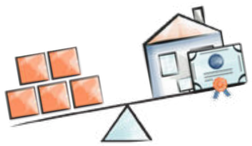
Market Commentary

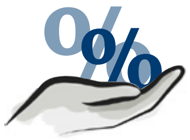
November 2024

RISCURA

South African market themes



Equities mostly declined, while bond and property markets delivered moderate gains



SARB cut the repo rate to 7.75%, a widely anticipated and welcomed move

Manufacturing contracted as the PMI dropped below the expansionary threshold

Mining output rose, driven by manganese, chromium, and steel production

Inflation eased slightly further, driven by falling food and fuel prices

In November 2024, South Africa's financial markets displayed notable strength, except for the equity market. The FTSE/JSE All Share Index (ALSI) and the FTSE/JSE Capped SWIX Index recorded losses of 1.0% during the month, weighed down by losses in sectors like Alternative Energy (-18.39%), Chemicals (-7.17%), and Electronic and Electrical Equipment (-5.26%). On the other hand, Construction and Materials (+5.5%), Health Care Providers (+2.42%), and Industrial Metals and Mining (+0.35%) posted gains.

The FTSE/JSE All Property Index (ALPI) experienced a moderate gain of 1.7% in November. The bond market also performed well, as the FTSE/JSE All Bond Index (ALBI) posted positive returns of 3.0%, which were supported by declining yields. Yields on the shorter duration R2030 government bond declined by 36 basis points, while the longer-duration R2048 fell by 38 basis points. In the inflation-linked bond market, the yield on I2025 increased significantly by 185 basis points, while the yield on I2050 fell by 9.5 basis points. From a currency perspective, the South African rand weakened against the U.S. dollar, following the Trump election win, depreciating by 2.2% in November.

Inflation eased further in October to 2.8% year-on-year, mainly due to lower fuel prices and a slowdown in food inflation. This contributed to the SARB's widely anticipated decision to cut the repo rate by 25 basis points to 7.75% in November. While this decision was generally welcomed, it reflects the SARB's cautious approach amid ongoing global and domestic uncertainties. Key factors influencing this cautious approach include potential shifts in U.S. economic policy, ongoing geopolitical conflicts affecting oil prices, and local challenges such as rising electricity and administered costs. Economists at Nedbank predict an easing cycle that could result in cumulative cuts of 75 basis points in 2025, lowering the repo rate to 7.0% and the prime lending rate to 10.5%. Meanwhile, Bloomberg economists expect one additional 25 basis point cut in January 2025, aligning with predictions that rates will stabilise near the neutral level of 7.5%.

The manufacturing sector faced renewed challenges in November, as indicated by the Absa Purchasing Managers' Index (PMI), which dropped to 48.1 points, down from 52.6 in October, moving into contraction territory. Both business activity and new orders declined, suggesting potential weakness in demand and production as the fourth quarter is approaching. Additionally, new vehicle sales data and electricity consumption figures are expected to provide further insights into economic conditions. Consumer sentiment, as measured by the FNB BER Consumer Confidence Index, has shown signs of improvement. Lower inflation, interest rate cuts, and political stability have contributed to a more optimistic outlook, although the pace of recovery remains slow.

The South African economy showed a mixed performance in the third quarter of 2024, with several sectors recovering from previous declines. Mining output increased by 1.0%, largely due to rises in manganese and chromium ore production. In the manufacturing sector, output saw a slight gain of 0.2%, boosted by the production of iron and steel. The retail sector also experienced a 0.7% increase in sales, driven by strong performance in textiles and clothing. However, the agriculture and tertiary industries continued to struggle, dampening overall economic growth expectations.

