Market Commentary

October 2023

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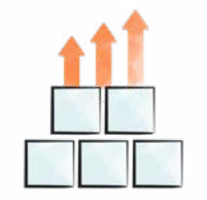
South African market themes

Undervalued sectors in South Africa attract investor interest despite overall market negativity.



Gold sector experiences modest gains due to Middle East tensions

South Africans combat load shedding with increased alternative power sources and tax incentives

Severe consequences in retail, industrial, and mining sectors due to Transnet and Eskom challenges

As South Africans celebrate the remarkable performance of the Springboks, and their record fourth Rugby World Cup title, it's important to note that October was not a great month for the South African equity market. The market displayed moderate negativity in line with other emerging markets since September, with the FTSE/JSE Capped SWIX experiencing a 2.93% decrease in October 2023. However, this is a slight improvement of 0.25% from September. Despite the market's recent downturn, there are undervalued sectors and shares in South Africa when compared to their historical values and global counterparts. This has piqued the interest of some investors, presenting a potential investment opportunity.

On the other hand, the FTSE/JSE All Bond Index is still strong, thanks to local bonds becoming more appealing in terms of their high yields relative to other emerging markets. It has improved by 0.25% to 1.74%. The STeFi Composite improved slightly by 0.02% to 0.72%. In October, the FTSE/JSE All Property Index fell 3.33%.

The resources sector had a decent month; however, it suffered a cumulative loss of 15% throughout the year. As a result, the FTSE/JSE SWIX ended up in negative territory at -3%. The recent movements in commodity prices have been unfavourable. Although the gold sector now represents a smaller portion of the JSE, gold prices experienced a modest increase due to growing geopolitical tensions in the Middle East. On the flip side, the financial sector continues to perform well in positive territory.

South Africans have demonstrated remarkable resilience and resourcefulness in their efforts to combat load shedding. There has been a notable increase in the installation of alternative power sources, such as embedded generation projects, which have been further encouraged by tax incentives announced earlier this year. As a result, it is reasonable to feel optimistic that the power shortages will ease up in the next 18 to 36 months, and that the issue of load shedding will improve. However, the exact timeline for these improvements remains uncertain.

South Africa is grappling with a major problem concerning its state-owned companies, and finding a solution isn't straightforward, given the substantial funding needed for infrastructure alone. The retail, industrial, and mining sectors of the South African economy have felt the severe consequences of the challenges experienced by Transnet and Eskom. Transnet's inability to function properly has cost the economy roughly R1 billion per day due to years of poor track equipment and performance, underinvestment in rail infrastructure, critical labour skills, and severance programs which have resulted in a series of derailments. The senior management of the SOE also has a shortage of proper rail experience. Additionally, Transnet has plenty of operational inefficiencies. For instance, the scheduling of trains on the coal rail line is still done manually on Excel. In addition, Eskom reported its biggest net loss, after tax, of R24 billion which is double the loss it suffered in 2022. The group's total debt also rose from R396 to R424 billion.

The rand has slightly strengthened recently, trading at R18.75 to the dollar on 31 October 2023, ahead of the upcoming Medium-Term Budget Policy Statement (MTBPS) scheduled for early November. The available data on the fiscal half-year indicates that the expenditure is currently at 51% of the budget estimate. To meet the fiscal estimates, South Africa needs to reduce its expenditure and increase its revenues for the rest of 2023/24. Nonetheless, this may prove challenging given the low-growth environment and high, rising bond yields, which makes the market wary.

Rand slightly strengthens in October

Despite load shedding, the economy grew by 0.9% in H1, with notable growth in tourism and agriculture

