



Market Commentary

February 2024

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South African market themes



February in SA saw a downturn in the market alongside cautious sentiment



Equity market struggles as resources sector faces various pressures



Mixed views on South African bond market amid foreign sell-off



Private sector growth in February hints at economic stabilisation

In February 2024, South Africa was abuzz with a series of events, including the eagerly anticipated State of the Nation Address, Budget Speech, announcement of the election date, and the African Mining Indaba.

However, the equity market experienced a decline and underperformed most of its EM counterparts primarily due to the resources sector, which incurred a loss of 6.9%, due to the pressure on commodity prices, earnings, and job losses. The FTSE JSE All Share and FTSE JSE Capped SWIX indices dropped by 2.4% and 2.2%, respectively. The JSE-listed companies expected to release their results in early March, with concerns about loadshedding, low local growth, low confidence, and high-interest rates. The key issue is the poor loadshedding experienced in the first half of 2023, which saw improvement in the second half and may result in better interim numbers but could also show some strain on the full-year figures.

There are mixed opinions among investors about the local bond market in South Africa. Some investors are bullish due to the high yield and expectations of disinflation, while others are more cautious. Lately, foreign investors have been selling South African bonds, and the overall performance of the local bond market seems to favour caution among foreign investors. The local currency bonds, FTSE JSE ALBI, saw a loss of 0.6% in February, while the FTSE JSE ALPI experienced a loss of 0.3%. The rand depreciated by 3.15% against the dollar in February.

According to a PMI survey released in February, the private sector activity in South Africa experienced growth in February for the first time in six months, thanks to increases in staffing and purchasing levels, which contributed to stronger confidence levels. The SA PMI rose to 51.7 in February from 43.6 in January, indicating expansion for the first time since August

of the previous year. Although output continued to decline, it did so at a slower rate, while new business volumes stabilised after experiencing notable declines in recent months. From an inflation perspective, a senior economist at S&P Global Market Intelligence noted that the cooling inflation environment played a significant role in the market recovery. However, this economist cautioned that despite the stabilisation in new orders following a downturn in January, businesses should remain vigilant about ongoing economic challenges.

In February 2024, President Cyril Ramaphosa delivered his State of the Nation Address, where he reflected on the year 1994 and outlined his policy initiatives, achievements, challenges, and priorities. The address highlighted economic reforms aimed at addressing infrastructure challenges in energy, logistics, and water networks. Additionally, visa reforms will be implemented to attract skilled workers and promote innovation and entrepreneurship. The government has made noteworthy progress in addressing the electricity crisis, with interventions aimed at upgrading freight logistics systems, ports, and rail networks to global standards. Efforts to combat unemployment, stimulate investment, and transition to renewable energy were emphasised, with support pledged for the automotive sector's transition to New Electric Vehicles and investments in green projects, including green hydrogen initiatives.

To address the severe impact of climate change, the government has established a Climate Change Response Fund. Over the past five investment conferences, R1.5 trillion in new commitments has been secured, with over R500 billion already injected into the economy. The mining sector will be revitalised by modernising the mining rights licensing system and supporting emerging miners through the minerals exploration fund. The government is making



Ramaphosa's State of the Nation address focused mainly on economic reform and climate action



National Budget prioritised debt reduction and fiscal resilience strategies



Average South Africans face financial pressures despite a modest household food basket price drop



African Mining Indaba emphasised sustainability, innovation, and industry collaboration for growth

efforts to combat corruption by prosecuting individuals involved in state capture, recovering stolen funds, and strengthening anti-corruption agencies.

The 2024 National Budget highlighted the importance of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), with the National Treasury setting aside R250 billion. This included R150 billion for debt and R100 billion for the South African Reserve Bank (SARB) contingency reserve. While the account offers a buffer against rand volatility, tapping into it necessitates careful consideration of the costs associated with realising gains, such as selling foreign reserves or printing currency. Given South Africa's limited reserves relative to peers, printing the rand carries risks of loosening financial conditions and increasing inflation. Therefore, a meticulous financial sector intervention plan by the SARB is pending finalisation, ensuring sufficient buffers, and covering sterilisation costs. The decision to utilise these gains to mitigate the debt profile and interest costs is deemed necessary amid heightened risks and current interest rates. Despite risks associated with rand fluctuations and gold prices, the withdrawal from the GFECRA account appeared to initially receive positive feedback as it primarily aims to pay down debt, reducing inflationary pressures, safeguards the SARB with a contingency reserve allocation, and bodes well for the currency and bond market due to an improved fiscal outlook.

South Africa's economic challenges remain due to lower commodity prices and structural issues, with near-term growth being constrained. The real GDP growth for 2023 is estimated to be 0.6%, down from the 0.8% growth estimated during the 2023 MTBPS.

