Market Commentary

January 2025

RISCURA

South African market themes

The rand appreciated by 1.1% and closed at R18.67 to the US dollar

Inflation stability at 3% in December encouraged the SARB to cut repo rate in January

Unemployment remains high at 32.1%, with specific skills shortages persisting in 2025

GDP growth for this year was revised upward to over 2.3% to start on a positive note

Energy fragility persists with Eskom warning of Stage 4 load shedding

In January, several key developments indicated improving economic conditions, including favourable trends in inflation, interest rates, GDP growth, and energy stability. However, concerns regarding employment and global uncertainties linger. During the month, the Capped SWIX rose by 2.6%, while the FTSE/JSE All Share Index increased by 2.3%. Bonds experienced a modest gain of 0.4%, but the property ALPI index saw a decline of 3.0%.

Sector performance varied significantly. Resources led the gains, surging by 16.3%, largely due to the increase in platinum, palladium and gold prices over January, while Industrials only saw a slight increase of 0.5%. Conversely, the Financials sector faced a downturn, decreasing by 2.9% over the month. The rand appreciated by 1.1% in January, closing at R18.67 against the US dollar.

Inflation remained at healthy levels, with consumer prices rising by 3% year-on-year in December 2024, slightly up from 2.9% in November. This marked the fifth consecutive month where inflation remained below the midpoint of the SARB's target range of 3% to 6%. The lower-than-expected inflation allowed the SARB to reduce the repo rate by 25 basis points to 7.5%, providing relief to consumers and businesses. However, two of the six members of the Monetary Policy Committee (MPC) opposed this cut, citing potential risks from US President Donald Trump's trade policies, which could fuel inflation, weaken the rand, and disrupt monetary easing. The R186 bond yields edged down from 8.3% in December to 8.2% in January.

On a positive note, South Africa achieved 300 consecutive days without load shedding, an unprecedented milestone that boosted business confidence and productivity, countering initial scepticism that the improvements were politically motivated ahead of the 2024 elections. Ensuring long-term energy stability is essential for sustained growth. As a result, GDP growth projections for 2025 have been revised upward, with Capital Economics forecasting growth above 2.3%, outpacing the National Treasury's estimate of 1.7% and the IMF's projection of 1.5%. The World Bank also revised its forecast to 1.8%, highlighting logistics and energy stability as key drivers of growth.

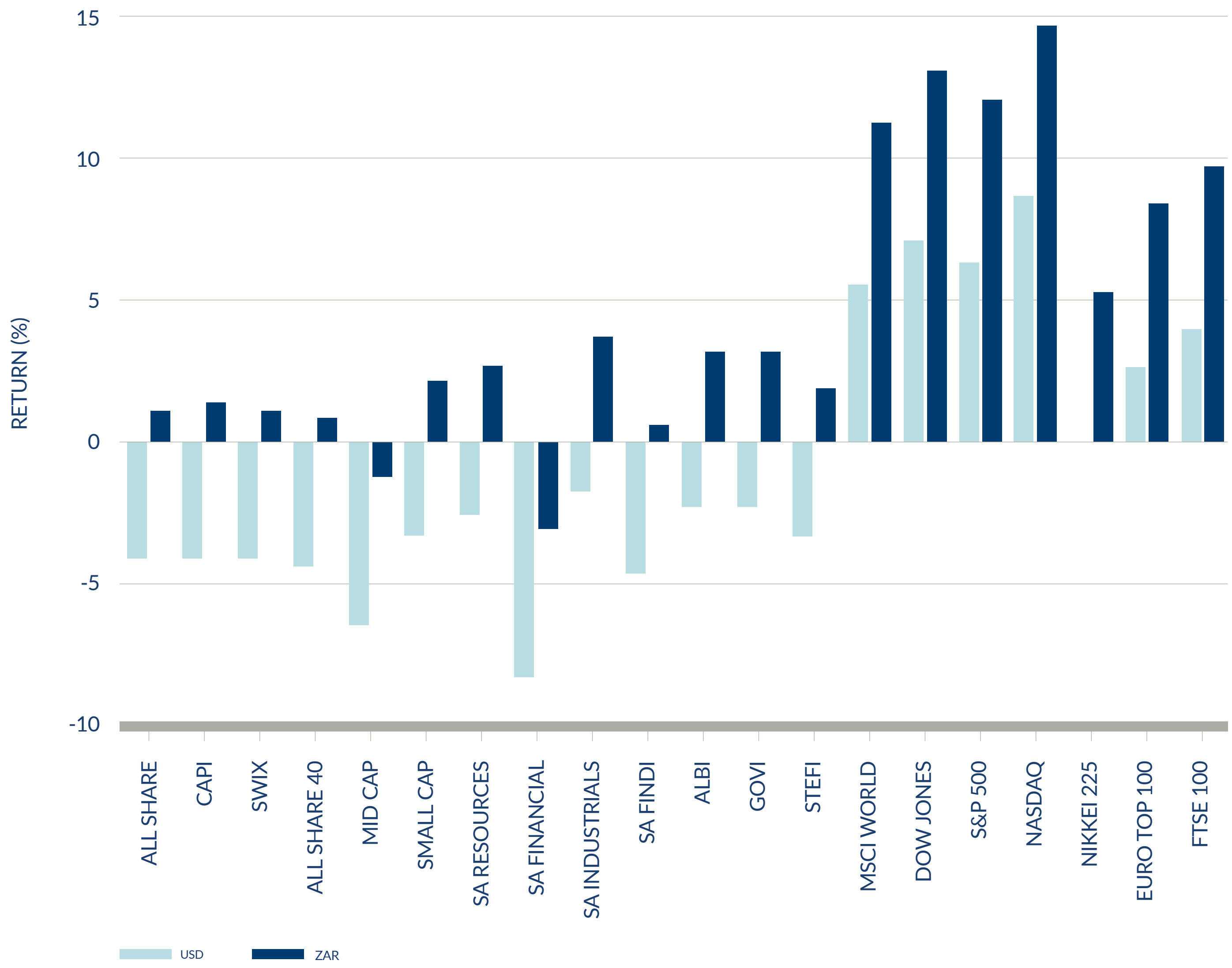
Sector-wise, retail sales and mining demonstrated resilience, with retail sales increasing by 7.7% year-on-year in November 2024 and mining revenues rising by 4% in the last quarter. However, the manufacturing sector contracted by 0.2%, underscoring ongoing structural weaknesses. In addition, the South African Purchasing Managers' Index (PMI) dropped from 46.2 in December to 45.3 in January, marking the third contraction in a row in the country's factory activity.