Allocations for COVID-19 relief extended; municipal disaster grants increased

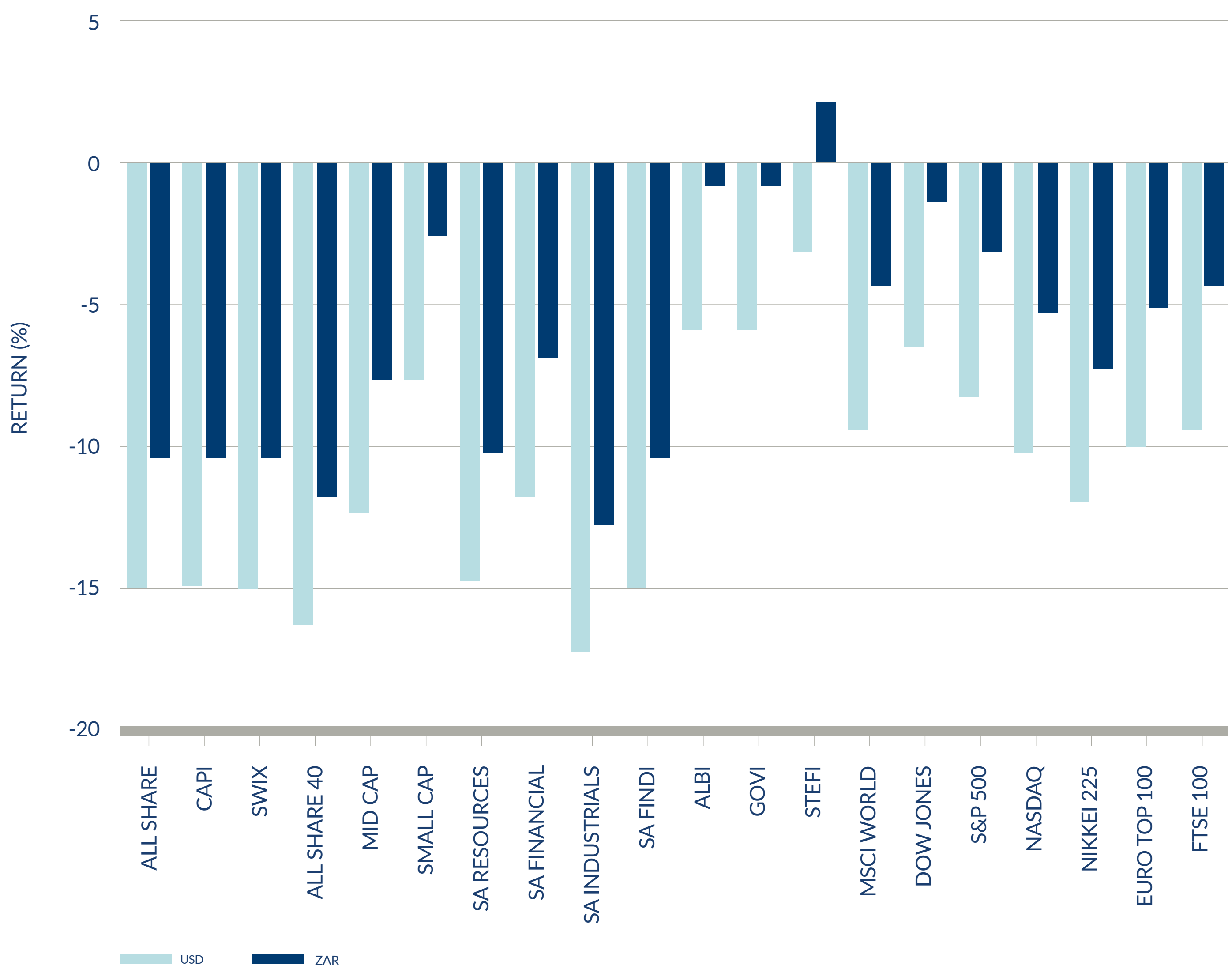
The current debt prices of South Africa paint a gloomy picture for economic growth, primarily hampered by limited energy access. The projected budget deficit for 2023/24 was previously estimated at -4.0% of GDP but has now increased to -4.5%. Moreover, the deficit for 2024/25 and 2025/26 are estimated to be -3.8% and -3.2%, respectively. According to the February Budget Review (BR) 2023, the gross loan debt for the current fiscal year (2023/24) was expected to be 72.2% of GDP and is expected to peak at 73.6% of GDP in 2025/26. South Africa's borrowings are already unsustainable and exceed the Emerging Markets limit of 60% of GDP, which undermines the rand and raises borrowing costs.

