metal counters. SA Industrials (-5.05%) also ended the month in negative territory, with Naspers and Prosus, which have exposure to Tencent, being adversely affected by Tencent's performance. Financials posted a modest decline of -1.59%, largely driven by Capitec's substantial -11.6% decrease, while the Industrials sector managed to gain 2.35%.

In terms of market capitalization, small-cap stocks were the top performers in August, delivering a return of 1.72%. In contrast, large-cap stocks were the weakest, experiencing a decline of 5.59%, followed by mid-cap stocks, which decreased by 3.51% for the month. South African listed property posted a gain of 0.83%, with index heavyweight Nepi Rockcastle leading the way with a significant 5.8% increase, driven by positive results. Additionally, companies with exposure to hard currencies benefited from the weaker rand, pushing their values higher.

Turning to the fixed income arena, South African bonds closed the month with a slight decrease in value, accompanied by a bear steepening of the yield curve. Specifically, the short end of the curve moved lower, while the longer end moved higher. The FTSE/JSE All Bond index declined by 0.23% as the yield curve faced pressure due to weaker sentiment towards South African assets, a depreciating currency, and concerns about the fiscal outlook.

Within various maturity ranges, the most significant decline was observed in the 12+ year bonds, which lost 1.10%, followed by the 7–12-year range with a loss of 0.13%. On the other hand, the 1-3-year range delivered a return of 0.91%, and the 3-7-year range recorded a gain of 0.74% in August.

Foreigners were net sellers of R27.57 billion worth of SA equities and net sellers of R31.34 billion worth of SA bonds, during the month.

LOCAL RETURNS IN ZAR

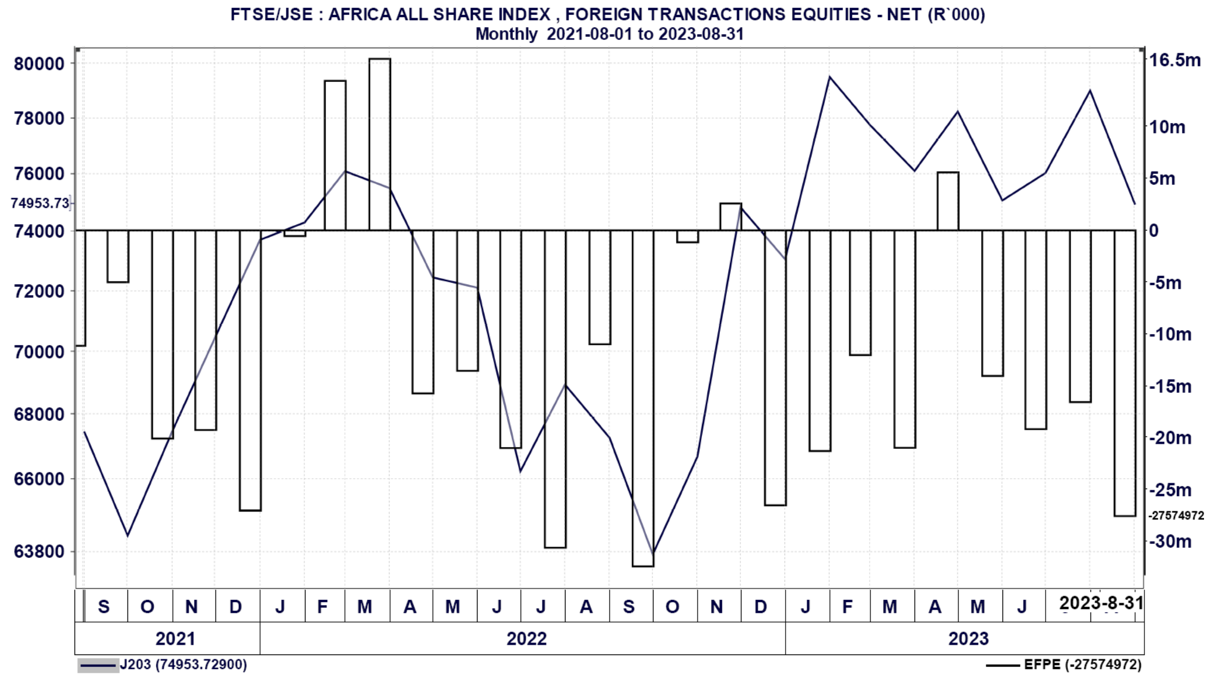
2022	June 2023	July 2023	August 2023	2023 - YTD
SA SMALL CAPS 7.55%	SA BONDS 4.58%	SA MID CAPS 5.75%	SA SMALL CAPS 1.72%	SA TOP 40 5.52%
SA CASH 5.21%	SA MID CAPS 4.16%	SA TOP 40 4.23%	SA PROPERTY 0.83%	SA CASH 5.13%
SA BONDS 4.26%	SA SMALL CAPS 3.83%	SA EQUITY 4.01%	SA CASH 0.69%	SA EQUITY 4.86%
SA TOP 40 4.21%	SA EQUITY 1.35%	SA PROPERTY 2.46%	SA BONDS -0.23%	SA SMALL CAPS 4.46%
SA EQUITY 3.58%	SA TOP 40 1.05%	SA BONDS 2.29%	SA MID CAPS -3.51%	SA BONDS 3.91%
SA MID CAPS 1.60%	SA PROPERTY 0.93%	SA SMALL CAPS 1.37%	SA EQUITY -4.77%	SA MID CAPS 0.87%
SA PROPERTY -1.90%	SA CASH 0.65%	SA CASH 0.68%	SA TOP 40 -5.59%	SA PROPERTY -0.72%

