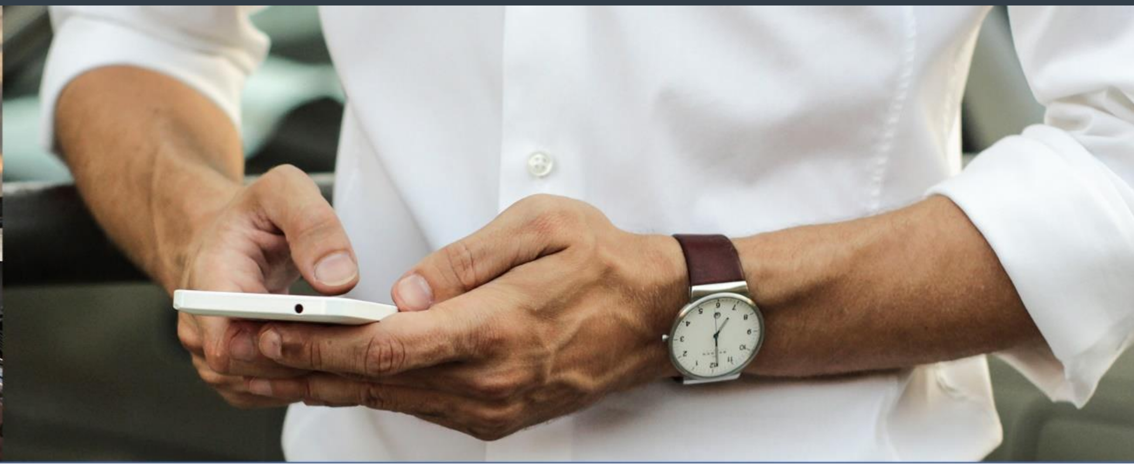
ECONOMIC REPORT

by Glacier Research

glacier
by Sanlam



Review period: August 2022

Introduction

Local equities ended the month of August 1.84% lower, mainly driven by resources as the prospect of weaker global economic activity weighed on metal prices. Globally, markets started the month on a positive footing amidst investor optimism. However, investor sentiment turned negative towards the end of month due to concerns about the economic impact of a tighter US monetary policy. On the other hand, emerging markets held up significantly better on the back of strong performance from Chinese equities.

Domestic Highlights

SA unemployment in the second quarter of 2022

On 24 August, Statistics South Africa (Stats SA) released their latest Quarterly Labour Force Survey (QLFS) which revealed that South Africa’s unemployment rate fell from 34.5% in the first quarter of 2022 to 33.9% in the second, as the end of lockdown restrictions increased the number of discouraged workers. Meanwhile, employment increased as economic activity normalised and profitability returned.

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The QLFS revealed that a total of 684 000 jobs were created during the quarter, an increase of 4.3%. The biggest job gains were recorded in community and social services (+276,000); trade (+169,000); finance (+128,000); and construction (+104,000). However, there were notable job losses in manufacturing (-73,000) and transport (-54,000). The total number of persons employed was 15.6 million in the second quarter of 2022. The unemployment rate, according to its expanded definition (i.e., including those discouraged from seeking work) also decreased from 45.5% in the first quarter to 44.1% in the second.

Despite the general improvement in the market, year to date, on a trailing one year, however, employment has not yet recovered to pre-COVID levels. At 33.9%, the unemployment rate is still higher than the 29.1% recorded in the fourth quarter of 2019.

Due to the impact of the Russian/Ukraine war, concerns regarding global growth, slow policy implementation, persistent power shortages, and unfavourable labour market conditions (including increased strike action and high wage demands), companies are thus wary of resuming aggressive capital expansion.

SA economy

In July 2022, the annual inflation rate in SA rose from 7.4% in June to 7.8% in July, the highest since May 2009, and a breach on the upper limit of the South African Reserve Bank's (SARB) target range of 3%-6%. The main contributors to the 7.8% annual inflation rate were transport costs (25% vs 20% in June); food and non-alcoholic beverages (9.7% vs 8.6%); bread & cereals (13.7% vs 11.2%); and housing and utilities (4% vs 5.1%).

The annual core inflation (which excludes prices of food, non-alcoholic beverages, fuel, and energy) continued to trend higher in July, increasing to 4.6% (from 4.4% in June), just above the 4.5% midpoint of the SARB's target range. This steady increase suggests that inflationary pressures are becoming more broad-based, with companies slowly passing cost increases to consumers. Inflation is likely to remain elevated as the market expects inflation to end the year at 7%. Given the upside risks to the inflation outlook, the SARB is expected to tighten monetary policy further during the remainder of 2022 and throughout 2023.

