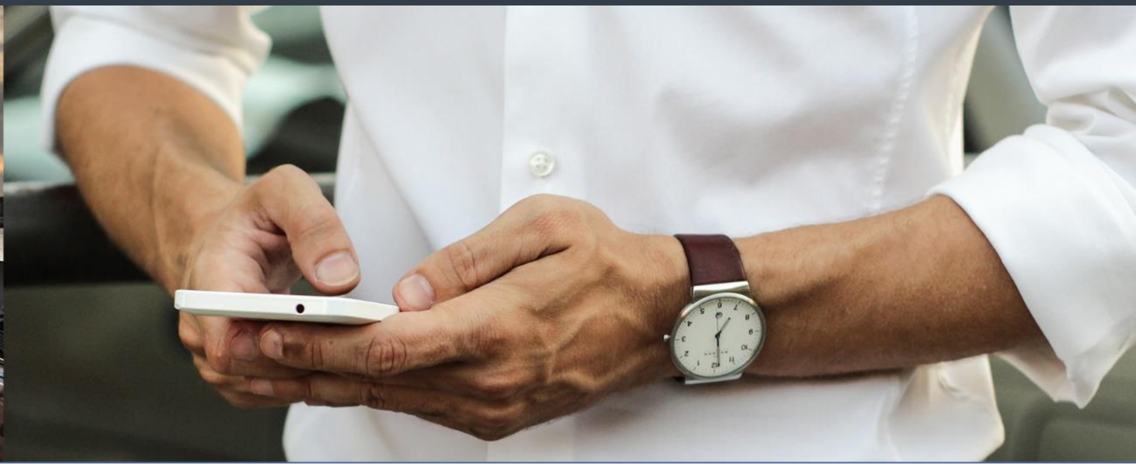
ECONOMIC REPORT

by Glacier Research



Review period: January 2023

Introduction

In January, local equities followed the upward trend of global stock markets as the FTSE/JSE All Share index rose by 8.89%, with the South African industrials and resources sectors leading the gains at 12.78% and 8.70%, respectively. Meanwhile, the South African listed property sector saw a decline of 0.79%. On the fixed income side, South African bonds had a positive month, gaining 2.94%.

The global equity markets ended January on a positive note, driven by an improved market sentiment due to China's reopening after ending its zero-COVID policy in December and signs of easing inflation, as well as hopes that central banks may be near the peak of their interest rate hikes. Emerging markets outperformed developed markets for the third month in a row due to a surge in Chinese stocks.

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Domestic highlights

SARB Monetary Policy Decision

On 26 January 2023, the South African Reserve Bank's Monetary Policy Committee (MPC) raised interest rates by 25 basis points, bringing the repo rate to 7.25% and the prime lending rate to 10.75%. This was below market expectations of a 50-basis point hike and marked the eighth consecutive rate increase since policy normalisation began in November 2021. The decision was aimed at anchoring inflation expectations more firmly around the mid-point of the target band of 3%-6% and achieving the inflation target by 2024. However, the hike was not unanimous, with two MPC members favouring a 50-basis point increase. Despite the smaller increase, the SARB stated that the risks to inflation remain on the upside, due to factors such as the ongoing conflict in Russia and Ukraine, a tight oil market, higher domestic electricity and related administration prices, elevated food prices, and the broader price effects of load-shedding.

The SARB's headline consumer price index (CPI) forecast for 2023 remained unchanged at 5.4%, while it increased slightly to 4.8% (from 4.5%) for 2024. The central bank expects the headline CPI to reach 4.5% in 2025. The core inflation forecast was lowered to 5.2% (from 5.5%) for 2023 and 4.7% (from 4.8%) for 2024. The SARB's growth forecast for the final quarter of 2022 was revised downward to no growth (from 0.1%), with the full-year growth expected at 2.5% (previously 1.8%). The growth outlook for 2023 was revised sharply lower due to extensive loadshedding and logistical constraints, with the SARB estimating that it will shave roughly two percentage points off growth in 2023, significantly more than previous estimates of 0.6 percentage points. As a result, the GDP growth forecast for 2023 is now weak at 0.3% (previously 1.1%). In 2024 and 2025, economic growth is projected at 0.7% (previously 1.4%) and 1% (previously 1.5%) respectively, under the assumption of ongoing loadshedding, moderate household spending, subdued investment growth, and weaker exports due to declining commodity prices.