Source: Morningstar & Glacier Research

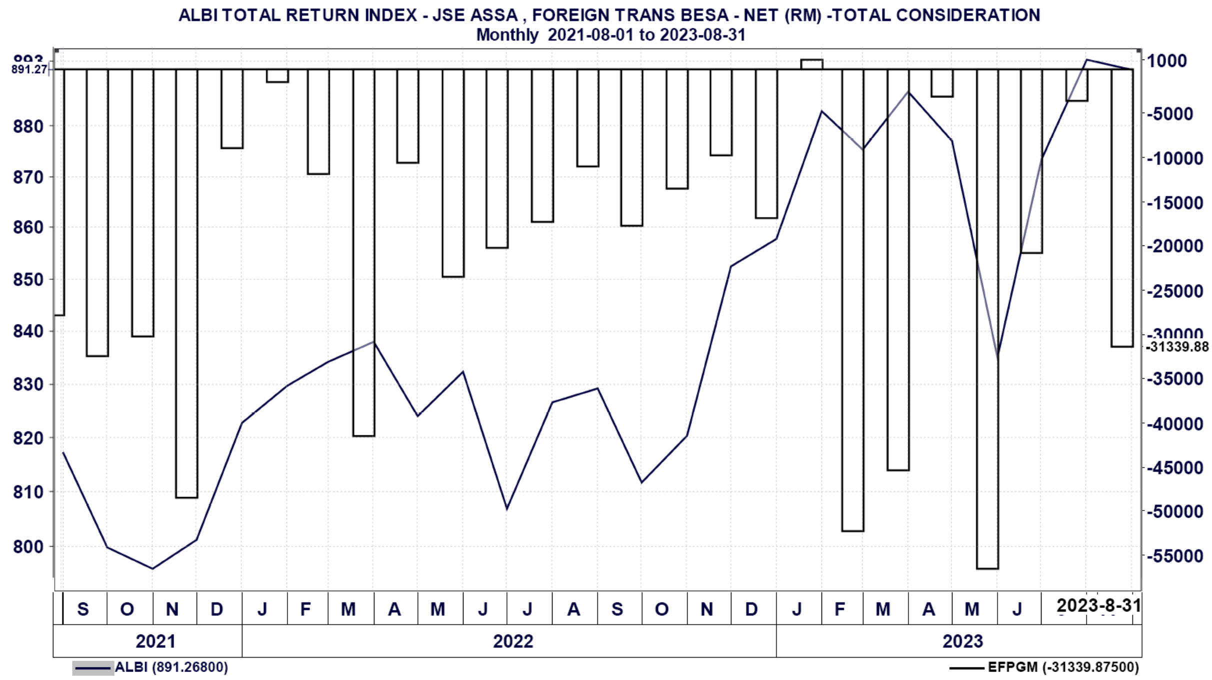
In August, the local equity markets closed with negative results, marking a 4.77% loss for the month. The resource sector was the primary contributor to this underperformance, declining by 8.38%. Following closely, the SA industrials sector experienced a 5.65% decrease, while the financial sector closed the month with a modest decline of -1.59%. In contrast, the industrial sector managed to achieve a gain of 2.35%.

