



Weekly Monitor

ECONOMICS | SOUTH AFRICA

Review of 28 October to 1 November and a preview of 4 to 8 November 2024

- The **rand** recovered some losses this week due to a weaker dollar.
- A revenue shortfall and expenditure adjustments widen the **budget deficit** in F2024/25.
- **Credit growth** eased in September due to slower corporate credit demand growth and steady household credit growth.
- **Producer inflation** dipped further to 1% in September due to lower fuel prices.
- The **trade surplus** widened notably in September after two consecutive months of narrowing.
- The **US economy** grew slower in Q3, with first estimates showing increased personal spending.
- The **US PCE price index** rose slightly as service costs edged up.
- The **Bank of Japan** maintained its key interest rate at 0.25%, but further hikes are likely.
- **Inflation** in the **eurozone** edged higher amid rising food prices.
- **Growth** in the **eurozone** expanded in Q3, with Germany's and France's economies showing growth.

Market developments

The **rand** recovered some losses this week, mainly from a weaker US dollar. However, gains were capped after the Medium-Term Budget Policy Statement (MTBPS) on Wednesday failed to impress markets and showed a slightly worse trajectory of the key fiscal ratios over the next 3 years relative to what was projected in the 2024 Budget Statement in February. On Thursday, the local currency was trading at R17.6/\$ against the dollar. The **US dollar** softened ahead of the jobs data today and next week's elections. However, losses were partially limited as economic data largely pointed to continued economic strength. The latest PCE Price Index data showed that inflation remained sticky, while the first Q3 GDP estimate data indicated strong consumer spending, dampening expectations for the US Federal Reserve (Fed) to implement aggressive rate cuts at the upcoming meeting. The **Japanese yen** strengthened and was trading at over ¥150 to the dollar on Thursday, rebounding from a three-month low after the Bank of Japan kept interest rates unchanged but left the door open for near-term rate hikes.

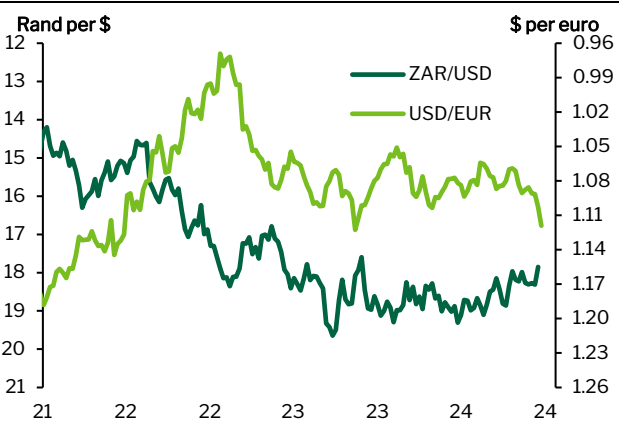
Currencies

Table 1: The currency markets

	31/10/2024	24/10/2024	% Δ
Rand			
USD/ZAR	17.63	17.65	0.08
GBP/ZAR	22.73	22.73	0.02
EUR/ZAR	19.18	19.04	-0.75
JPY/ZAR	8.62	8.62	0.01
Majors			
EUR/USD	1.0878	1.0793	-0.78
GBP/USD	1.2892	1.2959	0.52
JPY/USD	151.99	152.30	0.20

Source: Refinitiv

Chart 1: The currency markets



Source: Refinitiv

Equities and commodities

The **JSE All Share Index** (ALSI) edged slightly higher this week, supported by gains in industrial stocks. However, gains were contained by the uninspiring MTBPS, weak corporate-earnings reports from major global tech companies and robust US economic data.

US stocks were mixed on Thursday following disappointing quarterly reports from Microsoft and Meta, which stated that growing artificial intelligence costs would weigh on their profitability. Further downside likely emanated from stronger US data, which dampened hopes for an aggressive rate cut by the Fed. The **S&P 500** gained marginally, while the **Nasdaq** sank by 1.7%. The Dow

Jones fell around 190 points. In Europe, stocks were in the red after a higher-than-expected rise in eurozone inflation, bolstering the case for caution in interest rate cuts. The **Japanese Nikkei** increased by 3% compared to the previous week.

