

Weekly Monitor

ECONOMICS | SOUTH AFRICA



Review of 18 to 22 November and a preview of 25 to 29 November 2024

- The **rand** remained under pressure, in line with the other emerging market units.
- **Inflation** dropped below 3% on lower transport costs and food prices in October.
- **Retail sales** growth eased despite an increase in sales at general dealers.
- The **People's Bank of China** kept its **key lending rates** unchanged, per market expectations.
- **US retail sales** edged up, benefitting from an uptick in sales at electronics and appliances stores.
- **Inflation** in the **eurozone** accelerated as the base effect of last year's energy prices dissipated.
- **UK inflation** ticked up due to an increase in the cost of housing and energy prices.

Market developments

The **US dollar** made further gains against the other major currencies, with the greenback breaking through \$1.05 against the **euro** on Thursday. This morning, the dollar is holding steady at around \$1.048. The **British pound** has weakened to below \$1.25 for the first time since May, while the **Japanese yen** firmed marginally after touching ¥156/\$ last week.

Emerging market currencies remained under pressure late in the week after making marginal gains on Monday and Tuesday. The **rand** briefly pulled back to touch R17.98/\$ after the South African Reserve Bank presented a cautious policy statement on Thursday but dipped back to R18.12 in late trading on Thursday. This morning, it is hovering around R18.05/\$. The **Brazilian real** is trading around BRL5.81/\$ from BRL5.75 on Monday, while the **Mexican peso** has dipped to MXN20.38/\$ from MXN20.12 on Monday. In **China**, the renminbi is trading around RMB7.25/\$ this morning, down from RMB7.01 on 1 October as the steady depreciation pressure persists.

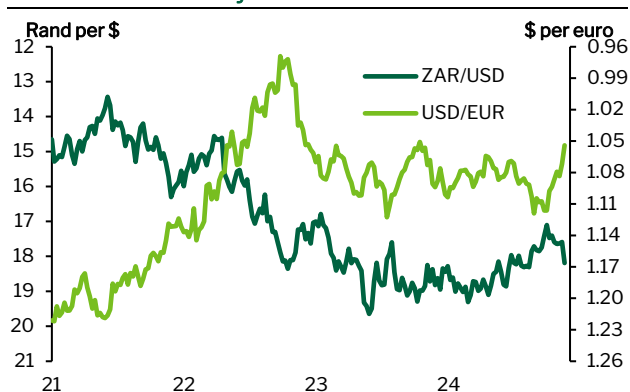
Currencies

Table 1: The currency markets

	21/11/2024	14/11/2024	% Δ
Rand			
USD/ZAR	18.10	18.19	0.52
GBP/ZAR	22.69	22.80	0.48
EUR/ZAR	18.95	19.15	1.09
JPY/ZAR	8.52	8.47	-0.61
Majors			
EUR/USD	1.0473	1.0541	0.65
GBP/USD	1.2586	1.2617	0.25
JPY/USD	154.51	154.34	-0.11

Source: Refinitiv

Chart 1: The currency markets



Source: Refinitiv

Equities and commodities

The local market was broadly firmer, lifted by financials and industrials. The **JSE All Share Index** (ALSI) rose for the first time in three weeks as another interest rate cut and expectations of further cuts lifted **financials**. **Basic materials** were lower for the fourth successive week as the counters surrendered the substantial gains recorded in the second half of October.

US equities strengthened further, with technology stocks buoyed by Nvidia's solid earnings growth as demand for its chips remained robust. In Europe, the **UK FTSE** gained ground, while the slide in the **Japanese Nikkei** continued as investors remained concerned about the impact of likely higher US import tariffs.

In commodity prices, the **Brent crude oil price** rose by 2.8%, rebounding from last week's 0.6% dip. **Gold** gained for the first time in three weeks, while **platinum** also rose.

Table 2: Equities

	21/11/2024	14/11/2024	% Δ
Local (JSE)			
ALSI	85821.12	85357.46	0.54
Industrials	117157.08	116458.76	0.60
Financials	21515.84	21243.19	1.28
Basic materials	41953.75	42558.70	-1.42
Global Equities			
Nasdaq	18972.42	18680.12	1.56
SP500	5948.71	5870.62	1.33
UK FTSE	6988.65	6908.49	1.16
DAX	19146.17	19210.81	-0.34
CAC	8457.95	8544.92	-1.02
Nikkei	38026.17	38642.91	-1.60
Commodities			
Brent crude (\$/barrel)	76.38	74.33	2.76
Gold (\$/ounce)	2669.69	2561.24	4.23
Platinum (\$/ounce)	960.75	938.55	-3.10

