ECONOMIC REPORT

by Glacier Research

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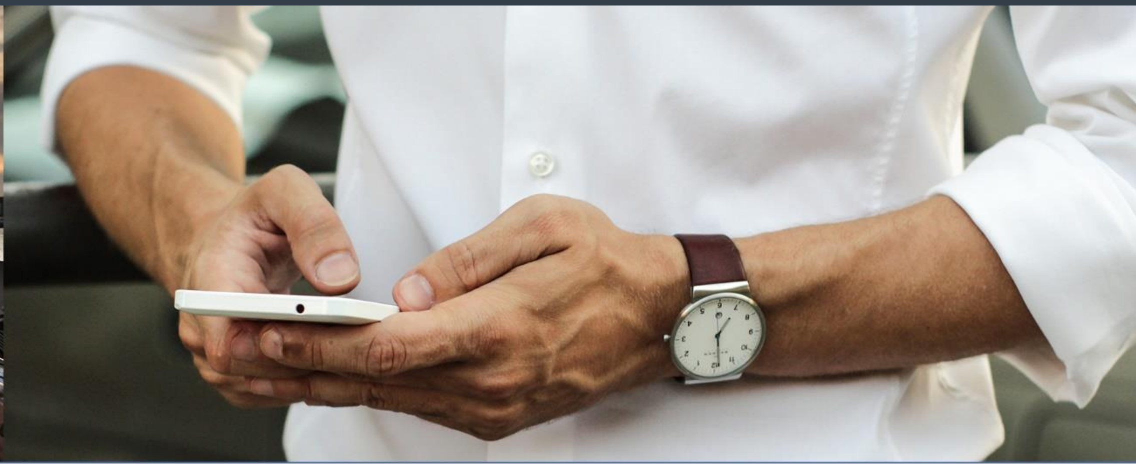

Review period: September 2023

Introduction

In September, the South African equity market followed the global downward trend for the second consecutive month, with the FTSE/JSE All Share index falling by 2.55%. SA Industrials were the biggest losers, dropping 4.12%, followed by Financials, down 3.74%, mainly due to FirstRand's 13.0% decline. Resources were the top performers, rising 1.21%, supported by mining stocks. SA Listed Property underperformed with a 3.76% decline, primarily due to a significant drop in Growthpoint's value. Local bonds, represented by the FTSE/JSE All Bond Index, saw a 2.34% decline as expectations for higher interest rates led to a shift in the yield curve and lower bond prices.

Global equity markets declined for the second consecutive month due to central banks' cautious statements, high equity valuations, and signs of slowing economic growth. Falling inflation led to central banks keeping interest rates unchanged, but there were concerns about lingering inflation risks, increasing the likelihood of an extended period of higher interest rates. This uncertainty prompted a widespread sell-off in various assets, including the US 10-year government bond, reaching a 17-year yield high.

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Domestic highlights

- **Gross Domestic Product (GDP) - Q2 2023**
- **SARB MPC Interest Rate Decision**

Gross Domestic Product (GDP) - Q2 2023

South Africa's (SA's) Q2 2023 real GDP exceeded expectations, growing by 0.6% compared to 0.4% in Q1, partly due to reduced power outages. Six sectors contributed to this growth. Manufacturing performed strongly, surging by 2.2%, led by petroleum, chemicals, rubber, plastics, metals, and machinery, with increased investment in the automotive sector. The finance sector saw a 0.7% increase, benefiting from financial intermediation, insurance, and real estate services. Agriculture rebounded at 4.2% after two declining quarters, driven by field crops and horticulture due to favourable weather, increased cultivation, and rising export demand. Mining continued to grow at 1.3%, supported by platinum group metals, gold, other metallic minerals, and coal. Personal services saw a 0.7% increase, with higher growth in education and health. General government services grew by 0.6% due to the rise in staff numbers.