Brent crude oil prices declined by 3.6% compared to the previous week due to supply concerns after the Energy Information Administration reported an unexpected decline of 0.5 billion barrels in US inventories. The ongoing tensions in the Middle East remain an upside risk, with reports of Iran planning to launch an attack on Israel in the coming days pushing prices over \$74/barrel this morning. **Gold** prices were marginally changed, while **platinum** fell by 2.8% compared to the previous week.

Table 2: Equities

	31/10/2024	24/10/2024	% Δ
Local (JSE)			
ALSI	87883.90	87451.36	0.49
Industrials	119196.42	117637.32	1.33
Financials	21280.54	21415.00	-0.63
Basic materials	46358.83	46405.84	-0.10
Global Equities			
Nasdaq	18202.75	18518.61	-1.71
SP500	5813.67	5808.12	0.10
UK FTSE	6967.90	7074.64	-1.51
DAX	19077.54	19463.59	-1.98
CAC	8665.50	8831.67	-1.88
Nikkei	39081.25	37913.92	3.08
Commodities			
Brent crude (\$/barrel)	73.89	76.67	-3.63
Gold (\$/ounce)	2747.07	2747.69	-0.02
Platinum (\$/ounce)	994.50	1022.78	-2.77

Chart 2: JSE Equities

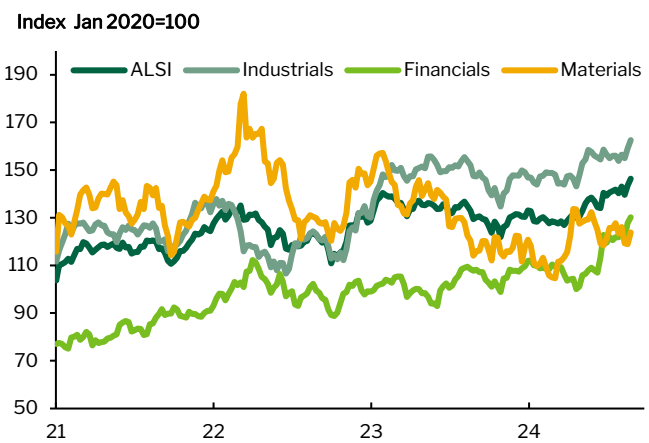
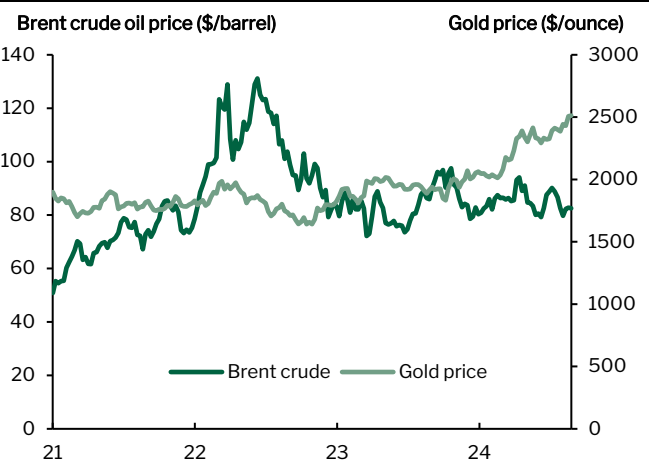


Chart 3: Commodities



Source: Refinitiv

Source: Refinitiv

Economic developments

Domestic economic releases and events

The **Medium-Term Budget Policy Statement (MTEF)** showed a slightly worse trajectory of the key fiscal ratios over the Medium-Term Expenditure Framework period (MTEF, which covers 2025/26 to 2027/28), compared with the figures presented in the 2024 Budget Statement in February. The National Treasury (NT) reduced its GDP growth forecast to 1.1% for 2024 from the 1.3% projected in February due to subdued activity in the year's first half. The estimates for the next three years were kept broadly unchanged, with 2025 lifted marginally to 1.7% from 1.6%, while 2026 was scaled down bit from 1.8% to 1.7%. Over the MTEF, GDP growth is projected to average 1.8%, reflecting a stable global environment, accelerating domestic structural reforms and higher domestic spending. Our GDP growth forecasts for 2024 and 2025 are slightly lower at 1% and 1.6%, but the same as Treasury's for 2026.

In this fiscal year, NT expects **gross tax revenue** to be R22 billion less than February's estimate, mainly due to a weak labour market and lower import VAT collections on the back of lower imports of energy generation machinery. Overall, revenue growth will improve over the MTEF, helping to narrow the budget deficit.