LOCAL SECTOR RETURNS IN ZAR				
2022	**June 2023**	**July 2023**	**August 2023**	**2023 - YTD**
FINANCIALS 8.61%	FINANCIALS 11.66%	FINANCIALS 7.84%	GENERAL RETAILERS 12.30%	CONSUMER SERVICES 24.12%
RESOURCES 8.61%	GENERAL RETAILERS 8.14%	INDUSTRIALS 5.62%	INDUSTRIALS 2.35%	INDUSTRIALS 18.13%
CONSUMER GOODS 6.97%	CONSUMER GOODS 4.33%	RESOURCES 3.16%	CONSUMER GOODS 1.72%	SA INDUSTRIALS 14.88%
SA INDUSTRIALS -3.71%	SA INDUSTRIALS 3.72%	CONSUMER GOODS 3.03%	FINANCIALS -1.59%	GENERAL RETAILERS 13.29%
CONSUMER SERVICES -4.47%	INDUSTRIALS 1.94%	SA INDUSTRIALS 2.58%	SA INDUSTRIALS -4.66%	FINANCIALS 12.91%
GENERAL RETAILERS -6.19%	CONSUMER SERVICES 0.32%	CONSUMER SERVICES 0.71%	CONSUMER SERVICES -5.65%	CONSUMER GOODS 5.85%
INDUSTRIALS -13.26%	RESOURCES -7.63%	GENERAL RETAILERS 0.67%	RESOURCES -8.38%	RESOURCES -15.43%

Source: Morningstar & Glacier Research



Source: IRESS September 2023



Source: IRESS September 2023

Global markets

In August, global equities experienced volatility and ended the month in negative territory primarily due to rising yields. The realisation that interest rates would likely remain elevated for an extended period, on the back of a strong US economy coupled with hawkish comments from the US Federal Reserve officials, as well as a strong US Treasury debt issuance, pushed the yield on the 10-year US treasury note higher. However, yields eased down slightly towards the end of the month as optimism grew regarding a less severe economic slowdown. Additionally, lacklustre macroeconomic data from China as well as renewed concerns in the Chinese real estate sector also weighed on sentiment. As a result, the MSCI World, MSCI ACWI and MSCI EM all generated negative returns of -2.39%, -2.79% and -6.16%, respectively, in US dollar terms. Energy was the strongest performing sector, supported by rising oil prices, which can be attributed to the continued production reductions by Saudi Arabia and other members of the OPEC+ alliance. The price of Brent crude oil increased to close at US$86.83 per barrel.

In the fixed income space, global bonds had a tough time and ended August mixed. US treasuries returned negatively, (-0.58%), reflecting concerns that interest rates are likely to remain higher for an extended period. UK gilts also recorded losses (-0.52%) driven by the market expectations that the Bank of England will increase interest rates in their September meeting. In contrast, German buds saw positive returns, (+0.36%) boosted by the increasing worries about the near-future economic prospects. The US 10-year treasury yield rose from 3.96% to 4.11%, and the UK 10-year Gilts yield rose from 4.31% to 4.36%. Meanwhile, the 10-year German bunds slightly declined from 2.49% to 2.47%. Corporate bond markets showed mixed results, with euro credit returning positively, while sterling and US credit delivered negative returns. On a global equity style basis, quality (-0.96%) was the top-performing style, followed by momentum (-1.28%), growth (-2.05%) and value (-2.76%).

United States

Despite robust economic data, investor confidence was dampened by the possibility of interest rates remaining high for longer. This resulted in US equities concluding the month on a weaker note, with all three major US indices down – NASDAQ (-2.05%), Dow Jones (-2.01%), and S&P 500 (-1.59%). Energy and healthcare were the best performing sectors, while the rest generated negative performance.

The month kicked off with US governments' credit rating being downgraded from AAA to AA+ by Fitch Ratings due to debt concerns and political uncertainty. The US labour market data showed signs of cooling as growth in nonfarm payrolls eased to 187,000 in July, below the forecast of a 200,000 increase. However, the jobs market remained strong, with – unemployment declining to 3.5% in July 2023 from 3.6% in June. The average hourly earnings rose by 4.4% year-on-year, surpassing expectations of a 4.2% increase. Headline inflation marginally increased to 3.2% year-on-year in July from 3.0% in June, driven by higher food and energy prices. Core inflation (excluding food and energy prices), marginally fell to 4.7% year-on-year in July from 4.8% in June. The GDP figure for 2Q2023 was revised down to 2.1% quarter-on-quarter from 2.4% that was reported initially.

Eurozone

August concluded with Eurozone equity markets in the red due to persistent inflation and declining consumer confidence. The Euro Stoxx 50 index, in euro terms, recorded a negative return of -5.34% for the month. The consumer discretionary sector, particularly luxury good companies, was the hardest hit, followed by industrials due to disappointing retail sales and falling demand in China. Stocks in the banking sector also saw fluctuations following Italy's announcement of a once-off 40% windfall tax on banks' surplus profits. However, the shares mostly rebounded when the government subsequently clarified that the tax would not exceed 0.1% of a bank's assets.