Locally, manufacturing production in SA increased by 3.7% in July 2022, below market estimates of a 4% growth, following three consecutive months of downturn. A solid rebound was recorded in the sale of food and beverages (9.7% vs -3.5% in June). A rebound was also recorded for motor vehicles, parts, and accessories as well as other transport equipment (12.1% vs -15.5%). Other positive contributions came from radio, television and communication apparatuses, and professional equipment (18.9% vs 11.3%); textiles, clothing, leather, and footwear (9.1% vs -3.3%); and furniture and other manufacturing (4.9% vs -3.2%).

Furthermore, in the month of August, the rand depreciated 2.81% against the dollar, gained 1.78% against the pound, and gained 1.19% against the euro.

	Mar'22	Apr'22	May'22	Jun'22	July'22	Aug'22
CPI (y/y)	5.9%	5.9%	6.5%	7.4%	7.8%	7.6% (forecast)
PPI (y/y)	11.9%	13.1%	14.7%	16.2%	18.0%	16.8% (forecast)

Sources: Trading Economics

	30 August 2020	30 August 2021	30 August 2022
USD/ZAR	16.94	14.51	17.12
GBP/ZAR	22.64	19.96	19.88
EUR/ZAR	20.21	17.13	17.20

Source: IRESS

SA markets

In the month of August, local markets followed their global counterparts lower with all sectors ending the month in negative territory. Resources were the poorest performer for the month, followed by industrials and financials. In terms of market cap, small caps delivered a return of 0.94% for the month, followed by mid-caps (-0.65%), and large caps (-2.13%).

Listed property declined 5.95% for the month of August. On the fixed income side, SA bonds were relatively flat as the FTSE/JSE All Bond returned 0.31% with most of the gains coming from the shorter end of the curve. The one- to three-year area returned 0.46% while the three- to seven-year area gained 0.23%. Furthermore, the seven- to12-year area returned 0.27% while the 12 years+ area gained 3.33%. Inflation-linked bonds were up 2.53% while cash was relatively flat, returning 0.45%.

Foreigners were net sellers of R10.9 billion worth of SA equities and net sellers of R10.9 billion worth of SA bonds, during the month.

LOCAL RETURNS IN ZAR

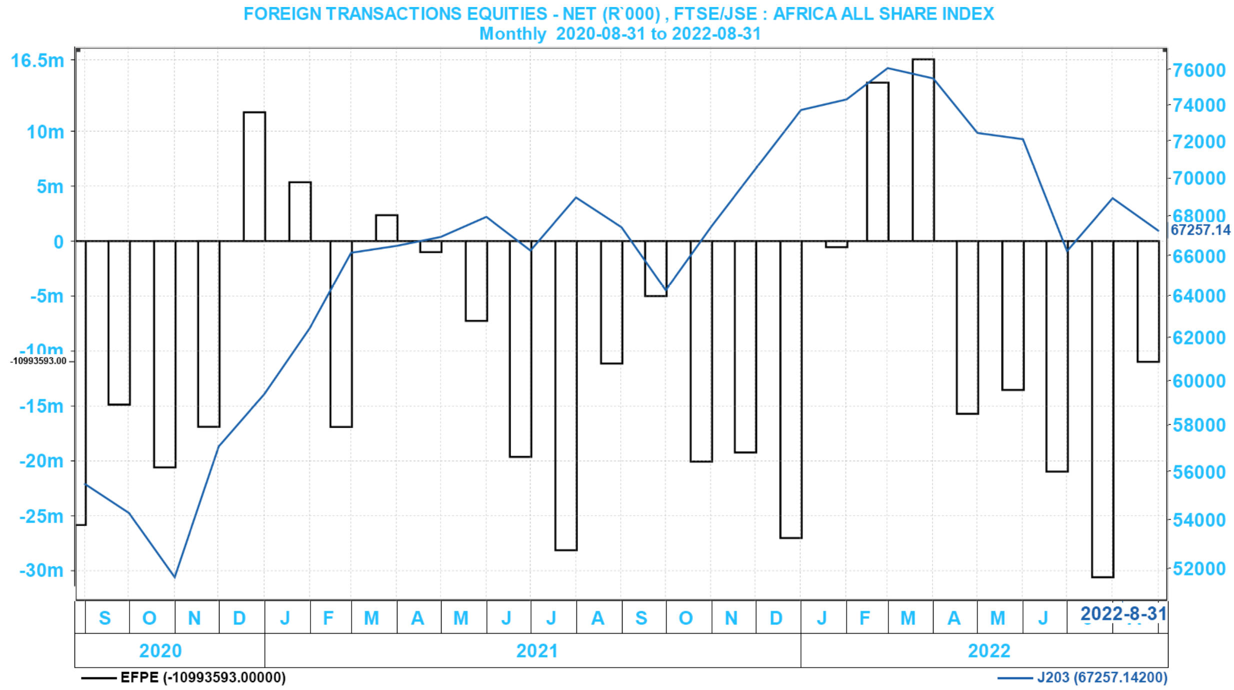
2021	June 2022	July 2022	August 2022	Year-to-date
SA SMALL CAPS 59.08%	SA CASH 0.40%	SA PROPERTY 9.06%	SA SMALL CAPS 0.94%	SA SMALL CAPS 5.09%
SA PROPERTY 38.63%	SA BONDS -3.06%	SA SMALL CAPS 5.87%	SA CASH 0.45%	SA CASH 3.10%
SA EQUITY 29.23%	SA SMALL CAPS -7.29%	SA MID CAPS 4.36%	SA BONDS 0.31%	SA BONDS 0.78%
SA MID CAPS 28.88%	SA EQUITY -8.01%	SA EQUITY 4.22%	SA MID CAPS -0.65%	SA MID CAPS -3.16%
SA TOP 40 28.40%	SA TOP 40 -8.07%	SA TOP 40 4.03%	SA EQUITY -1.84%	SA EQUITY -6.18%
SA BONDS 8.40%	SA MID CAPS -9.36%	SA BONDS 2.44%	SA TOP 40 -2.13%	SA TOP 40 -6.89%
SA CASH 3.81%	SA PROPERTY -10.47%	SA CASH 0.43%	SA PROPERTY -5.95%	SA PROPERTY -11.24%