Consolidated expenditure for the current year is estimated to increase by 6%, higher than the 4.4% projected in February. The expenditure overrun reflects increased spending on infrastructure investment, a higher wage bill, and elevated debt service costs. NT plans to slow expenditure growth in the years ahead, but it will still be higher than projected in February, growing by an annual

average rate of 4.9% over the MTEF. Higher social transfers will keep non-interest expenditure elevated. No major commitments or bailouts were announced for SOEs. NT highlighted that SOEs remain a concern as most cannot finance operations and service debts. Eskom will not receive a new allocation, but its debt relief allocation for FY2024/25 will be reduced by another R2 billion if it fails to dispose of its finance company by 31 March 2025. Transnet has not significantly improved its performance after receiving a R47 billion guarantee facility. Denel and the Land Bank are still unable to meet their financial obligations, although the Land Bank has reached an agreement with its lenders. Funds will be allocated to South African National Road Agency Limited (SANRAL) to repay part of the Gauteng e-toll project. The Road Accident Fund is the most significant risk to the fiscus due to its high claims rate.

The **budget deficit** widens to 5% of GDP vs 4.5% in the Budget 2024, raised by the revenue shortfall and higher aggregate expenditure. Over the MTEF, deficit reduction will be slower than reflected in Budget 2024, narrowing the deficit to 4.3% in FY2025/26 and 3.2% in FY2027/28. The primary surplus is also estimated to be lower than the February 2024 figures, reaching 1.8% of GDP only in FY2027/28 vs FY2026/27 previously. The public debt ratio peaks at a slightly higher 75.5% vs 75.3% and moderates slowly to 67% by FY2032/33. Technical work on a fiscal rule, which will guide changes in expenditure, is progressing, and the policy recommendations will be published for public comment by March 2025. The review of the inflation targeting framework is also ongoing.

Annual growth in **broad money supply (M3)** increased to 7.3% in September from 6.1% in August. M3 grew by 1% during the month due to a robust increase in net private sector claims (+R58 billion) and a rebound in net other assets and liabilities (+R42.2 billion). These outweighed sharp declines in net foreign assets (-R27 billion) and net claims on the government sector (-R19.8 billion).

Growth in **private sector credit extension (PSCE)** slowed to 4.6% yoy in September from 4.9% in August. The 'investment and bills' category remained firm, growing by 4.5% mom and 6.5% yoy. Growth in **loans and advances** (which excludes bills and investments) slowed to 4.5% after accelerating to 4.8% from 3.8%, with the moderation resulting from stagnant household credit growth and softer corporate demand. **Corporate credit** grew by 5.6% yoy, down from 6.4%. Growth in general loans, usually used to finance capital spending, eased to a 5-month low of 3.8%. Company instalment sales and leasing finance, as well as credit card usage, also moderated. However, growth in company overdrafts remained robust, rising by 17%, amplified by the low base. The recovery in commercial mortgages continued, growing by 4.6%, its fastest pace since July 2023. **Household credit** growth was steady at 3.3%, which is probably the trough of the current cycle. The subcategories showed mixed performances. Instalment sales and leasing finance (up 7.4% yoy from 7.1%) perhaps benefited from the first interest rates cut, lower car prices and attractive dealer packages. Overdrafts and credit card usage also accelerated slightly. Growth in home loans was almost unchanged at 2.4%, while personal loans contracted for the sixth consecutive month, down by 1% yoy.

We expect credit demand to accelerate slightly in the months ahead. Lower inflation will boost real disposable income, debt service costs will ease as interest rates fall, and the two-pot system will give households access to a portion of their retirement funds. These developments will gradually reduce the strain on household finances, boosting consumer confidence and spending. Company loan growth will likely remain relatively volatile and subdued in the short term as fixed investment is only expected to turn the corner in 2025 when the domestic economy gains more upward traction, global growth picks up some pace, and the general operating environment improves further. We expect **credit growth** to end the year at just below 5% before accelerating to 6% by the end of 2025.