Chart 2: JSE Equities

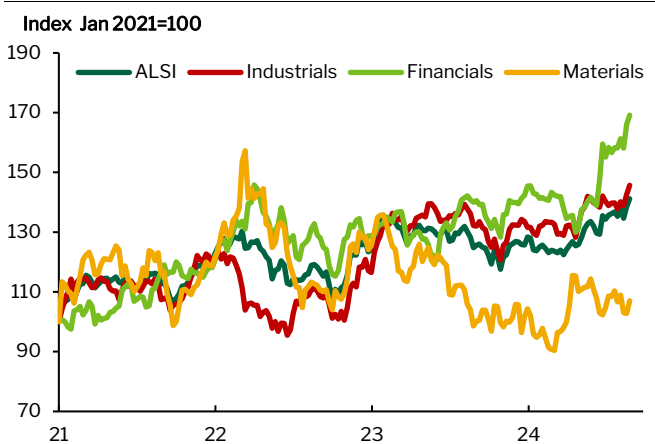
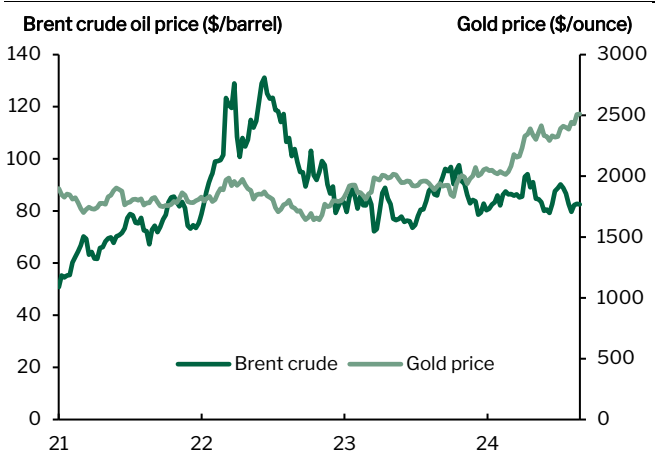


Chart 3: Commodities



Source: Refinitiv

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Economic developments

Domestic economic releases and events

As expected, the **Monetary Policy Committee (MPC)** cut the repo rate by another 25 basis points (bps), taking the repo rate to 7.75% and the prime rate to 11.25%. The decision was unanimous, with the rate cut still considered consistent with achieving its inflation target. However, the MPC's tone was cautious, reflecting its concern about the uncertain and changing global environment. Unlike September, the MPC did not consider a 50-bps cut. Overall, the central bank views the risks to the inflation and growth outlook as balanced. The SARB expects inflation to trend around the midpoint of the target range throughout 2024 to 2027. Headline inflation now averages 4.5% in 2024 from 4.6% previously. The inflation forecast was left at 4% for 2025 but raised 4.6% from 4.4% for 2026. The upward revision for 2026 mainly reflects more aggressive electricity price increases. Headline inflation dips again to 4.5% in 2027. The core inflation forecast was revised lower to 4.3% (from 4.4%) in 2024 and 3.9% (from 4.1%) in 2025. Core inflation is expected to rise slightly to 4.4% (from 4.3%) in 2026 and 4.5% in 2027. Although inflation expectations continue to trend above the midpoint of the target range, the SARB expects its policy stance and the current low inflation outcomes to anchor expectations more firmly at lower levels. The SARB sees the domestic recovery gathering pace, with GDP growth forecast at 1.1% (unchanged) in 2024, 1.7% (from 1.6%) in 2025, 1.8% (unchanged) in 2026 and 2% in 2027.

The SARB's decision comes as no surprise, given the ongoing moderation in inflation. Despite the current favourable trend in domestic inflation, the risks to the outlook have increased slightly since the September meeting. The rand will likely face bouts of pressure amid the anticipated changes in US economic policies. In addition, the ongoing geopolitical conflicts still pose upside risks to oil prices, but these will likely be countered by muted global demand. Further upside pressure could emanate from elevated electricity and administered prices. While inflation will likely drift higher (see below), it will remain anchored around 4.5% over the next three years. Against this backdrop, we expect the SARB to continue its easing cycle, cutting by a cumulative 75 bps in 2025.

