Market Commentary

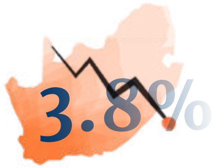
October 2024

RISCURA

South African market themes

MTBPS projected wider budget deficits and increased debt levels over three years

October's Absa PMI indicated private sector growth despite challenges



SA's inflation fell to 3.8%, the lowest level since March 2021

An interest rate cut is expected at the November SARB Monetary Policy meeting

South Africa's economic landscape in October was marked by a mix of positive and negative developments. While some indicators pointed towards a potential recovery, persistent challenges continue to weigh on the country's growth prospects. The Government of Unity's first Medium-Term Budget Policy Statement (MTBPS) provided a sobering assessment of the country's fiscal health.

In October, the FTSE/JSE SWIX Index decreased by 0.9%, while the FTSE/JSE All Property Index experienced a more significant decline of 2.7%. Inflation-linked bonds, represented by the FTSE/JSE CILI, outperformed nominal bonds (FTSE/JSE ALBI), even though both categories posted negative returns. Inflation-linked bonds fell by 1%, while nominal bonds dropped by 2.2% over the month.

Additionally, the South African rand weakened following the release of the MTBPS, which indicated that the country's fiscal outlook did not meet market expectations. The strength of the US dollar also contributed to rand weakness. As a result, the rand depreciated by 2.6% against the US dollar and 1.6% against the pound sterling, while its decline against the euro was more modest at 0.1%.

On a more positive note, the South African private sector continued its trend of expansion in October, as indicated by the Absa Purchasing Managers' Index (PMI), which scored at 52.6 index points. This marked the third consecutive month of growth, driven by factors such as a decline in business costs and selling prices, along with improved business confidence. Despite these encouraging signs, employment continued to decline, and port congestion remains a significant challenge. Overall, the PMI data suggests that the South African economy is gradually recovering, but risks persist, particularly concerning global economic conditions and domestic structural issues.

South Africa recently experienced a significant slowdown in inflation, which eased to 3.8%, the lowest rate since March 2021, largely due to falling fuel prices. This decline in inflation has strengthened expectations for further interest rate cuts by the South African Reserve Bank (SARB). With softer oil prices, moderating food prices, and a stronger rand, the inflation outlook appears more favourable. Although the SARB is expected to proceed cautiously, a 25-basis point rate cut at the November Monetary Policy Committee (MPC) meeting is widely anticipated.

In addition to immediate rate cuts, the SARB is advocating for a lower inflation target to improve South Africa's competitiveness. The current target range of 3% to 6% is considered high compared to other emerging economies, and a review of this target is expected following the Medium-Term Budget Policy Statement. However, the SARB is likely to maintain a cautious stance due to potential risks, such as fuel supply constraints and global economic uncertainties.

South Africa's financial markets are undergoing a significant transformation with the transition from the Johannesburg Interbank Average Rate (JIBAR) to the South African Rand Overnight Index Average (ZARONIA) by 2026. JIBAR's reliability has come under scrutiny due to its dependence on estimates and the decline in unsecured interbank lending. In response, the SARB is adopting ZARONIA, a more transparent and data-driven benchmark. This transition is likely to affect a wide range of financial instruments and will necessitate substantial adjustments from financial institutions. The convergence of these two developments – the shift to ZARONIA and the potential interest rate cut – signals an important period for South Africa's financial sector.

The transition to ZARONIA by 2026 hopes to improve transparency

IMF raised growth forecast for 2024 to 1.1% yet remains cautious about unemployment rates

In October, the first MTBPS of the Government of National Unity (GNU) was presented, highlighting expected wider budget deficits and increased debt over the next three years. While the government forecasts a slight slowdown in GDP growth for 2024, it expects a gradual recovery in the medium term. However, the debt-to-GDP ratio is projected to peak at a higher level, necessitating fiscal discipline to stabilise debt levels.

Revenue collection is anticipated to fall short of initial estimates due to factors such as lower fuel levy and VAT collections. Nevertheless, the government remains committed to infrastructure investment as a key driver of economic growth. To improve transparency and efficiency in public procurement, it is introducing reforms along with a new Public Procurement Act.