Headline **producer inflation (PPI)** moderated to 1% in September from 2.8% in August. The main driver of the slowdown was the 'coke, petroleum, chemicals, rubber, and plastic products' category. The disinflation in coke, petroleum, chemicals, rubber, and plastic products intensified in September, with prices falling sharply by 5% due to a drop in fuel prices. Prices of petrol and diesel plummeted by 13.2% yoy and 15.7%, respectively, due to subdued global oil prices and a firmer rand. Prices of chemical products also moderated further. However, rubber and plastic products accelerated by 5.6% yoy from 2%. Inflation for metals, machinery, and equipment, including computers, was almost unchanged at 3.4% (from 3.5%). In contrast, inflation for food, beverages, and tobacco products continued to trend higher, accelerating to 3.8% from 3.6% as the base normalised and the impact of drier weather conditions earlier in the year filtered through. We expect PPI to remain subdued in the coming months, contained by continued global disinflation, low global oil prices, a relatively steady rand, and more favourable weather conditions. We forecast PPI to average 3.3% in 2024, down from 6.9% in 2023.

The **trade surplus** surprised in September, widening to a notable R12.8 billion from R5.1 billion in August. This follows two months of narrowing, with imports deviating from their positive growth trend in September. **Imports** contracted by 1.3% mom, following growth of 1.8% in August. The downside was driven by 'machinery and electronics' and 'chemical products', which declined by 15% and 5%, respectively. The contraction in imports was partially contained by an expansion in 'mineral shipments' - made up mainly of crude products - which recorded growth for the first time since March. Mineral products were up by a noteworthy 20% after an average contraction of 5.8% between April and August. The increase in mineral product shipments reflects price volatility during the month as tensions in the Middle East weighed. In contrast, **exports** accelerated by 3.5% in September, up from a 5.3% contraction in August. The growth in exports was led by 'vehicles & transport equipment' and precious metals and stones', which increased by 29% and 16%, respectively. Positive domestic economic dynamics and largely muted global growth largely point to a narrowing in the trade deficit over the last few months of the year. Power supply has stabilised, the rand has been resilient, while consumer and business confidence improved, and inflation continued to ease. These factors are expected to bolster demand and

drive imports higher. However, exports are expected to remain contained by moderate global demand, particularly from key trade partners, such as China and the Eurozone, amid soft economic growth. Further downsides will likely emanate from the muted prices of SA's key commodities and the slow recovery from rail and port inefficiencies.

International economic releases and events

The **Bank of Japan** kept its **key short-term interest rate** at 0.25% but hinted at further hikes. The decision comes after the Liberal Democratic Party fared poorly in last weekend's Lower House elections and ahead of the presidential elections, which might shift the political landscape. Governor Kazuo Ueda highlighted that the current global conditions pose a risk to Japan's economy, and the Bank will monitor these factors. The Board mentioned that it is open to further hikes should economic data align with its forecast. The core inflation rate is expected to reach 2.5% in 2024 and is estimated at around 1.9% for the 2025 and 2026 financial years.

The first quarterly GDP estimate showed that the **US economy** expanded by an annualised 2.8% qoq in Q3, slower than the 3% in Q2. The uptick was led by higher personal spending (3.7% from 2.8% in Q2) due to a surge in consumption of goods by 6% from 3%. At the same time, government spending increased by 5% from 3.1% while fixed investment growth slowed (1.3% from 2.3%). Another key release showed that the **personal consumption expenditure (PCE) price index** rose by 0.2% mom in September from 0.1% in August, matching market expectations. Prices rose for services (+0.3%) while goods prices dropped (-0.1%). Over the year, **PCE prices** eased to 2.1% from 2.3%, the lowest rate since February 2021. In contrast, **core PCE inflation** remained sticky at 2.7% yoy, unchanged from the previous month. Consumer confidence improved, with the **University of Michigan consumer sentiment** increasing to 70.5 in October, higher than the preliminary estimate of 68.9. The current conditions and expectations subindexes were revised higher to 64.9 and 74.1 from 62.7 and 72.9, respectively. The expectation of a Harris win in next Tuesday's elections fell from 63% to 57%, while sentiment of a Trump win rose by 8%. The one-year inflation outlook remained at 2.7%, while the five-year marginally changed to 3% from 3.1%. Other releases showed that new orders for **durable goods** fell by 0.8% mom in September, the same rate as in August. The slowdown was led by a drop in transportation equipment (-3.1%), machinery (-0.2%), computers and electronic products (-0.3%) and capital goods (-2.8%). Excluding defence goods, orders for durable goods decreased by 1.1%.