After 18 months of growth, the transport, storage, and communication sector stumbled, declining by 1.9%, mainly due to lacklustre transport support services and declines in land freight and road passenger transport. The trade industry fell by 0.4% due to weaker retail and wholesale figures. The construction sector, which had held steady for nine months, also decreased by 0.4% in the second quarter, primarily due to reduced economic activity in non-residential and residential building projects.

On the demand side, strong growth was driven by gross fixed capital formation (+3.9%) due to increased investments in machinery and equipment, including renewable energy-related products. Government spending also rose by 1.7%. However, household consumption declined (-0.3%), and net external demand had a negative impact on GDP as exports (+0.9%) lagged behind imports (+3.3%). Year-on-year, Q2 GDP increased by 1.6%, a significant acceleration from the 0.2% growth in the previous period, surpassing market estimates of 1.1% growth.

SARB MPC Interest Rate Decision

In its September 2023 meeting, the South African Reserve Bank's Monetary Policy Committee (MPC) maintained interest rates at 8.25% for the repo and 11.75% for the prime lending rate, aligning with market expectations. Notably, two of the five committee members advocated for a 25-basis point (bps) rate hike, reflecting concerns over the rand's depreciation and inflation pressures, although this decision was not unanimous.

The SARB anticipates headline inflation to increase temporarily before settling within the target range by 2025. The inflation outlook has been revised, with the 2023 estimate lowered to 5.9% from the previous 6.0%. For 2024, inflation is now expected at 5.1%, up from the prior projection of 5%. Concurrently, growth forecasts for this year have been adjusted to 0.7%, up from July's 0.4%, while a 1% growth forecast is retained for 2024. Nevertheless, persistent energy and logistical constraints pose ongoing risks to the economic outlook.

SA economy

In August 2023, South Africa's annual inflation rate stood at 4.8%, aligning with market expectations, ending four months of consecutive decline. It remains within the SARB's target range of 3% to 6%. Notable price increases were seen in housing and utilities (5.5% compared to 5.1% in July), driven by higher electricity and fuel costs (15.1%) and municipal tariff hikes, as well as restaurants and hotels (6.4% compared to 5.2%). Meanwhile, transportation prices decreased at a slower pace (-0.8% compared to -2.6%). Food inflation continued to soften for the fifth consecutive month (8% compared to 9.9%).

Annual core inflation, excluding food, non-alcoholic beverages, fuel, and energy, also increased to 4.8% in August, surpassing the prior month's ten-month low of 4.7% and slightly exceeding market forecasts of 4.7%. Every month, consumer prices rose by 0.3% in August, following a 0.9% increase in July, slightly above market estimates of a 0.2% rise.

In August 2023, SA's Producer Price Inflation (PPI) rose to 4.3% year-on-year, ending a 12-month decline and surpassing market expectations of 3.7%. This increase was driven by metals, machinery, equipment, and computing equipment (10.1% compared to 9% in July), paper and printed products (13.4% compared to 10.6%), and food products, beverages, and tobacco products (4.9% compared to 5.8%). However, prices for coke, petroleum, chemical, rubber, and plastic products continued to fall (-4.6% compared to -8.3%). Every month, producer prices increased by 1% in August, the highest in five months, exceeding market forecasts of a 0.5% rise.

In September, the South African rand performed resiliently amid a globally strong US dollar, which attracted investors seeking safety due to rising global rates and risk aversion. The rand's exchange rate changes for the month were a 0.24% depreciation against the US dollar, a 3.52% appreciation against the British pound, and a 2.26% appreciation against the euro.