SA economy

In December 2022, South Africa's annual headline inflation, as measured by the Consumer Price Index (CPI), decreased to 7.2% from 7.4% in November, but remained above the upper limit of the SARB's target range of 3% to 6%. The decrease was in line with expectations and marked the lowest reading since May, driven by slower increases in transportation (13.9% compared to 15.3% in November), fuel (22.8% compared to 25.3%), food and non-alcoholic beverages (12.4% compared to 12.5%), restaurants and hotels (7.8% compared to 7.9%), alcoholic beverages and tobacco (6.2% compared to 6.5%), and housing and utilities (4.1% compared to 4.3%). The annual core inflation, excluding food, non-alcoholic beverages, fuel, and energy, also eased to 4.9% in December from a 5½-year high of 5% in November.

Manufacturing production in South Africa declined by 4.7% year-on-year in December 2022, following a downwardly revised 1.8% fall in the previous month and more than the market's forecast of a 2.5% drop. This marked the second consecutive month of declining industrial activity and the steepest pace since April, indicating that the extensive rolling blackouts were affecting the power-intensive sector. The largest negative contributions were made by petroleum, chemical products, rubber, and plastic products (-12% compared to -2.6% in November), basic iron and steel, non-ferrous metal products, metal products and machinery (-7% compared to -0.1%), and food and beverages (-4.4% compared to -3.8%). On a seasonally adjusted monthly basis, manufacturing output increased by 0.1% in December, slowing down from a downwardly revised 1.4% increase in the previous month but better than market estimates of a 0.5% decrease. In 2022, total manufacturing production in South Africa declined by 0.3% compared to 2021.

Furthermore, in the month of January, the rand depreciated by 2.39% to the US dollar, 4.14% against the pound, and depreciated 3.91% against the euro.

	Aug'22	Sept'22	Oct'22	Nov'22	Dec'22	Jan'23
CPI (y/y)	7.6%	7.5%	7.6%	7.4%	7.2%	6.9%
PPI (y/y)	16.6%	16.3%	16%	15%	13.5%	12.8% (forecast)

Sources: Trading Economics

	31 January 2021	31 January 2022	31 January 2023
USD/ZAR	15.16	15.38	17.41
GBP/ZAR	20.76	20.68	21.42
EUR/ZAR	18.40	17.28	18.91

Source: IRESS

SA markets

The local equity market saw an upward trend in January, reflected in the 8.89% return of the FTSE/JSE All Share Index. All significant sectors experienced growth, with the SA industrials sector leading the way with a 12.78% increase. In terms of market capitalisation, large-cap stocks performed the best, rising 9.69%, followed by mid-caps with a return of 3.83% and small caps with a return of 2.33%.

However, the SA listed property sector saw a slight decrease of 0.79% in January. On the fixed income side, SA bonds ended the month higher with a 2.65% return of the FTSE/JSE All Bond. The majority of these gains came from the middle of the curve, with the 7- to 12-year area growing by 3.56% and the 3- to 7-year area increasing by 2.79%. The 12-year+ area returned 2.64%, while the 1- to 3-year area gained 1.31%. Additionally, inflation-linked bonds declined 1.05% and cash returned 0.58% for the month of January.

Foreigners were net sellers of R21.29 billion worth of SA equities and net sellers of R5.7 billion worth of SA bonds, during the month.