Despite improvements in the economy, South Africa's labour market remains under pressure. The unemployment rate is at 32.1%, and structural changes in the workforce—driven by artificial intelligence, automation, and climate change—add to the uncertainty in the job market. A survey revealed that 60% of South African employers consider skill shortages as a significant barrier to business transformation. There is a growing demand for AI specialists, robotics engineers, and green energy experts, but there are persistent shortages of domestic talent. The Institute of Information Technology Professionals South Africa (IITPSA) reported a significant skills gap in the ICT sector, prompting many companies to recruit international professionals. If this issue is not addressed, it could worsen unemployment and hinder economic growth.

Energy security remains fragile despite improvements. A brief bout of load shedding in January following maintenance shutdowns prompted Eskom to warn of a potential return to Stage 4 load shedding. In addition, the National Energy Regulator of South Africa (NERSA) rejected Eskom's proposed 36% tariff hike. In response to the potential return of load shedding, the rand weakened, underscoring the economy's ongoing vulnerability to Eskom's operational challenges.

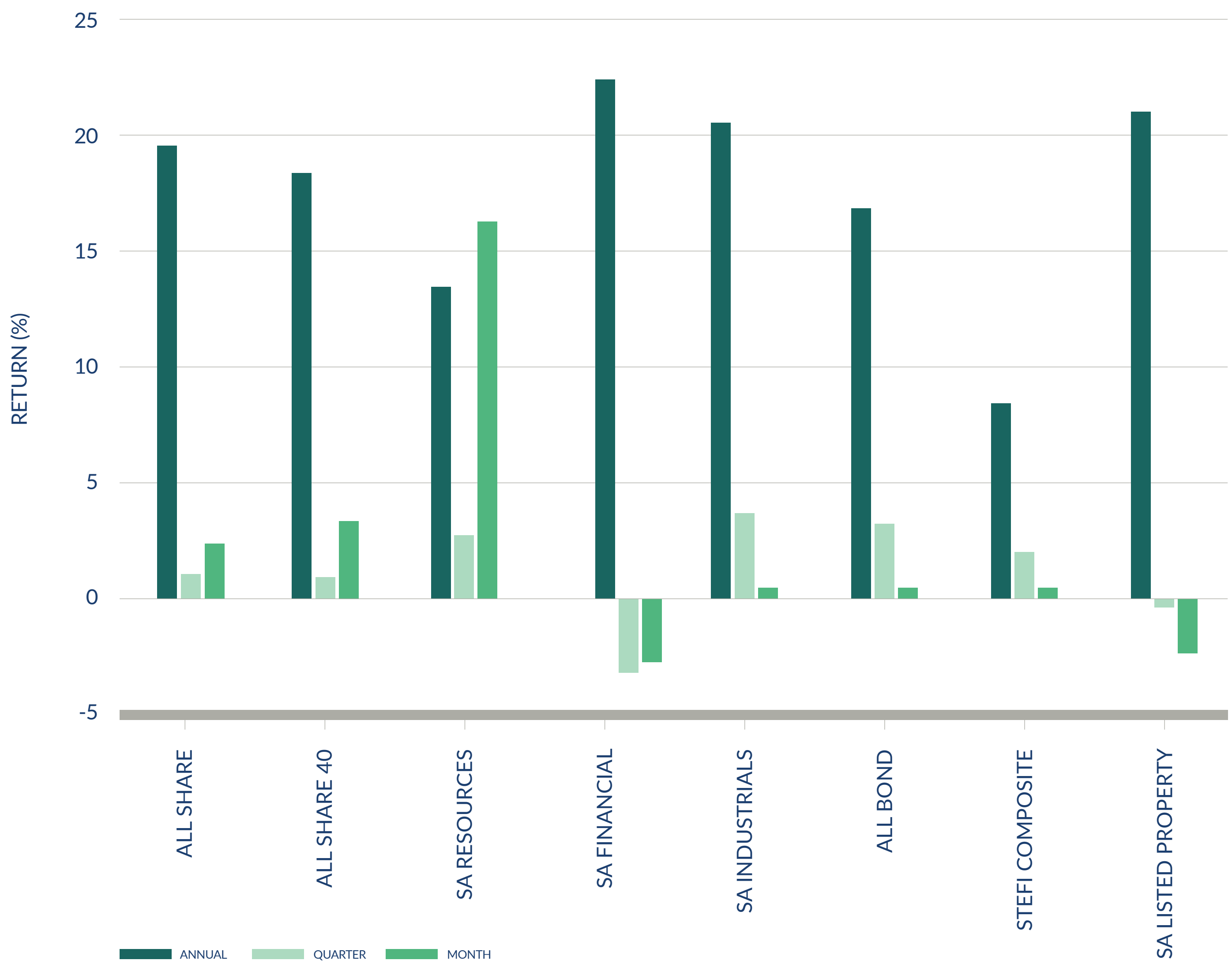
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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