	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23
CPI (y/y)	6.8%	6.3%	5.4%	4.7%	4.8%	5.2% (forecast)
PPI (y/y)	8.6%	7.3%	4.8%	2.7%	4.3%	3.7% (forecast)

Sources: Trading Economics

	30 September 2021	30 September 2022	30 September 2023
USD/ZAR	15.09	18.15	18.92
GBP/ZAR	20.33	20.25	23.07
EUR/ZAR	17.47	17.78	19.99

Source: IRESS

SA markets

In September, local equity markets ended negatively, with most sectors witnessing declines. The FTSE/JSE All Share index saw a loss of 2.55% for the month. SA Industrials (-4.12%) were the significant underperformers due to widespread sector weakness, leading to a significant decline. Following closely was Financials, which dropped 3.74%, primarily influenced by the sharp decrease in index heavyweight Firstrand (-13.0%) after missing expectations in their results. Industrials declined slightly in September, returning -0.26% for the month. In contrast, Resources emerged as the top performers, rising 1.21%, supported by mining stocks like BHP Group (+1.7%) and Anglo-American PLC (+3.6%).

Regarding market capitalisation, large-cap stocks experienced the most significant decline in September, down 3.07%, followed by small-cap stocks, which dropped 1.96%, and mid-cap stocks, which decreased 1.12%. SA Listed Property also underperformed, showing a 3.76% decline, primarily driven by a notable downturn in Growthpoint (-10.7%) due to disappointing results.

Shifting to fixed income, local bonds, as represented by the FTSE/JSE All Bond Index, experienced a 2.34% decline. This decline was driven by expectations of higher interest rates, which prompted a shift in the yield curve and a subsequent decrease in bond prices. Although the central bank maintained interest rates at the latest meeting, the governor's hawkish tone and concerns regarding South Africa's fiscal outlook triggered a sell-off in South African bonds. Among different maturity ranges, the most significant decline was seen in 12+ year bonds, with a loss of 2.96%, followed by the 7–12-year range, which saw a 2.84% decrease. The 3-7-year range witnessed a 1.22% decline, while the 1-3-year range declined by 0.36% in September.

During the month, foreigners were net sellers of R16.92 billion worth of SA equities and net sellers of R4.70 billion worth of SA bonds.

LOCAL RETURNS IN ZAR

2022	July 2023	August 2023	September 2023	2023 - YTD
SA SMALL CAPS 7.55%	SA MID CAPS 5.75%	SA SMALL CAPS 1.72%	SA CASH 0.68%	SA CASH 5.84%
SA CASH 5.21%	SA TOP 40 4.23%	SA PROPERTY 0.83%	SA MID CAPS -1.12%	SA SMALL CAPS 2.41%
SA BONDS 4.26%	SA EQUITY 4.01%	SA CASH 0.69%	SA SMALL CAPS -1.96%	SA TOP 40 2.28%
SA TOP 40 4.21%	SA PROPERTY 2.46%	SA BONDS -0.23%	SA BONDS -2.34%	SA EQUITY 2.19%
SA EQUITY 3.58%	SA BONDS 2.29%	SA MID CAPS -3.51%	SA EQUITY -2.55%	SA BONDS 1.47%
SA MID CAPS 1.60%	SA SMALL CAPS 1.37%	SA EQUITY -4.77%	SA TOP 40 -3.07%	SA MID CAPS -0.26%
SA PROPERTY -1.90%	SA CASH 0.68%	SA TOP 40 -5.59%	SA PROPERTY -3.76%	SA PROPERTY -4.45%