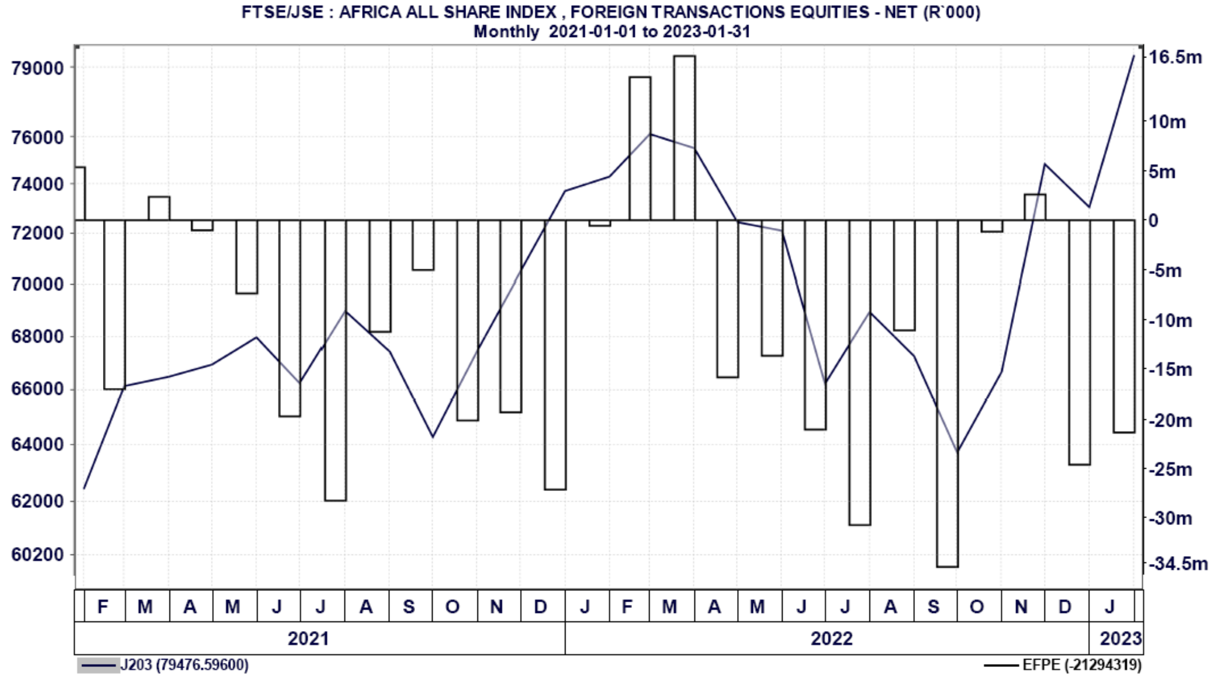
LOCAL RETURNS IN ZAR				
2021	**October 2022**	**November 2022**	**December 2022**	**2022 - YTD**
SA SMALL CAPS 59.08%	SA PROPERTY 10.47%	SA TOP 40 14.26%	SA PROPERTY 1.12%	SA SMALL CAPS 7.55%
SA PROPERTY 38.63%	SA MID CAPS 8.11%	SA EQUITY 12.33%	SA BONDS 0.62%	SA CASH 5.19%
SA EQUITY 29.23%	SA EQUITY 4.89%	SA PROPERTY 5.78%	SA CASH 0.54%	SA BONDS 4.26%
SA MID CAPS 28.88%	SA TOP 40 4.85%	SA BONDS 3.91%	SA SMALL CAPS -1.44%	SA TOP 40 4.21%
SA TOP 40 28.40%	SA SMALL CAPS 3.47%	SA MID CAPS 2.87%	SA TOP 40 -2.25%	SA EQUITY 3.58%
SA BONDS 8.40%	SA BONDS 1.07%	SA SMALL CAPS 2.42%	SA EQUITY -2.26%	SA MID CAPS 1.60%
SA CASH 3.81%	SA CASH 0.51%	SA CASH 0.51%	SA MID CAPS -2.92%	SA PROPERTY -1.90%

Source: Morningstar & Glacier Research

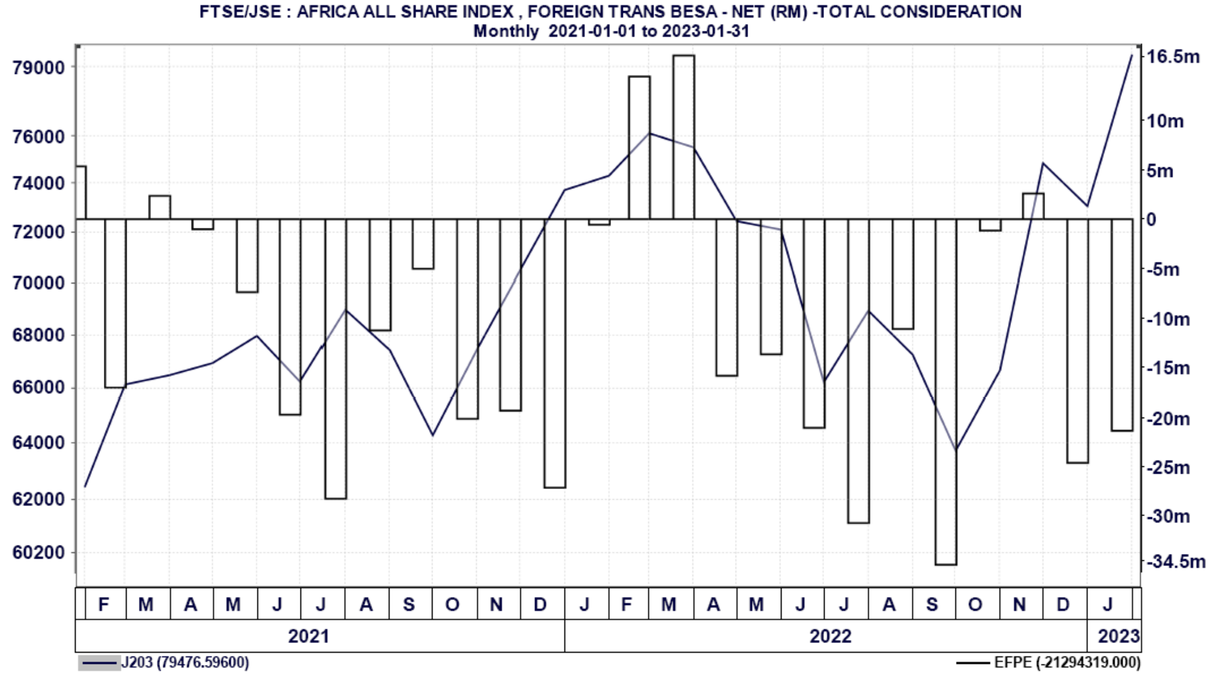
The performance of different sectors in January saw the SA industrials sector leading the way with a return of 12.78%. This was followed by the industrials sector, which returned 8.70%, and the resources sector, which returned 6.27%. The financial sector was the weakest performer but still managed to yield a return of 4.69% for the month of January.