Preliminary estimates showed that the **eurozone economy** grew by 0.4% qoq in Q3, up from a 0.2% rise in Q2. The expansion of the German economy by 0.2% and France's 0.4% increase bolstered growth in the bloc. Over the year, **GDP** rose by 0.9% from 0.6%, the highest increase since Q1 2023. Preliminary estimates showed that **eurozone inflation** accelerated to 2% yoy in October from 1.7% in September. Costs increased faster for food, alcohol, and tobacco (2.9% from 2.4%) and non-energy industrial goods (0.5% from 0.4%). **Core inflation** was unchanged at 2.7% yoy. The **unemployment rate** was steady at 6.4% in September, with the jobless rate for people under 25 years at 14.4% from 14.3%. Spain recorded the highest unemployment rate within the area at 11.2%.

The **German economy** expanded by 0.2% qoq in Q3, recovering from a drop of 0.3% in Q2, preliminary estimates showed. Government and household expenditure edged up. Annually, **GDP** contracted by 0.2% from a 0.3% decline in Q2. Other data showed that business sentiment remained less pessimistic, with the **Ifo Business Climate Indicator** increasing to 86.5 in October from 85 in September, the highest level in five months. Businesses were less pessimistic about current conditions (85.7 from 84.4), while business expectations improved (87.3 from 86.4). On the consumer side, the **GfK Consumer Climate Indicator** remained low at -18.3 in November, although improving from -21 in October. The **unemployment rate** rose to a seasonally adjusted 6.1% in October from 6% in September. This is the highest rate since February 2021, as the number of unemployed people increased to 2.856 million, the highest level since September 2020.

Preliminary estimates showed that growth in **France** expanded by 0.4% qoq in Q3, faster than the 0.2% in Q2. This is the highest growth rate since Q4 2023. The boost came from increased tourism and, consequently, stronger consumption following the Paris Olympics. Annually, **GDP** grew by 1.3% from 1% in the previous quarter. Preliminary estimates showed that **inflation** rose marginally to 1.2% yoy in October from 1.1% in September. The increase in prices was led by food (0.6% from 0.5%) as fresh product costs soared by 4.5% from 2.6%. Costs fell slower for energy (-2% from -3.3%) and manufactured products (-0.2% from -0.3%). Over the month, **consumer prices** edged up by 0.2% from a 1.2% drop in September.

Japan's unemployment rate declined marginally to 2.4% in September from 2.5% in August, the lowest level since January. The number of unemployed individuals dropped to 1.68 million, while the number of employed people jumped to a record high of 67.82 million. The labour force participation rate was 63.5%, while the jobs-to-application ratio was 1.24 from 1.23. **Retail sales** rose at a slower pace of 0.5% yoy in September from 3.1% in August. Sales were up for machinery and equipment (0.4%), food and beverages (0.4%), non-store retailers (2.9%), miscellaneous items (3.1%), and textiles, clothing, and personal goods (10.7%). **Retail sales** sank by 2.3% mom from a 1% rise.

Next week's focus: Key economic releases and events

Locally, key economic releases include **gross foreign exchange reserves** for October. We forecast **gross reserves** at \$64.21 billion in October from \$63.63 billion in September, with a marginally higher foreign exchange reserves accumulation (0.5% mom) and a rise in the value of gold reserves. Over the month, gold reserves increased by 4.4%, reflecting valuation adjustments as the gold price continued to benefit from its safe-haven status. The **international liquidity position** likely increased to \$61.77 billion from

\$60.03 billion. The rand value of reserves will rise noticeably by 3% mom as the local unit depreciated against the US dollar during the month. Imports rose, and as a result, reserves import cover will increase to 7.1% months from 6.9.

Internationally, the much-anticipated **US nonfarm payrolls** data is due this afternoon. The market expects the US economy to have created 140 000 jobs in October, a sharp decline from the 254 000 in September. The **unemployment rate** is likely to remain at 4.1%, while the **labour force participation rate** is forecast to fall marginally to 62.5 from 62.7. Next week's key data includes the **Bank of England's interest rate decision**, with the market expecting a 25-basis point cut. The **Central Bank of Brazil** is also expected to announce its **policy rate**, and the market forecasts a hike from 10.75% to 11.25%. Other releases include **final PMI** data for most countries. The general trend is expected to remain unchanged from the flash estimates with activity in services expected to continue slowing while manufacturing contracts.