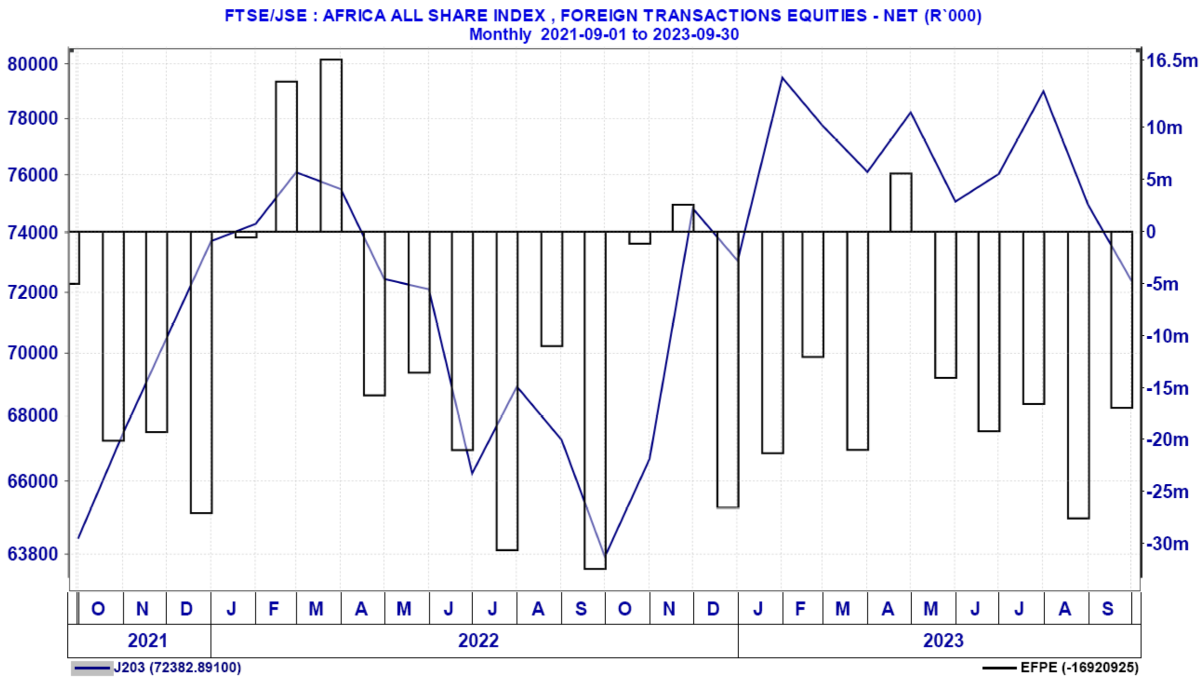
Source: Morningstar & Glacier Research

In September, South Africa's local equity markets concluded negatively, resulting in a 2.55% loss for the month. The SA Industrials sector was the primary driver of this underperformance, declining by 4.12%. The Financials sector followed with a 3.74% decrease, while the Industrial sector saw a modest 0.26% decline for the month. In contrast, the Resources sector achieved a gain of 1.21%.