LOCAL SECTOR RETURNS IN ZAR				
2022	**November 2022**	**December 2022**	**January 2023**	**2023 - YTD**
FINANCIALS 8.61%	CONSUMER SERVICES 17.29%	CONSUMER SERVICES 0.39%	CONSUMER SERVICES 16.32%	CONSUMER SERVICES 16.32%
RESOURCES 8.61%	RESOURCES 16.02%	SA INDUSTRIALS -0.27%	SA INDUSTRIALS 12.78%	SA INDUSTRIALS 12.78%
CONSUMER GOODS 6.97%	SA INDUSTRIALS 14.04%	GENERAL RETAILERS -0.99%	INDUSTRIALS 8.70%	INDUSTRIALS 8.70%
SA INDUSTRIALS -3.71%	FINANCIALS 4.88%	CONSUMER GOODS -3.07%	RESOURCES 6.27%	RESOURCES 6.27%
CONSUMER SERVICES -4.47%	GENERAL RETAILERS 3.88%	RESOURCES -3.49%	FINANCIALS 4.69%	FINANCIALS 4.69%
GENERAL RETAILERS -6.19%	INDUSTRIALS 2.58%	FINANCIALS -5.70%	CONSUMER GOODS 3.01%	CONSUMER GOODS 3.01%
INDUSTRIALS -13.26%	CONSUMER GOODS 1.52%	INDUSTRIALS -6.11%	GENERAL RETAILERS 1.05%	GENERAL RETAILERS 1.05%

Source: Morningstar & Glacier Research



Source: IRESS February 2023



Source: IRESS February 2023

Global markets

Global equities kicked off 2023 on a positive note in January. Inflation readings in the US and Eurozone showed slowing inflation, strengthening hopes that central banks may soon end their rate-hiking cycle. As a result, gains were widespread across developed markets (DM) and emerging markets (EM), with EM outperforming DM. The MSCI EM, MSCI World ACWI and MSCI World surged by 7.90%, 7.17% and 7.08%, respectively, in US dollar terms.

Across the regions, positive sentiment prevailed due to a milder winter experienced in Europe which defused the energy crisis, with gas storage in the EU now at three-quarters full. This has reduced the risk of a deep winter recession and should mitigate the negative effects of the recent squeeze on purchasing power and fiscal budgets. This is good news for investors, as it suggests a more stable and predictable energy market. Elsewhere, expectations of a strong recovery in China have improved following the quick end to their zero-COVID policy, contributing positively to the performance of EM. Sovereign bond yields in the US fell during the month (implying a capital gain) with the US 10-year treasury note decreasing from 3.87% to 3.51%, as the prospect of a less restrictive monetary policy boosted demand for bonds. Furthermore, the 10-year UK gilts dropped from 3.67% to 3.33%. On a global equity style basis, growth rallied the most (+9.69%) with quality second in line (+6.17%). This was followed by value (+4.67%) and momentum (+1.07%).