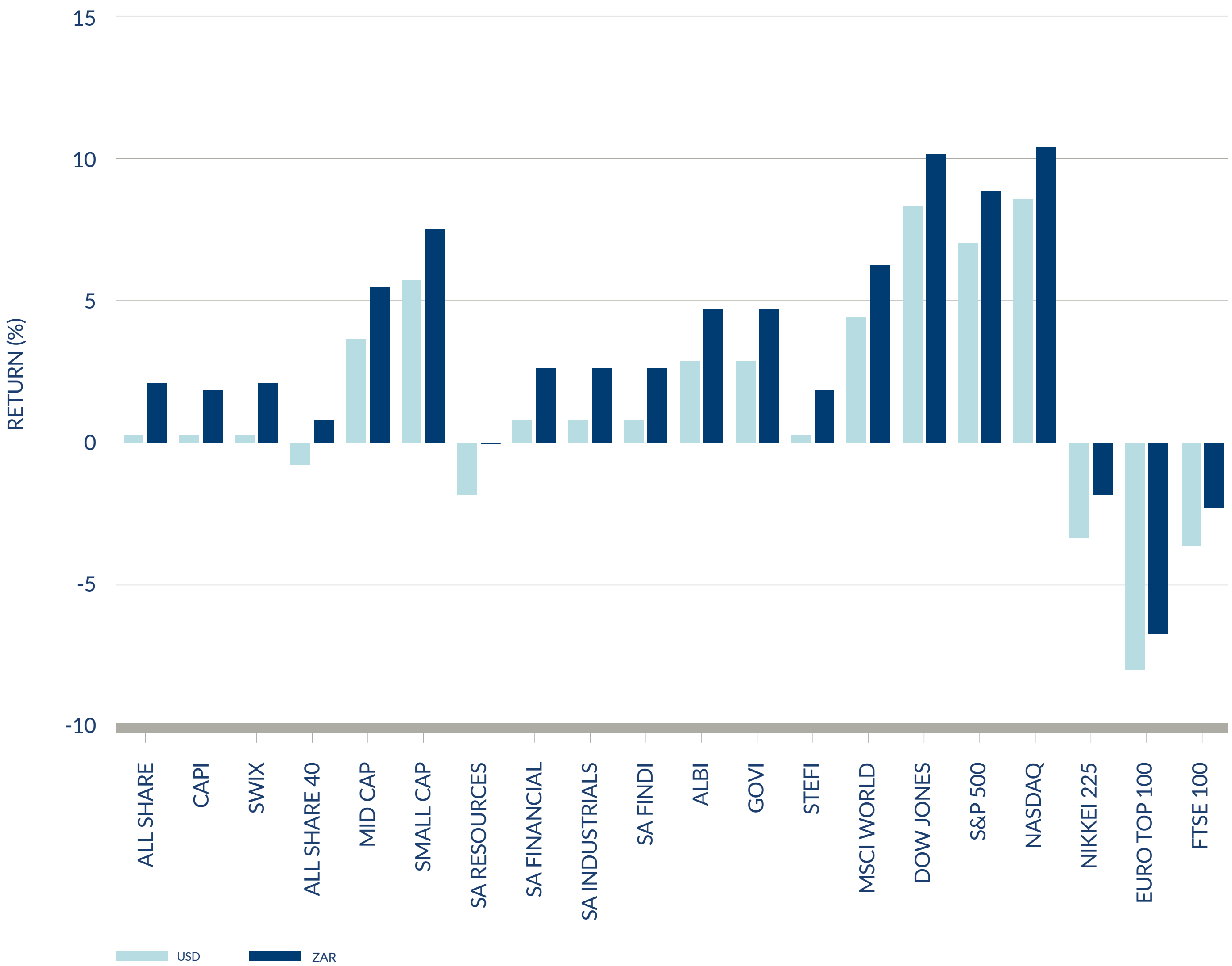
S&P Global's revision of South Africa's credit outlook to positive provided a glimmer of optimism for the country's economic prospects. However, as mentioned, significant challenges remain, including shifts in US economic policy, geopolitical tensions influencing oil prices, and domestic issues such as rising electricity costs and structural inefficiencies.

A trend in retirement withdrawals grew, raising concerns about long-term financial security

A concerning trend has emerged among lower-income earners in South Africa, as many began withdrawing from their retirement savings to address immediate financial pressures. By November 2024, over 1.9 million withdrawals had been approved, totalling R35 billion under the new two-pot retirement system. While this system offers flexibility, it poses a risk to long-term financial security, especially for lower-income households. Economists warn that early withdrawals diminish the principal and compounding benefits necessary for a stable retirement.