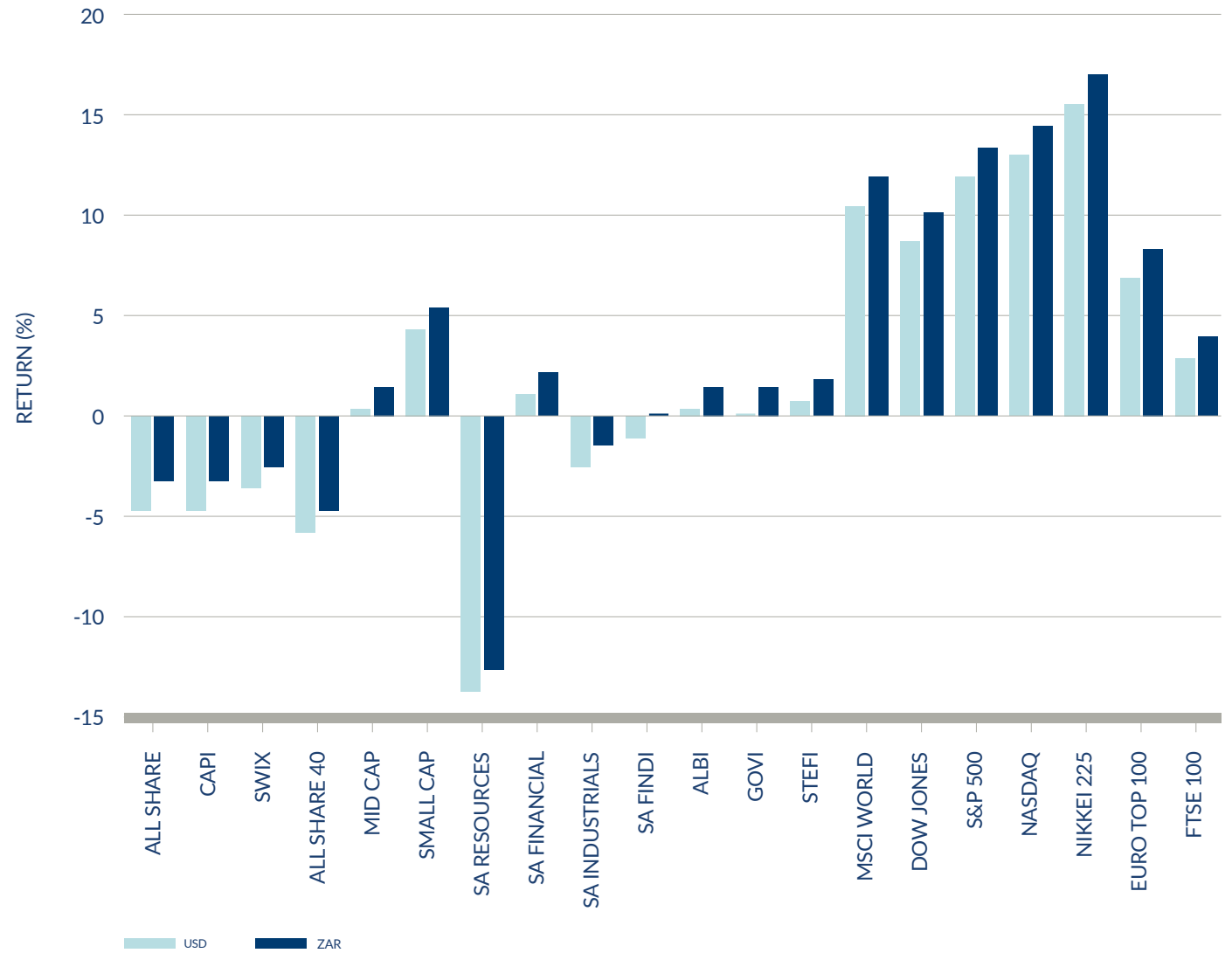
As February drew to a close, recent insights from the household affordability index by the Pietermaritzburg Economic Justice & Dignity Group (PMBEJD) shed light on the persistent financial

difficulties experienced by families across South Africa, despite a slight reduction in the price of the average household food basket. Released concurrently with the 2024 Budget Speech, the index indicates a decrease of R47.56 in the average household food basket. Core foods, including maize meal, rice, samp, potatoes, and onions, which constitute 53% of the total cost, remain relatively expensive in February 2024, amounting to an average cost of R2,810.24. These essential items must be purchased regardless of price escalations, according to the PMBEJD report. Overall, the average cost of a household food basket in South Africa saw a modest 0.9% decrease, from R5,324.77 in January to R5,227.30 in February.