United States

US equity markets ended the month of January higher as all three major US indices – NASDAQ (+10.72%), S&P 500 (+6.28%) and Dow Jones (+2.93%) – ended in positive territory. US inflation data showed that the headline inflation print came in at 6.5% which was lower than the previous 7.1%, resulting from falling energy and vehicle prices, lower health insurance rates and lower airline fares. Market participants are now anticipating less aggressive rate hikes with consensus of a 25-bps hike in February. From a sector perspective, technology led the gains as long duration assets were positively impacted by the expectation of a slower pace in rate hikes moving forward. At a stock level, the FAANG group (Facebook, Apple, Amazon, Netflix and Google) rallied significantly, experiencing its best month of returns since the pandemic. In economic news, the US labour market report showed stronger-than-expected job gains and a fall in the unemployment rate to 3.5%, a multi-decade low.

Eurozone

European equity markets had a strong month of performance, rebounding from losses experienced in the previous month with the Euro Stoxx 50 rising 9.88%. On the macroeconomic front, the Eurozone Purchasing Managers' Composite Index (PMI) rose to 50.2 in January from 49.3 in the previous month. This was above expectations with the PMI returning to a figure above 50 since June 2022, thus indicating that businesses in the Eurozone are expanding, as supply chain constraints and price pressures improved. Inflation in the Eurozone eased to 9.2% down from 10.1% in the previous month. Although inflation prints have improved, the ECB raised interest rates by 50 bps and signalled a further 50 bps rate hike in March to tame inflation further. On a positive note, the unemployment rate in the Eurozone fell to a record low of 6.5%. However, with the labour market remaining tight, there are concerns that wage growth could be boosted and underlying inflation kept higher for longer.

United Kingdom

UK equity markets also had a positive month of performance with global macro sentiment turning positive. The FTSE 100 ended the month 4.35% higher in pound sterling terms. UK's inflation declined to 10.5%, from 10.7% in the previous month, driven largely by easing petrol prices and the cost of clothing falling. The BoE, however, is widely expected to raise interest rates by 50 bps during February's meeting to bring inflation down to target levels. GDP figures also came in better than expected with an expansion of 0.1% in November, driven largely by telecommunications and computer programming, as well as pubs and bars which benefitted from the World Cup fever. Although the UK has avoided a technical recession, investors remain cautiously optimistic as the International Monetary Fund (IMF) forecasted that the UK economy would be the only leading economy expected to slide into recession due to high energy prices, rising mortgage costs, and increased taxes.

Spot Rates	31 January 2021	31 January 2022	31 January 2023
EUR/USD	1.21	1.12	1.09
GBP/USD	1.37	1.35	1.23
USD/JPY	104.68	115.10	130.12

Source: IRESS

Emerging markets and Asia

Emerging market equities also delivered positive returns during the month, outperforming their developed market counterparts. The MSCI EM index returned +7.90%, while the MSCI World index delivered +7.08% in US dollar terms. The outperformance in emerging markets was largely driven by a stronger performance from Chinese stocks after the quick end to their zero-COVID policy sparked a risk-on sentiment. Optimism in the region was further bolstered by policy shifts of ending a two-year ban on Australian coal imports, a potential bottoming of semiconductor price downcycle and higher commodity prices.

GLOBAL RETURNS IN ZAR

2022	November 2022	December 2022	January 2023	2023 - YTD
FTSE 100 -0.87%	MSCI EM 6.21%	SHANGHAI STOCK EXCHANGE 1.07%	EURO STOXX 50 14.53%	EURO STOXX 50 14.53%
EURO STOXX 50 -9.44%	EURO STOXX 50 5.70%	GLOBAL BONDS 0.64%	GLOBAL PROPERTY 12.08%	GLOBAL PROPERTY 12.08%
GLOBAL BONDS -10.71%	SHANGHAI STOCK EXCHANGE 2.91%	FTSE 100 -0.39%	SHANGHAI STOCK EXCHANGE 11.94%	SHANGHAI STOCK EXCHANGE 11.94%
S&P 500 -12.70%	FTSE 100 2.48%	EURO STOXX 50 -0.67%	MSCI EM 10.51%	MSCI EM 10.51%
MSCI WORLD -12.73%	MSCI WORLD -1.08%	MSCI EM -1.30%	MSCI WORLD 9.67%	MSCI WORLD 9.67%
MSCI EM -14.81%	GLOBAL PROPERTY -1.55%	GLOBAL PROPERTY -2.70%	FTSE 100 9.38%	FTSE 100 9.38%
SHANGHAI STOCK EXCHANGE -19.53%	S&P 500 -2.34%	MSCI WORLD -4.15%	S&P 500 8.86%	S&P 500 8.86%
GLOBAL PROPERTY -20.90%	GLOBAL BONDS -3.16%	S&P 500 -5.66%	GLOBAL BONDS 5.79%	GLOBAL BONDS 5.79%

Source: Morningstar & Glacier Research