Table 3: Release Calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Unit
1 Nov 2024	Japan	JibunBK Manufacturing PMI Final	Oct	49.0	49.0	Index
	China (Mainland)	Caixin Manufacturing PMI Final	Oct	49.7	49.3	Index
	UK	S&P Global Manufacturing PMI Final	Oct	50.3	50.3	Index
	US	Non-Farm Payrolls	Oct	113.0	254.0	000
	US	Unemployment Rate	Oct	4.1	4.1	%
	US	Average Earnings (mom)	Oct	0.3	0.4	%
	US	Labor Force Participation Rate	Oct	62.5	62.7	%
	US	S&P Global Manufacturing PMI Final	Oct	47.8	47.8	Index
	SA	Total New Vehicle (yoy)	Oct		-4.1	%
	SA	Total New Vehicle Sales	Oct		44081.00	
4 Nov 2024	France	HCOB Manufacturing PMI Final	Oct	44.50	44.50	Index
	Germany	HCOB Manufacturing PMI Final	Oct	42.6	42.6	Index
	EU	HCOB Manufacturing PMI Final	Oct	45.9	45.9	Index
	US	Factory Orders (mom)	Sep	-0.5	-0.2	%
5 Nov 2024	China (Mainland)	Caixin Services PMI Final	Oct	50.70	50.30	Index
	France	Industrial Output (mom)	Sep	0.9	1.4	%
	UK	S&P Global Service PMI Final	Oct	51.8	51.8	Index
	UK	S&P Global Composite PMI Final	Oct	51.7	51.7	Index
	US	S&P Global Composite PMI Final	Oct	54.3	54.3	Index
	US	S&P Global Service PMI Final	Oct	55.3	55.3	Index
	US	ISM N-Manufacturing MI	Oct	53.3	54.9	Index
6 Nov 2024	Japan	JibunBK Composite PMI Final	Oct	49.4	49.4	Index
	Japan	JibunBK Service PMI Final	Oct	49.3	49.3	Index
	Germany	Industrial Orders (mom)	Sep	1.8	-5.8	%
	Germany	Manufacturing O/P Cur Price SA	Sep		-2.9	%
	France	HCOB Service PMI Final	Oct	48.3	48.3	Index
	France	HCOB Composite PMI Final	Oct	47.3	47.3	Index
	Germany	HCOB Composite PMI Final	Oct	48.4	48.4	Index
	EU	HCOB Service PMI Final	Oct	51.2	51.2	Index
	EU	HCOB Composite PMI Final	Oct	49.7	49.7	Index
	Brazil	Selic Interest Rate	Nov	11.25	10.75	%
7 Nov 2024	SA	Net \$Gold & Forex Res	Oct		61.0	Billion
	SA	Gross \$Gold & Forex Res	Oct		63.6	Billion
	Germany	Industrial Production (yoy)	Sep		-2.5	%
	Germany	Exports (mom)	Sep		1.3	%
	Germany	Imports (mom)	Sep	-0.4	-3.4	%
	Germany	Trade Balance, EUR	Sep	18.0	22.5	Billion
	UK	Halifax House Prices (yoy)	Oct	2.0	4.7	%
	UK	Halifax House Prices (mom)	Oct	0.3	0.3	%
	EU	Retail Sales (mom)	Sep	0.2	0.2	%
	EU	Retail Sales (yoy)	Sep	2.2	0.8	%
	UK	BOE Bank Rate	Nov	4.75	5.0	%
	China (Mainland)	Exports (yoy)	Oct	5.5	2.4	%
	China (Mainland)	Imports (yoy)	Oct	-0.3	0.3	%
	China (Mainland)	Trade Balance USD	Oct	66.00	81.71	Billion
8 Nov 2024	France	Trade Balance, EUR	Sep	-8.1	-7.4	Billion
	US	U Mich Sentiment Preliminary	Nov	70.0	70.5	Index
	US	U Mich Conditions Preliminary	Nov	65.1	64.9	Index
	US	U Mich Expectations Preliminary	Nov	74.2	74.1	Index
	US	U Mich 1Yr Inf Preliminary	Nov	2.7	2.7	%
	US	U Mich 5-Yr Inf Preliminary	Nov	3.0	3.0	%

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