Preliminary headline inflation in the Eurozone printed at 5.3% year-on-year in August, unchanged from the July figure but higher than market expectations of 5.1%. Core inflation eased to 5.3% year-on-year from 5.5% in July, in line with market expectations. Inflation in Germany eased slightly from 6.2% in July to 6.1% in August, while higher energy prices pushed inflation higher in France (from 4.3% in July to a preliminary 4.8% in August) and Spain (from 2.3% in July to a preliminary 2.6% in August). The European Central Bank is expected to hike interest rates at their September meeting. The flash composite PMI fell to 47 in July 2023 from 48.6 in July, indicating a contraction in private sector activity. Activity in the services sector fell more than expected, while manufacturing activity continued declining.

United Kingdom

UK equities returned negatively during the month on the back of mixed economic data and hawkish comments from the Bank of England. As a result, the FTSE 100 finished -3.98% lower, in pound sterling terms. From a sector perspective, Energy was the only sector that registered gains, while the consumer discretionary and real estate sectors lagged.

The Bank of England hiked interest rates by 25 basis point early in August, raising bank rate to 5.25%. The central bank emphasised its commitment to remain hawkish, to bring inflation down. Despite the implementation of a more restrictive monetary policy, the UK economy increased by 0.2% quarter-on-quarter in 2Q2023, surpassing the consensus expectation of 0.0% quarter-on-quarter growth, as per the preliminary data from the Office for National Statistics. In July 2023, consumer price inflation in the United Kingdom fell to 6.8% year-on-year, down from 7.9% in June. This decline was in line with market expectations and was primarily driven by a significant drop in fuel prices. Core inflation (excluding energy and food) remained unchanged from the June figure of 6.9%. The composite PMI fell below the 50 mark to 48.6 in August 2023 from 50.80 in the previous month, indicating a contraction in private sector output.

Spot Rates	31 August 2021	31 August 2022	31 August 2023
EUR/USD	1.18	1.01	1.08
GBP/USD	1.38	1.16	1.27
USD/JPY	110.02	138.96	145.53

Source: IRESS

Emerging markets and Asia

Emerging markets (EM) lagged their developed counterparts, with the MSCI EM index returning -6.16%, while the MSCI World index delivered -2.39%, in US dollar terms. Asia equities (excluding Japan) also yielded negative performance over the month. The poor performance can be attributed to fears of a prolonged period of higher interest rates on the back of a resilient US economy. Additionally, the ongoing economic challenges in China and apprehensions surrounding the property sector also contributed to the decline. However, towards the end of the month, Chinese government authorities introduced additional stimulus measures aimed at bolstering the economy, with a particular focus on the housing sector. These measures encompassed interest rate reductions, decreased down-payment requirements, and adjustments to home mortgage rates. From a sector perspective, consumer discretionary, communication services and utilities were the worst performing sectors across emerging markets. In terms of individual markets, Egypt, Turkey, and Hungary were the only markets that delivered positive returns in August, while Chile, South Africa, and Colombia lagged the most.

GLOBAL RETURNS IN ZAR

2022	June 2023	July 2023	August 2023	2023 - YTD
FTSE 100 -0.87%	EURO STOXX 50 1.79%	MSCI EM 0.00%	GLOBAL BONDS 5.02%	S&P 500 32.13%
EURO STOXX 50 -9.44%	S&P 500 1.63%	SHANGHAI STOCK EXCHANGE -0.77%	S&P 500 4.78%	EURO STOXX 50 31.09%
GLOBAL BONDS -10.71%	MSCI WORLD 1.10%	GLOBAL PROPERTY -2.32%	MSCI WORLD 3.93%	MSCI WORLD 29.22%
S&P 500 -12.70%	FTSE 100 -0.84%	FTSE 100 -2.49%	GLOBAL PROPERTY 2.85%	FTSE 100 20.77%
MSCI WORLD -12.73%	MSCI EM -1.05%	MSCI WORLD -2.70%	FTSE 100 2.24%	MSCI EM 16.35%
MSCI EM -14.81%	GLOBAL PROPERTY -1.46%	S&P 500 -2.84%	EURO STOXX 50 0.79%	GLOBAL PROPERTY 13.41%
SHANGHAI STOCK EXCHANGE -19.53%	GLOBAL BONDS -4.68%	EURO STOXX 50 -3.21%	MSCI EM -0.09%	GLOBAL BONDS 12.10%
GLOBAL PROPERTY -20.90%	SHANGHAI STOCK EXCHANGE -6.89%	GLOBAL BONDS -5.21%	SHANGHAI STOCK EXCHANGE -1.58%	SHANGHAI STOCK EXCHANGE 4.60%

Source: Morningstar & Glacier Research