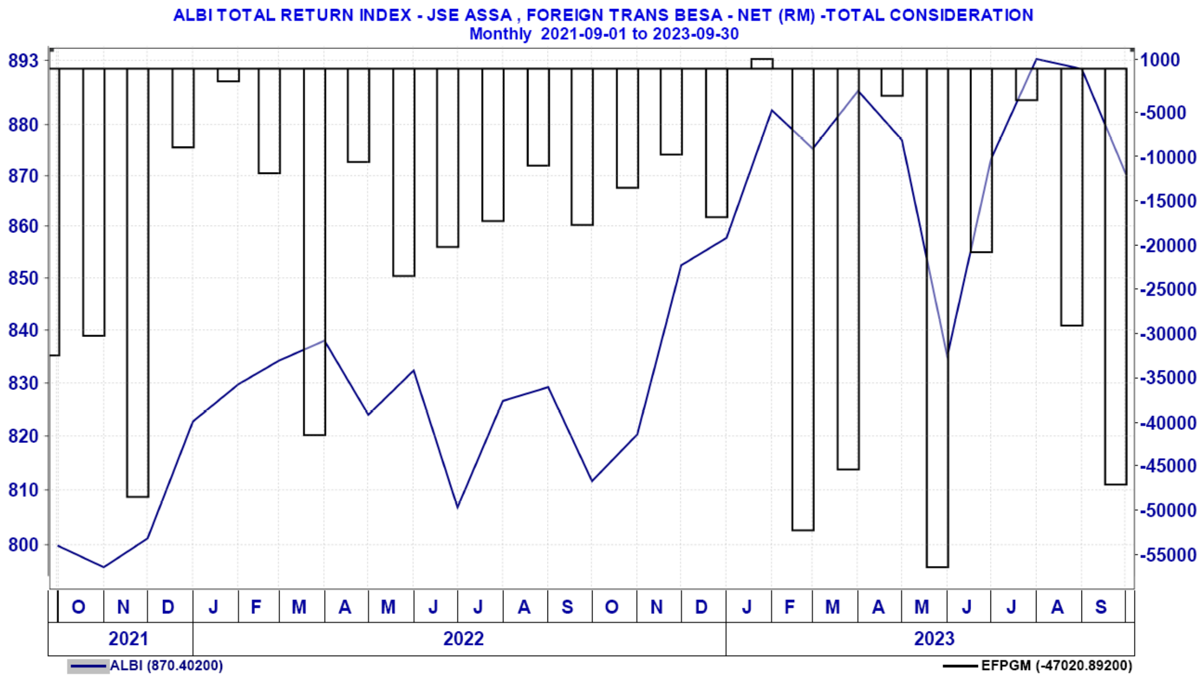
LOCAL SECTOR RETURNS IN ZAR

2022	July 2023	August 2023	September 2023	2023 - YTD
FINANCIALS 8.61%	FINANCIALS 7.84%	GENERAL RETAILERS 12.30%	GENERAL RETAILERS 2.94%	CONSUMER SERVICES 17.97%
RESOURCES 8.61%	INDUSTRIALS 5.62%	INDUSTRIALS 2.35%	RESOURCES 1.21%	INDUSTRIALS 17.83%
CONSUMER GOODS 6.97%	RESOURCES 3.16%	CONSUMER GOODS 1.72%	INDUSTRIALS -0.26%	GENERAL RETAILERS 16.63%
SA INDUSTRIALS -3.71%	CONSUMER GOODS 3.03%	FINANCIALS -1.59%	CONSUMER GOODS -2.86%	SA INDUSTRIALS 10.15%
CONSUMER SERVICES -4.47%	SA INDUSTRIALS 2.58%	SA INDUSTRIALS -4.66%	FINANCIALS -3.74%	FINANCIALS 8.69%
GENERAL RETAILERS -6.19%	CONSUMER SERVICES 0.71%	CONSUMER SERVICES -5.65%	SA INDUSTRIALS -4.12%	CONSUMER GOODS 2.82%
INDUSTRIALS -13.26%	GENERAL RETAILERS 0.67%	RESOURCES -8.38%	CONSUMER SERVICES -4.96%	RESOURCES -14.41%

Source: Morningstar & Glacier Research



Source: IRESS October 2023



Source: IRESS October 2023

Global markets

In September, the performance of global equity markets was mixed. The UK saw positive returns due to robust economic data. However, on a broader scale, global equities continued their downward trend for the second consecutive month. This decline was a response to signals from central banks indicating a prolonged period of high-interest rates, leading to an increase in bond yields to their highest level in over a decade. This, in turn, resulted in a decrease in the prices of stocks and other investments. Consequently, the MSCI World, MSCI ACWI, and MSCI EM all ended the month in negative territory, with declines of -4.31%, -4.14%, and -2.62%, respectively, in US dollar terms. Notably, emerging markets outperformed developed markets. When analysing global equity styles, value investments emerged as the top-performing style, with a return of -2.82%, followed by momentum at -4.11%, quality at -4.99%, and growth at -5.66%. The energy sector performed strongly, benefiting from the rise in oil prices. The price of Brent crude oil surged by 10% month-on-month in September, closing at US$95.34 per barrel.

Global bonds met a difficult month in the realm of fixed income investments due to concerns about the extended period of high interest rates, leading to sovereign bond yields reaching multi-year highs. The US Federal Reserve and the Bank of England kept interest rates unchanged in September, while the European Central Bank chose to raise rates during the month. Government bonds experienced losses, with US treasuries declining by -2.38%, German bunds yielding -2.35% in returns, and UK gilts also exhibiting a decline of -1.05%. Notably, the US 10-year treasury yield increased from 4.11% to 4.57%. In Europe, 10-year German bund yields rose from 2.47% to 2.84%, and UK 10-year Gilts increased from 4.36% to 4.44%. The performance of corporate bond markets varied, with sterling credit showing positive returns while euro and US credit delivered negative results.