Here are some of the important points from the Medium-Term Budget Policy Statement (MTBPS): National Treasury predicts a real GDP growth of 0.8% for 2023. Despite record levels of loadshedding, the economy grew by 0.9% in the first half of the year. The tourism sector saw growth of 70%, while agriculture expanded by 7.8%. Gross debt is expected to increase to R5.2 trillion in the next financial year. Spending has been revised down by R21 billion. An amount of R34 billion has been allocated to extend the COVID-19 Social Relief of Distress grant for another year. The municipal disaster response grant has been increased by R372 million and the municipal disaster recovery grant by R1.2 billion.

All returns above are in ZAR.

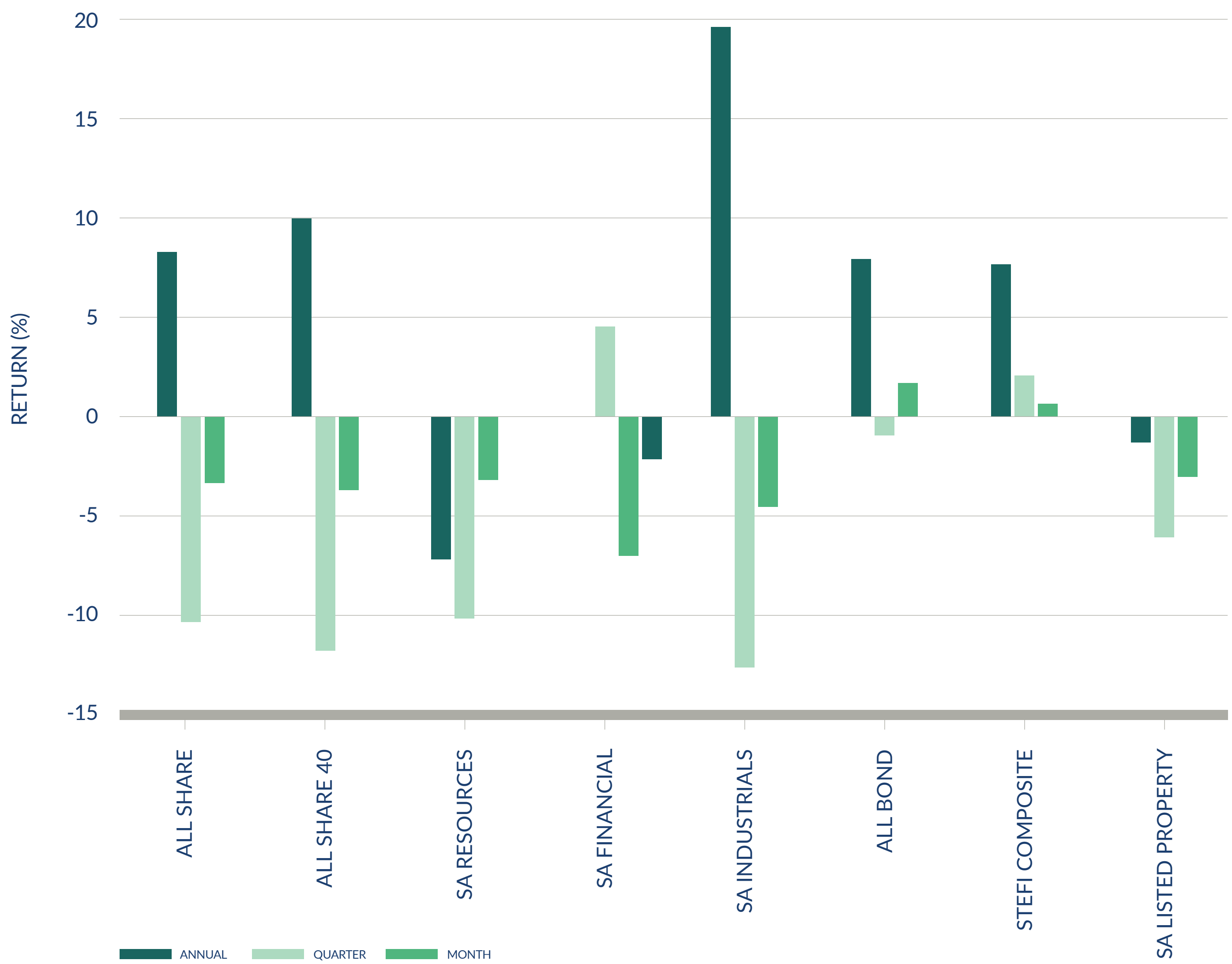
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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