Market Commentary

September 2023

RISCURA

South African market themes

Global trends caused a 3.1% decline in South African equity markets

South African sovereign debt yields rose to 12.4%

SARB cautious despite easing inflation

Government-private sector collaboration to boost South African GDP

In September, the South African equity market mirrored global trends, with the FTSE JSE SWIX declining by 3.1%. This marks the second consecutive month of losses and has led to a year-to-date return for the SWIX down to -0.2%. The drop in value was primarily attributed to the industrial sector, which fell by 4.1%. Conditions in the South African manufacturing sector deteriorated at the end of September, as indicated by the seasonally adjusted Absa Purchasing Managers' Index (PMI), which declined by 4.3 points to 45.4. The lower reading for the headline PMI was driven by weak demand and constrained production. The Rand showed some resilience in the face of the Dollar's strength, appreciating by 0.5% against the Dollar in September.

Aligned with the higher global interest rate environment, yields on South African sovereign debt experienced an uptick. This increase was driven by concerns that central banks worldwide may need to maintain higher rates for an extended period. Consequently, South African 10-year government bond yields followed the upward trajectory of US 10-year government bond yields, reaching 12.4%. The All-Bond Index (ALBI) fell by 2.4% for the month. Property, as measured by the FTSE JSE ALPI, lost ground, declining by 3.8% during the month. Property assets have been adversely affected by the high-interest rate environment due to their leveraged nature.

In recent months, inflation in South Africa has been gradually slowing, moving closer to the midpoint of the South African Reserve Bank's (SARB) target range. This is a result of swift and early action taken by the South African Reserve Bank. Due to this softening inflation, the SARB chose to hold the repo rate unchanged at 8.25% during its September meeting. SARB Governor Lesetja Kganyago acknowledged that inflation had eased but emphasized that it was premature to declare victory in the battle to contain price pressures.

Under pressure to improve government delivery and stimulate South African economic growth ahead of a key election year in 2024, President Cyril Ramaphosa convened meetings with senior business leaders and key cabinet ministers to assess progress in collaboration between the government and the private sector. The National Treasury aims to reduce state spending, suggesting that the government increasingly relies on the private sector to boost GDP growth. However, the private sector is advocating for further tangible economic reforms to address South Africa's electricity crisis, logistics bottlenecks, and corruption.

From a corporate perspective, SPAR's announcement that it plans to exit its loss-making Polish operations boosted its share price by 13% for the month. SPAR South Africa entered the Polish market only four years ago in 2019, purchasing an 80% stake in the struggling Polish retailer Piotr i Pawel and converting existing stores to SPAR-branded outlets.

Ascendis Health also announced its consideration of delisting from the Johannesburg Stock Exchange (JSE) to expedite its restructuring and unlock shareholder value. While this corporate action may unlock value, it also signifies further signs of weakness in the South African stock market. Since 2016, the JSE has experienced a net number of delistings each year, ranging between -5 and -18 in any given year.

The JSE-listed company, RCL Foods, announced that its poultry unit, Rainbow, had culled 410,000 chickens due to the country's worst outbreak of avian flu, raising fears of chicken meat and egg shortages. The potential shortages may induce price volatility in the near term. The implication of this announcement was fairly pronounced, with RCL's share price shedding close to 20% as of the end of September.