United States

The persisting possibility of prolonged high-interest rates continued to cast a shadow on investor sentiment, leading to a weaker performance for US equities in the month. All three major US indices, namely NASDAQ (-5.77%), S&P 500 (-4.77%), and Dow Jones (-3.42%), experienced declines. The energy sector stood out as the best-performing segment, delivering positive returns, while the real estate sector lagged, making it the worst performer.

The US central bank maintained interest rates at 5.5%, aligning with market expectations. However, the Federal Reserve hinted at the likelihood of more interest rate hikes later in the year, with fewer cuts expected in the following year. This contributed to the prevailing sentiment of "higher for longer" among investors. Towards the end of the month, there was a looming threat of a government shutdown. Fortunately, the US Senate reached an agreement that prevented this scenario, ensuring government funding through mid-November. Headline inflation in August increased to 3.7% year-on-year from 3.2% in July, primarily driven by rising oil prices. In contrast, core inflation, which excludes food and energy prices, decreased to 4.3% year-on-year in August from 4.7% in July, aligning with market predictions. Regarding production, the composite PMI for the United States in September 2023 reached 50.2, slightly higher than the initial estimate of 50.1, but remained unchanged from the August figure of 50.2. Manufacturing production stood at 49.8 in September, compared to 47.9 in August, indicating the fifth straight month of contraction. In contrast, the services sector (50.1 in September versus 50.5 in August) decelerated in September but remained in the expansion territory.

Eurozone

Eurozone equity markets concluded September negatively, reflecting a slowdown in economic growth as evident from GDP data. The Euro Stoxx 50 index, denominated in euros, posted a month-end return of -2.79%. Notable sector performance included energy, communication services, and financials performing well, while consumer discretionary and technology sectors underperformed.

In September, the European Central Bank executed a 25 basis point interest rate hike, resulting in the benchmark deposit rate reaching 4.0%. This marked the central bank's tenth consecutive rate hike since July 2022. Preliminary headline inflation in the Eurozone declined to 4.3% year-on-year in September, down from August's 5.2%, falling below the market consensus of 4.5%. Similarly, preliminary core inflation, which excludes energy and food, decreased to 4.5% year-on-year in September from 5.3% in August, coming in below market expectations. Germany saw a significant drop in inflation from 6.1% year-on-year in August to 4.5% in September. Preliminary inflation in France remained unchanged at 4.9% year-on-year in September compared to the previous month. Spain's inflation (preliminary) rose to 3.5% in September from 2.3% in July, primarily due to increased fuel prices. With inflation reaching its lowest point in two years, the ECB will likely maintain interest rates at their current levels. The composite PMI for September 2023 was recorded at 47.2, compared to 46.7 in August, still indicating a contraction in private sector activity, with both manufacturing and services output showing declines.

The European Commission revised its growth forecasts for the eurozone, lowering expectations to 0.8% in 2023 (from the previously projected 1.1%) and 1.3% in 2024 (down from the prior estimate of 1.6%). This downward revision is attributed to weak domestic demand, especially in consumption, driven by high inflation and increasing borrowing costs. Survey indicators now indicate a slowdown in economic activity during the summer and in the coming months, with persistent weakness in the industry and diminishing momentum in services despite a strong tourism season in various parts of Europe.

United Kingdom

UK equities delivered a positive performance in the month, driven by robust economic data and the Bank of England's decision to pause interest rate hikes. Consequently, the FTSE 100 index closed with a gain of 2.40% in pound sterling terms.

In August 2023, consumer price inflation in the United Kingdom unexpectedly eased to 6.7% year-on-year, down from 6.8% in July, contrary to market expectations of an increase fuelled by rising crude oil prices. Core inflation, which excludes energy and food, also decreased to 6.2% in August from 6.9% in July. In response to these developments, the Bank of England kept interest rates steady at 5.25%, marking a pause in a 14-month streak of rate hikes since December 2021, potentially indicating that borrowing costs might have peaked. The Monetary Policy Committee (MPC) voted with a five-to-four majority to maintain rates.