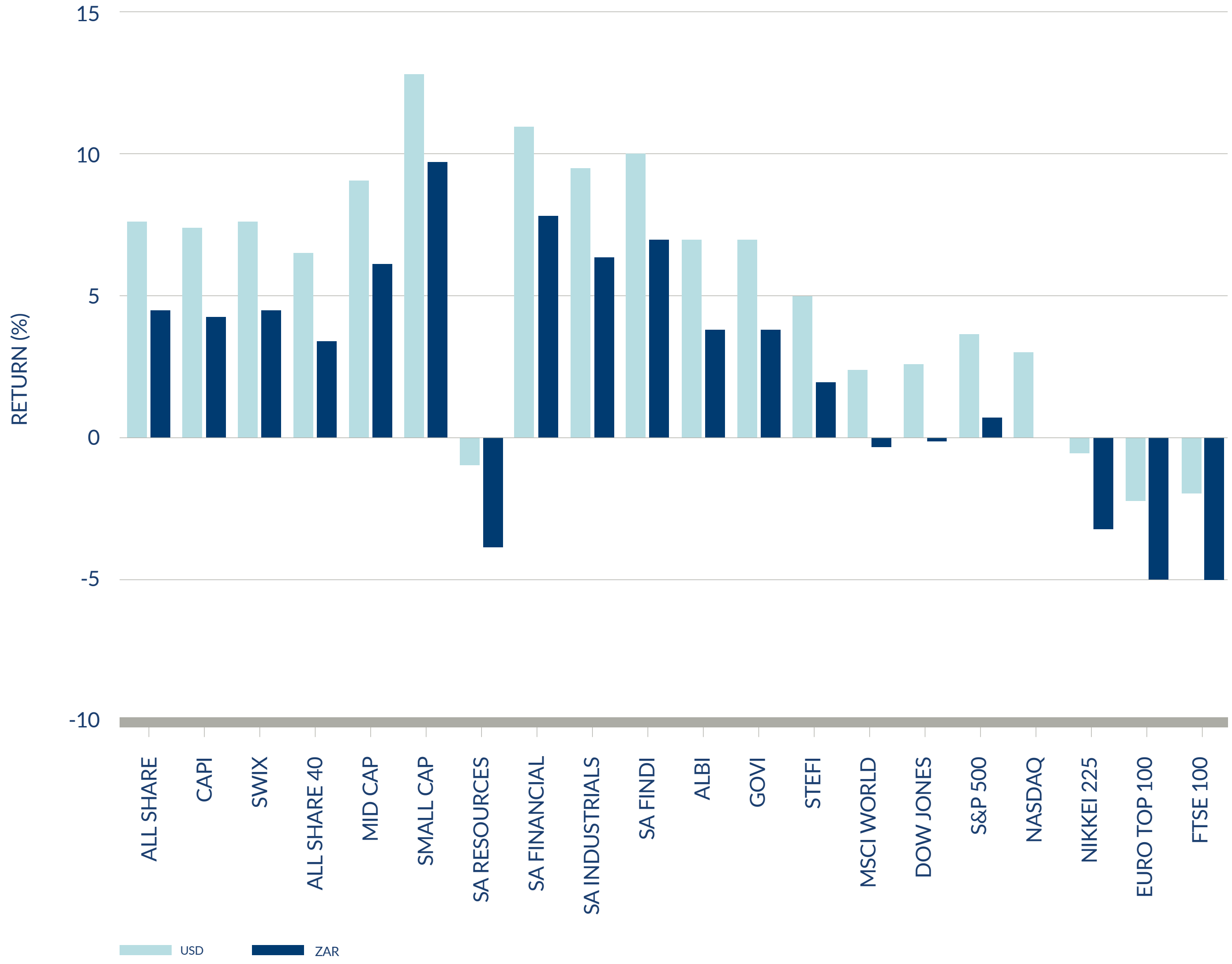
The MTBPS also addressed South Africa's international obligations. The country has received positive feedback from the Financial Action Task Force (FATF) regarding its progress in tackling deficiencies in anti-money laundering and counter-terrorism financing.

Furthermore, the International Monetary Fund (IMF) has revised its outlook for South Africa's economic growth, projecting a more optimistic rate of 1.1% for 2024. This upward revision is attributed to improved sentiment and policy actions taken by the new Government of National Unity. However, the IMF remains cautious about the country's high unemployment rate, forecasting a further deterioration in the coming years.