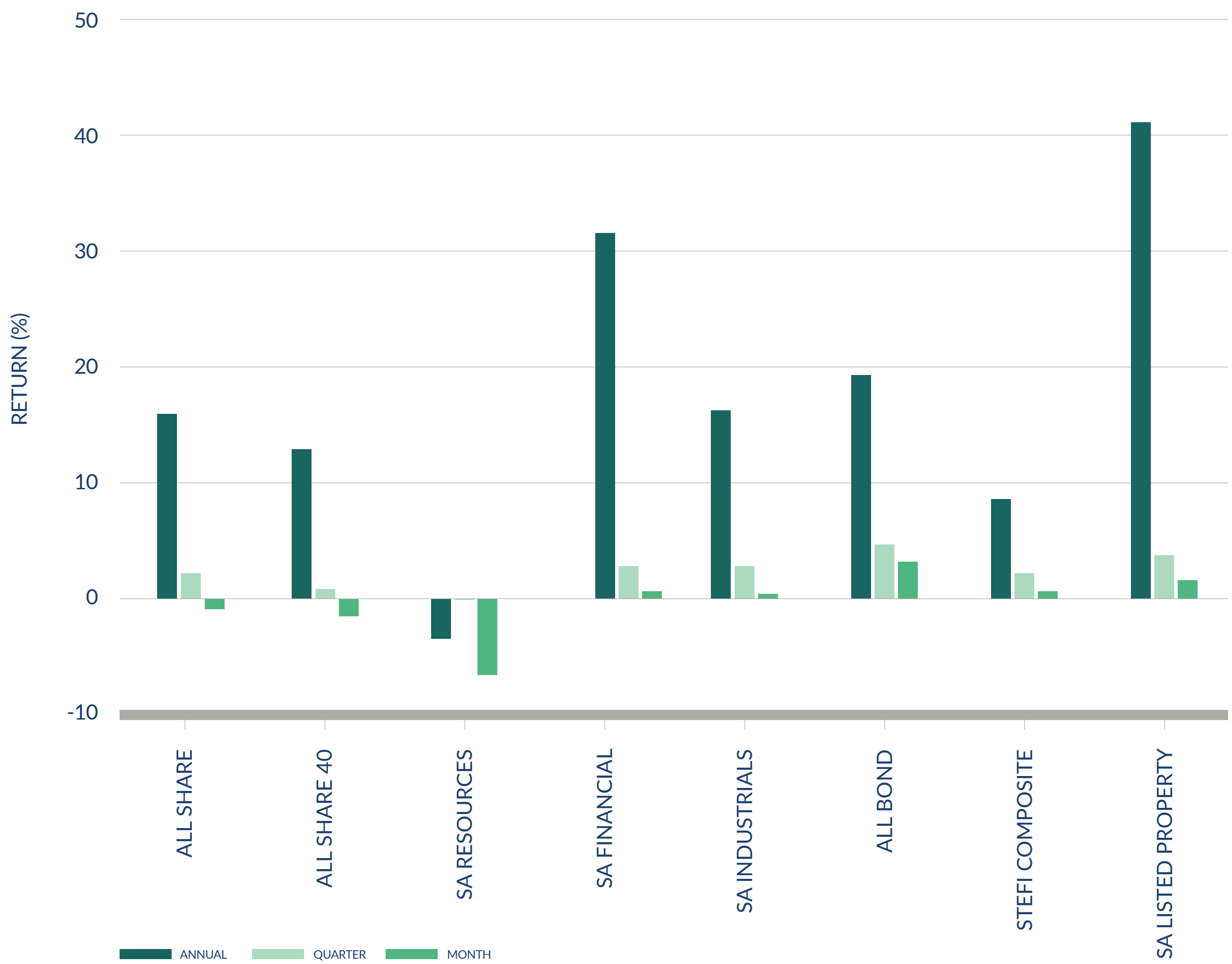
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



RISCURA