SPAR's Polish exit lifted share price by 13%

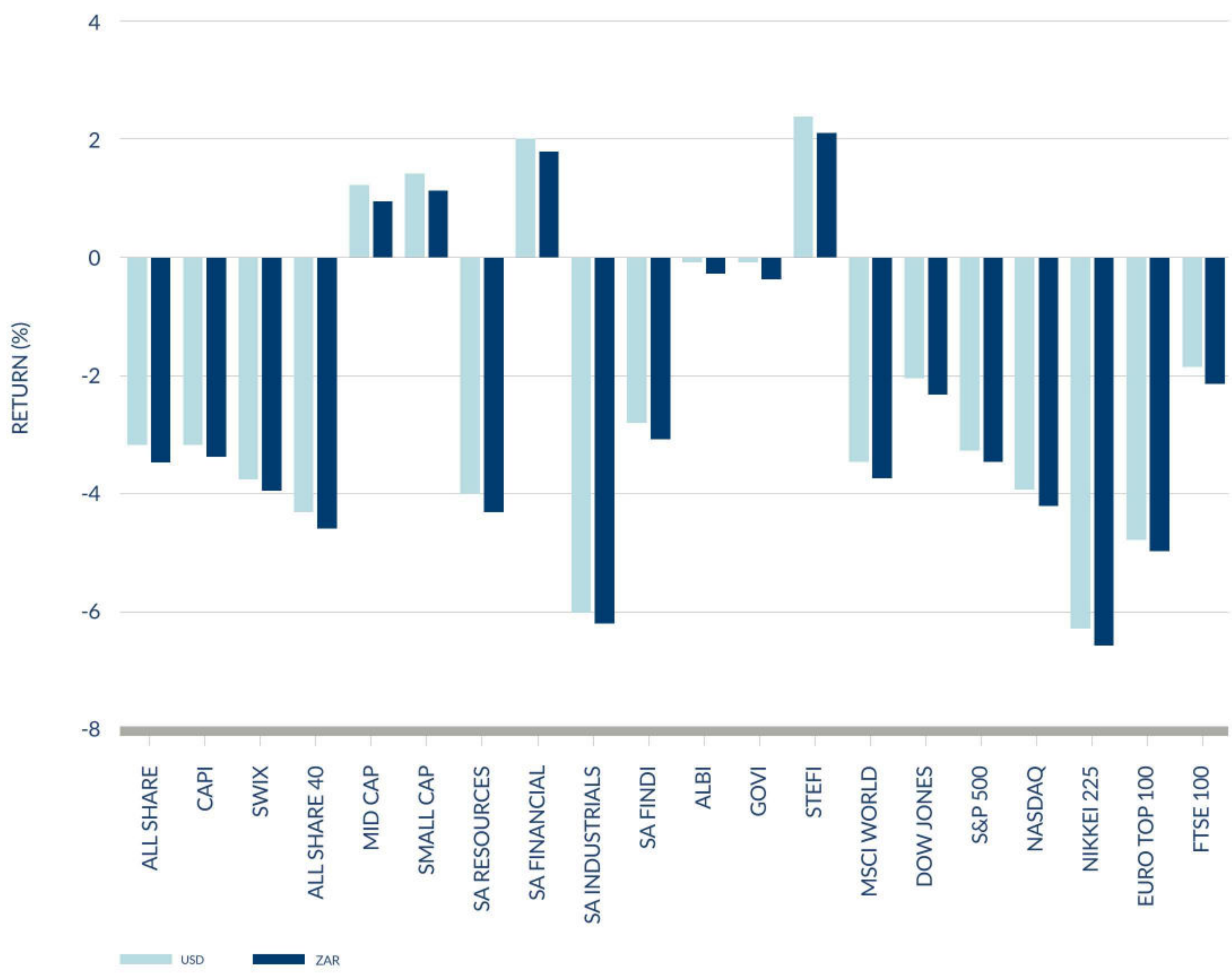
JSE faces ongoing delistings, indicating market weakness

On the environmental front, extreme rainfall and strong winds across the Western Cape resulted in widespread flooding, damage to residential properties, impaired crops, and road destruction. It is estimated that rainfall over a 48-hour period totaled between 100mm to 200mm. According to the Cape Town Disaster Risk Management Centre, approximately 12,000 people were affected, and 80,000 people were left without electricity. While the implication of this may impact listed companies less, the economic and financial impact may be felt, especially considering the high cost of repairing the respective infrastructure and roads.

All returns above are in ZAR.