The 30th annual African Mining Indaba held in Cape Town centred on the theme "Embracing the power of positive disruption: A bold new future for African mining.". Key themes addressed included sustainability and climate change, with a focus on reducing the industry's carbon footprint and meeting the demand for green minerals. Collaboration emerged as a crucial aspect, aiming to tackle challenges such as crime, corruption, and infrastructure issues through partnerships between companies, governments, and NGOs. Innovation was showcased through events like the Mining Innovation & Research Battlefield and Investment Battlefield, presenting solutions for the industry's future. The event drew over 9,900 delegates, including 1,200 investors and 111 government ministers, facilitating the cementing of deals such as Rio Tinto's Simandou iron ore project in Guinea. Additionally, new initiatives like the Mining Automotive and Electronics Club aimed to foster connections between companies in these sectors and the mining industry.

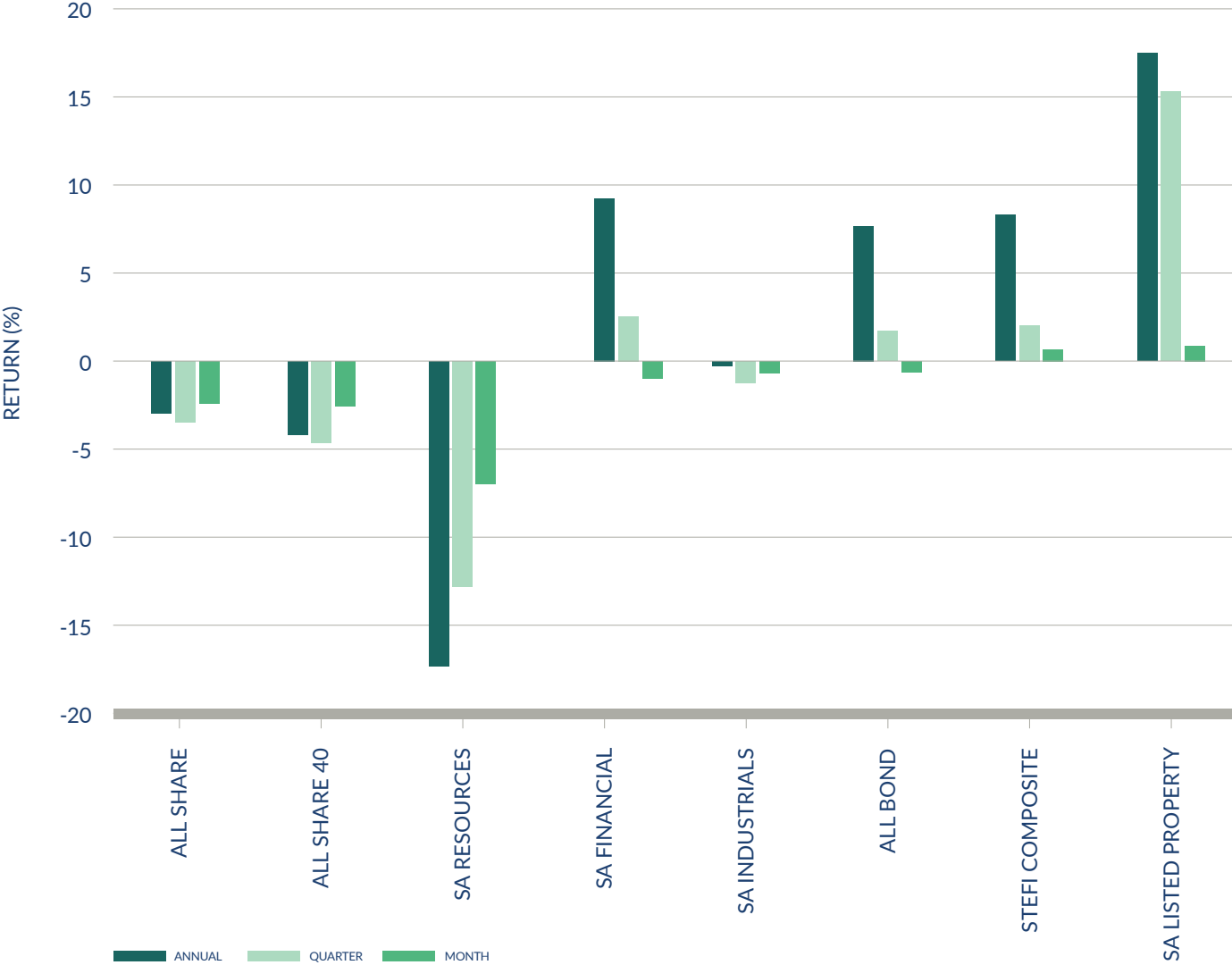
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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