Source: Morningstar & Glacier Research

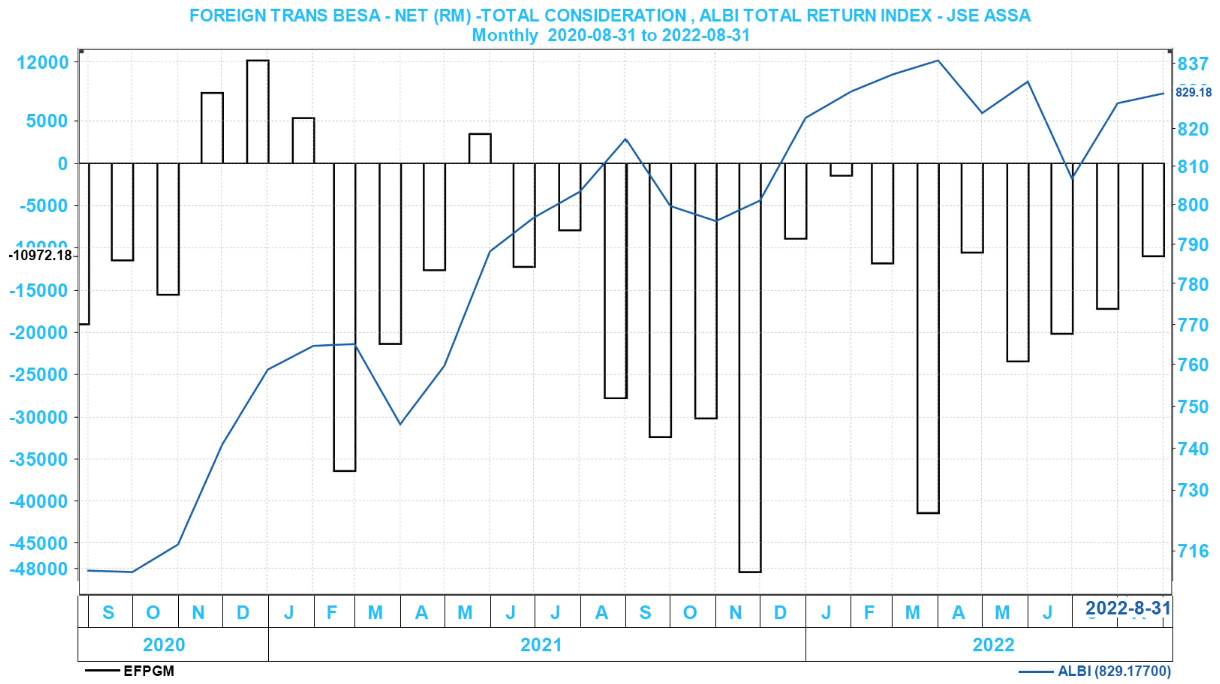
In terms of sector performances, resources were the worst-performing sector, declining 3.84% for the month, followed by industrials (-2.83%), and financials (-1.93%). Furthermore, SA industrials returned -0.36%.