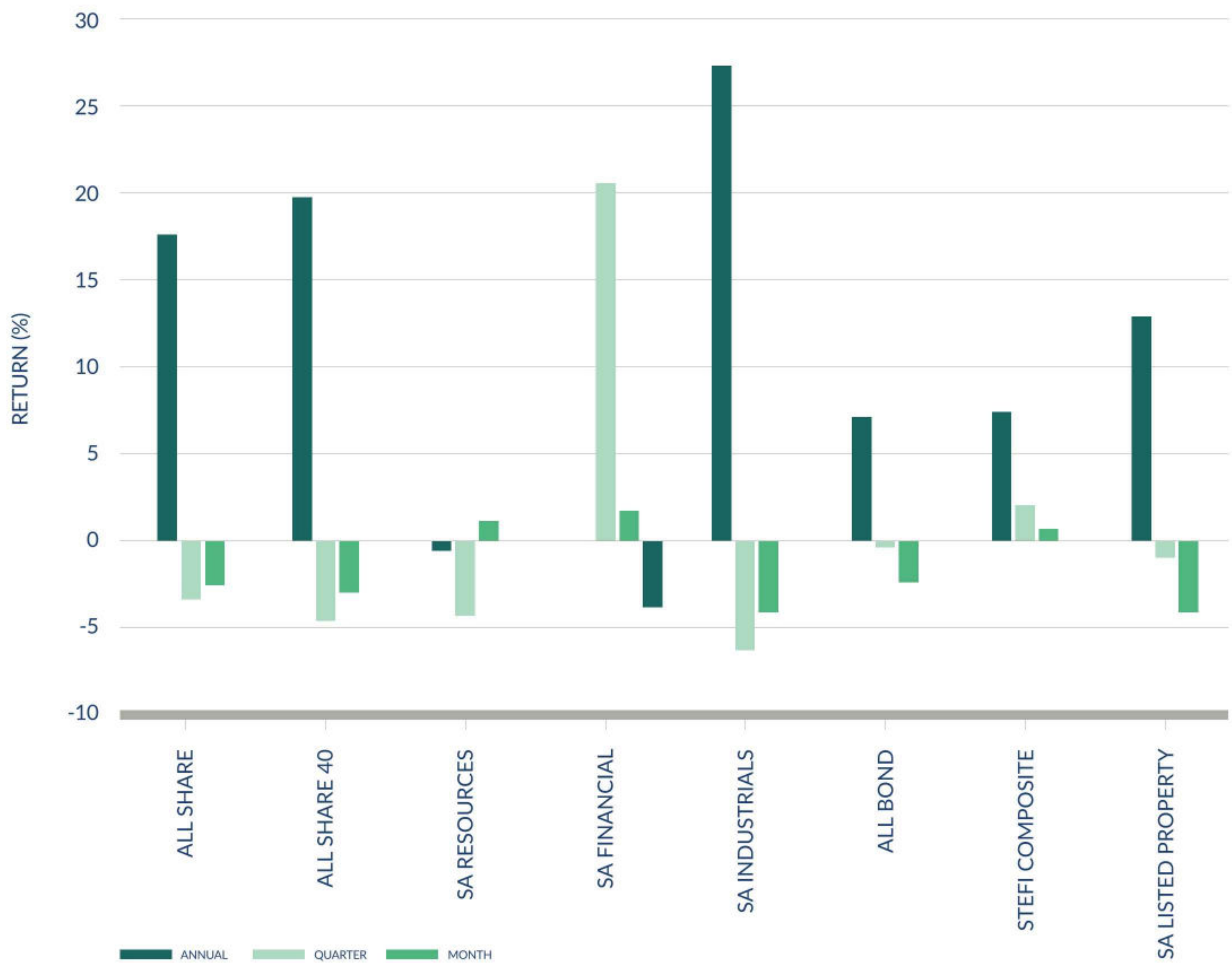
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



RISCURA