Official data from the Office for National Statistics confirmed that the UK's economic growth was at 0.2% during the second quarter of 2023, following an upward revision of 0.3% in the first quarter of 2023, indicating a stronger economic recovery from the Covid-19 pandemic than previously estimated. Furthermore, annual growth in regular pay (excluding bonuses) reached 7.8% in the three months ending in July, with zero growth after adjusting for inflation, given the 7.8% CPI inflation for the same period. The continued robust wage growth poses an inflation risk, which could pressure the Bank of England as it strives to control inflation. Consumer confidence saw a two-month consecutive rise and reached its highest level since January 2022, supported by strong wage growth, growing optimism about the economy, and reduced household spending pressures. The composite PMI showed a slight decline from 48.6 in August 2023 to 48.5 in September, with manufacturing production contracting for the seventh consecutive month and services activity shrinking for a second period.

Spot Rates	30 September 2021	30 September 2022	30 September 2023
EUR/USD	1.16	0.98	1.06
GBP/USD	1.35	1.12	1.22
USD/JPY	111.27	144.75	149.35

Source: IRESS

Emerging markets and Asia

In September, although ending the month with negative returns, emerging markets (EM) outperformed their developed counterparts. The MSCI EM index yielded -2.62%, in contrast to the MSCI World index, which returned -4.31% in US dollar terms. Asia equities (excluding Japan) also experienced a decline during the month. The negative performance can be attributed to ongoing concerns regarding the potential for US interest rates to remain elevated for an extended period.

Despite signs of improvement in the Chinese economy, as evidenced by August's retail sales and industrial production figures surpassing expectations, equity markets continued to grapple with challenges stemming from ongoing issues in the real estate sector. Notably, Chinese property development company Evergrande encountered a significant setback in September. This occurred after police in Shenzhen detained some staff from Evergrande's wealth management arm, and the company missed a bond repayment that was due by September 25th. At the sector level, there was a lag in information technology, consumer discretionary, and communication services, whereas energy and utilities showed slight increases.

GLOBAL RETURNS IN ZAR				
2022	**July 2023**	**August 2023**	**September 2023**	**2023 - YTD**
FTSE 100 -0.87%	MSCI EM 0.00%	GLOBAL BONDS 5.02%	SHANGHAI STOCK EXCHANGE -1.05%	S&P 500 25.19%
EURO STOXX 50 -9.44%	SHANGHAI STOCK EXCHANGE -0.77%	S&P 500 4.78%	FTSE 100 -1.86%	EURO STOXX 50 23.68%
GLOBAL BONDS -10.71%	GLOBAL PROPERTY -2.32%	MSCI WORLD 3.93%	MSCI EM -3.11%	MSCI WORLD 23.02%
S&P 500 -12.70%	FTSE 100 -2.49%	GLOBAL PROPERTY 2.85%	GLOBAL BONDS -3.41%	FTSE 100 18.52%
MSCI WORLD -12.73%	MSCI WORLD -2.70%	FTSE 100 2.24%	MSCI WORLD -4.80%	MSCI EM 12.74%
MSCI EM -14.81%	S&P 500 -2.84%	EURO STOXX 50 0.79%	S&P 500 -5.25%	GLOBAL BONDS 8.28%
SHANGHAI STOCK EXCHANGE -19.53%	EURO STOXX 50 -3.21%	MSCI EM -0.09%	EURO STOXX 50 -5.65%	GLOBAL PROPERTY 5.73%
GLOBAL PROPERTY -20.90%	GLOBAL BONDS -5.21%	SHANGHAI STOCK EXCHANGE -1.58%	GLOBAL PROPERTY -6.77%	SHANGHAI STOCK EXCHANGE 3.50%

Source: Morningstar & Glacier Research