LOCAL SECTOR RETURNS IN ZAR				
2021	**June 2022**	**July 2022**	**August 2022**	**Year-to-date**
CONSUMER SERVICES 76.32%	SA INDUSTRIALS 0.93%	CONSUMER SERVICES 11.61%	CONSUMER GOODS 4.76%	CONSUMER GOODS 6.11%
GENERAL RETAILERS 65.87%	CONSUMER SERVICES -2.72%	SA INDUSTRIALS 5.82%	SA INDUSTRIALS -0.36%	FINANCIALS 3.17%
RESOURCES 32.31%	CONSUMER GOODS -4.03%	INDUSTRIALS 5.24%	GENERAL RETAILERS -0.38%	GENERAL RETAILERS -6.89%
INDUSTRIALS 30.72%	INDUSTRIALS -5.13%	FINANCIALS 3.85%	CONSUMER SERVICES -0.92%	RESOURCES -8.06%
FINANCIALS 29.59%	GENERAL RETAILERS -9.77%	CONSUMER GOODS 1.69%	FINANCIALS -1.93%	SA INDUSTRIALS -11.10%
SA INDUSTRIALS 26.45%	FINANCIALS -13.30%	RESOURCES 1.28%	INDUSTRIALS -2.83%	INDUSTRIALS -13.47%
CONSUMER GOODS 22.28%	RESOURCES -16.33%	GENERAL RETAILERS -0.66%	RESOURCES -3.84%	CONSUMER SERVICES -16.20%

Source: Morningstar & Glacier Research



Source: IRESS August 2022



Source: IRESS August 2022

Global markets

August reversed July's good fortune, with general widespread losses across global markets as rising interest rates and high inflation remained a concern during the month. Equity and bond markets were deterred by the willingness of central banks to temper inflation at the cost of poor economic growth.

Most economic data published during the month pointed to a slowdown of the global economy, with the global composite Purchasing Managers' Index (PMI) dropping to a 22-month low of 50.8 in July. However, global inflation pressures started to ease on the back of lower commodity prices. A pivotal point in the month was the delivery of a hawkish speech from US Federal Reserve Chair Jerome Powell at the Jackson Hole Economic Symposium where he conveyed unwavering commitment to raising interest rates until inflation meaningfully slows.

The level of uncertainty globally remained elevated, especially in Europe, where the war in Ukraine showed no signs of a ceasefire, and where the region's energy crisis makes a recession seem increasingly likely this winter. Emerging markets outperformed the rest of the world, with relatively better economic momentum, notwithstanding the difficulties encountered by China in its real estate sector and the major heatwave and drought experienced. The S&P 500 and MSCI World both delivered returns of -4.1% for the month, in dollar terms, while the MSCI Europe ex-UK was down 4.7%. The MSCI Emerging Markets index added a positive return of 0.4% (in dollars). On a global equity style basis, value (-3%) outperformed growth (-5.3%).

Bond markets were unnerved by the possibility of further large interest rate hikes in the US, Europe and the UK. Government bonds sold off, resulting in higher sovereign yields which led to negative returns for all fixed income sectors. The yield on the US 10-year treasury note increased from 2.65% to 3.19%. Similarly, the 10-year UK gilt yields increased from 1.86% to 2.80%.

United States

US equity markets ended the month of August lower. All three major US indices – NASDAQ (-4.5%), S&P 500 (-4.1%) and Dow Jones (-3.7%) – fell during the month. Some economic data published in August was, however, quite positive. US employment data was surprisingly strong, with non-farm payrolls showing that 528 000 jobs were created in July, above market expectations of 250 000. Inflation seems to have passed its peak as CPI increased 8.5% year-on-year in July, down from 9.1% in June. However, core inflation is still above the Fed's target which, combined with strong wage inflation numbers, could force the Fed to raise interest rates by another 75bps in September. The Fed's hawkish stance continued to support the US dollar throughout the month. A fall in the August Flash US Composite PMI to 45 suggests that recession risks remain elevated. The unemployment rate dropped by 0.1% to 3.5%, matching its half-century low reached in 2020 before the pandemic began.