In addition, Fitch ratings consider South Africa's MTBPS to be optimistic but acknowledges that positive rating implications could arise if debt reduction follows the projected path. While the MTBPS anticipates subdued growth, the government's focus on public-private partnerships and investment incentives may stimulate economic performance. Fitch's forecasts remain conservative, reflecting concerns about potential spending pressures and slower debt reduction. However, if the government can effectively implement fiscal consolidation measures and accelerate economic growth, this could positively impact South Africa's future credit rating.

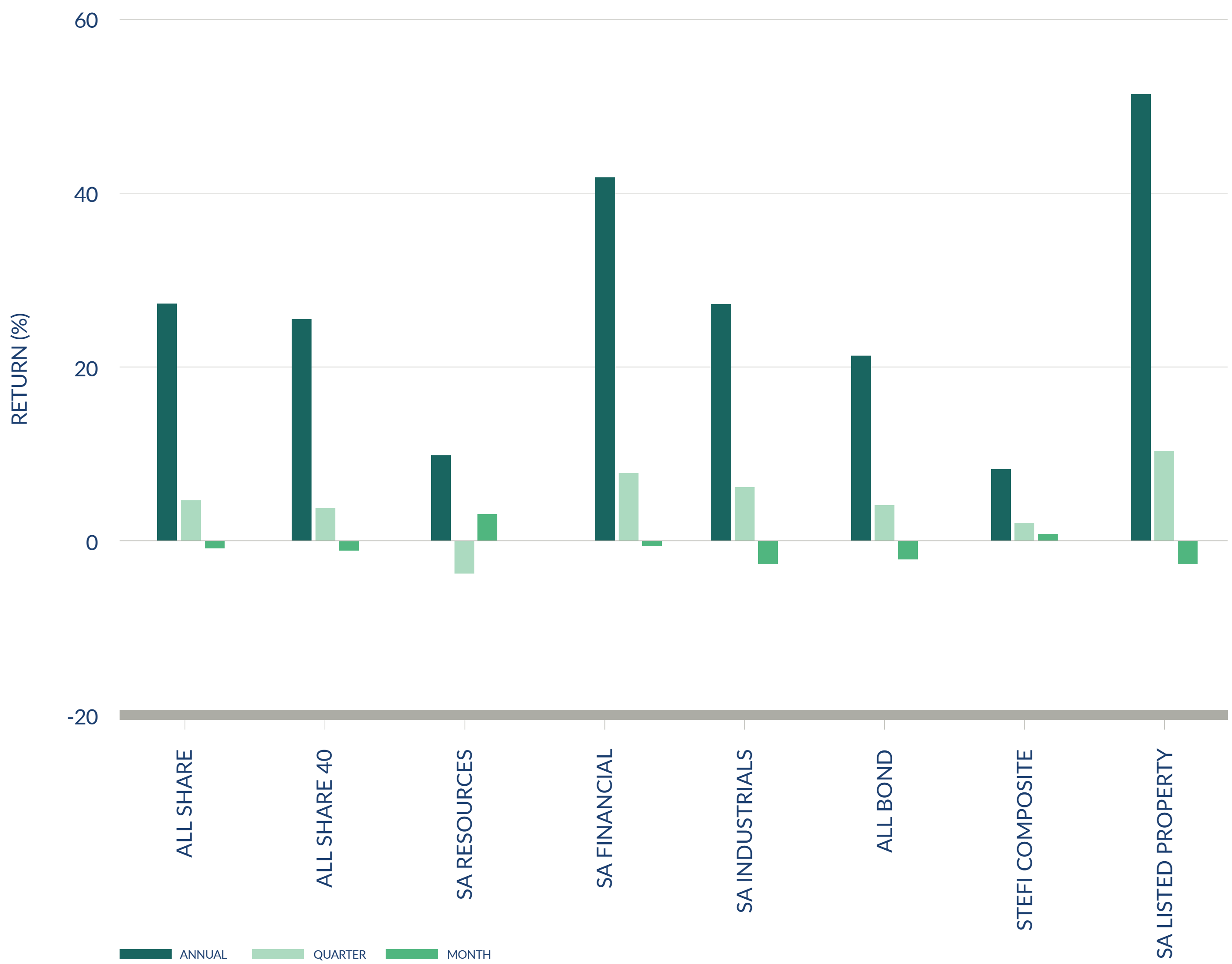
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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