Eurozone

European markets ended August in negative territory. The MSCI Europe ex-UK and Euro Government Bond indices were down 4.7% and 5.2%, respectively. Inflation hit a new record high of 9.1%, beating consensus. Eurozone second-quarter GDP surprised on the upside, growing 0.7% quarter-on-quarter, but with divergences among member states. Countries that benefitted from the post-COVID rebound, such as Spain, Italy and France, generally performed well, while the German economy, which is the most dependent on Russian gas imports, came to a standstill. The substantial reduction in gas flows through the Nord Stream 1 pipeline pushed European energy prices to new heights. German producer prices increased by 37.2% in July, their biggest increase on record. Recession risks remain elevated, as shown by the weakness of the euro, which dropped to parity with the US dollar. The Flash Purchasing Managers' Composite index (PMI) for the eurozone fell to 49.2, the lowest level since February 2021. The eurozone jobless rate fell to hit a record low of 6.6% in July as the labour market showed resilience against the backdrop of record high inflation.

United Kingdom

UK markets also suffered in August. The UK FTSE All-Share index fell by 1.7%. Fears over more aggressive interest rate hikes from central banks was a key driver. The Bank of England raised rates by 0.5% to 1.75%, the biggest increase in 27 years. Inflation reached 10.1% in July, the highest in 40 years, and is forecasted to hit 13.1% by the end of the year. UK consumer confidence fell to its lowest level in 50 years, according to data from Growth for Knowledge (GfK), as the cost-of-living crisis continued. Second-quarter GDP declined by 0.1% quarter-on-quarter, less than expectations of -0.2%. Retail sales showed a year-on-year gain of 2.3%. The August Flash Composite PMI declined by 1.2 to 50.9, just remaining in expansionary territory.

Spot Rates	30 August 2020	30 August 2021	30 August 2022
EUR/USD	1.19	1.18	1.00
GBP/USD	1.33	1.38	1.16
USD/JPY	105.89	110.02	138.96

Source: IRESS

Emerging markets and Asia

Contrary to other central banks, the People's Bank of China (PBoC) cut its interest rates in an attempt to boost slow economic growth. The CSI 300 index fell about 2% over August, while Chinese government bonds benefited from the PBoC's easing. India (3.6%) was the standout performer, continuing its upward momentum. The Reserve Bank of India raised rates by 0.5%, higher than consensus estimates. Japanese markets were bolstered by reports that the government will ease COVID restrictions and allow for a daily number of 20 000 tourists in the country. The Topix gained 1.2%, helped by the weakness in the yen. Australian equities were held back by a correction in commodity prices and broader macroeconomic headwinds.

The MSCI Emerging Markets index added a positive return of 0.4% (in dollars), outperforming the rest of the world. EM Latin America traded sideways, but still outperformed the developed world. Turkey rallied strongly, boosted by new government regulation on bank lending. Poland was hit by the gas crisis which halted its production of nitrogen fertilisers.

GLOBAL RETURNS IN ZAR

2021	June 2022	July 2022	August 2022	Year-to-date
GLOBAL PROPERTY 41.28%	CHINA EQUITY 12.35%	US EQUITY 11.07%	GLOBAL EM 2.74%	UK EQUITY -6.80%
US EQUITY 39.84%	GLOBAL BONDS 1.75%	GLOBAL PROPERTY 10.25%	GLOBAL BONDS -1.73%	GLOBAL BONDS -9.82%
GLOBAL EQUITY 32.36%	GLOBAL EM -1.86%	GLOBAL EQUITY 9.76%	US EQUITY -1.86%	US EQUITY -10.45%
UK EQUITY 27.52%	US EQUITY -3.55%	EURO EQUITY 6.56%	CHINA EQUITY -1.94%	GLOBAL EM -11.88%
EURO EQUITY 24.56%	GLOBAL EQUITY -3.98%	UK EQUITY 5.64%	GLOBAL EQUITY -1.97%	GLOBAL EQUITY -12.19%
CHINA EQUITY 14.96%	UK EQUITY -4.30%	GLOBAL BONDS 3.85%	UK EQUITY -3.20%	CHINA EQUITY -15.15%
GLOBAL EM 5.89%	GLOBAL PROPERTY -4.44%	GLOBAL EM 1.44%	EURO EQUITY -4.25%	GLOBAL PROPERTY -15.29%
GLOBAL BONDS 3.54%	EURO EQUITY -6.39%	CHINA EQUITY -4.04%	GLOBAL PROPERTY -4.36%	EURO EQUITY -21.00%

Source: Morningstar & Glacier Research