Headline consumer inflation decelerated further to 2.8% in October, the lowest since February 2021, from 3.8% in September. The downward pressure primarily stemmed from a sharp decline in transport costs. Food and non-alcoholic beverage prices also surprised on the downside. **Transport inflation** fell further in October, down sharply by 5.3% yoy after dropping by 1.1% in September. The downward pressure emanated from fuel prices, which fell by 5.3% mom and 19.1% yoy, helped by lower global oil prices and a firmer rand/dollar exchange rate. Vehicle inflation also moderated, but public transport costs edged up slightly. **Food and non-alcoholic beverages inflation** surprised on the downside, falling to 3.6% after remaining steady at 4.7% in August and September. The moderation resulted from lower food prices, which eased to 2.8% yoy, its slowest pace since May 2019, with both processed and unprocessed food prices easing. Within the sub-categories, the slowdown in prices was broad-based. **Housing and utilities** inflation was unchanged at 4.8%, the lowest since June 2023. Prices of **miscellaneous goods and services** decreased further to 6.8% from 6.9% and 7% in September and August, respectively. The moderation resulted from lower personal care costs (4.6% vs 5.2%), while the increases in insurance and financial services were steady. **Core inflation** fell to 3.9%, the lowest since April 2022, contained by subdued domestic demand and elevated interest rates.

We expect headline inflation to start edging up next month and throughout next year as the base normalises. Fuel prices will increase due to slightly higher global oil prices and a weaker rand, while food prices will also start to rise as the impact of drier weather conditions earlier in the year continues to filter through to certain food items. However, global disinflation and favourable climatic conditions will partly mitigate the upside in food inflation. Improved domestic operating conditions due to a stable electricity supply and further efficiency gains in logistics should also help contain input costs and operating expenses throughout the food supply chain. We forecast inflation to end the year just below 4% and average 4.5% in 2024. The upside risks to our forecast have increased somewhat over the past month. Despite these risks, the inflation outlook remains relatively subdued, with CPI expected to hover around the SARB's 4.5% target.

Retail sales growth moderated to a modest 0.9% in September from a 3.3% yoy surge in August. The outcome was worse than our forecast of 2.6% yoy and the markets of 2.7%. General dealers made the most significant positive contribution of 2.1 ppts, with sales up by 4.5% yoy. On the other hand, retailers in textiles, clothing, footwear, and leather goods performed the worst, contracting by 5.5% and subtracting 0.9 ppts. Over Q3, sales grew by 0.7% qoq, driven by sales of general dealers (up 1.1% qoq) and retailers in textiles, clothing, footwear, and leather goods (up 2.1% qoq). On a yoy basis, retail sales over the three months were up 2.0%, with general dealers contributing the most to the rebound (1.9 ppts). Retail sales are steadily trending upward, suggesting it has turned the corner in light of lower inflation. We should see this trend gathering momentum as inflation stabilises around the midpoint of the SARB's target.

International economic releases and events

The **People's Bank of China (PBoC)** maintained its **key one-year loan prime rate** at 3.1% and the **five-year rate** at 3.6%, which was in line with market expectations. The Bank's decision came after recent data suggested that recent stimulus measures were starting to take effect. The PBoC highlighted that it would continue introducing policy-easing measures to prop up the weak housing sector and boost confidence. **Retail sales** rose by 4.8% yoy in October from 3.2% in September, partly driven by a week-long holiday starting 10 days earlier than usual. The **unemployment rate** fell to 5% in October, the lowest rate since June, from 5.1% in September.

In the **US**, **retail sales** continue to reflect solid demand momentum, rising by a slower 0.4% mom in October, down from an upwardly revised 0.8% (previously 0.4%) in September. Core retail sales (which exclude automobiles, gasoline, building materials and food services) contracted by a marginal 0.1% mom, after gaining 1.2% in September. Total sales rose by 2.8% yoy from 2%. **Industrial production** dipped by 0.3% mom in October after contracting by 0.5% in September, as a labour strike at a major aircraft manufacturer continued to hurt output, while the effects of Hurricane Milton also lingered. **Manufacturing output**, which makes up 78% of industrial production, sank by 0.5% from a decline of 0.3%. Production increased in mining (0.3%) and utilities (0.7%). Over the year, **output** declined by 0.3%, slightly better than September's 0.7% decline. In the real estate market, **existing home sales** jumped by 3.5% to a seasonally adjusted annualised rate of 3.96 million units in October from September's 3.83 million. The latest figures suggest that the worst of the downturn in home sales could be over as firmer household incomes and lower interest rates start to lift demand for housing. The median house price increased by 4% to \$407 200, while the inventory of unsold property rose by 0.7% to 1.37 million units.

In the **eurozone**, preliminary data showed that **inflation** accelerated to 2% yoy in October from 1.7% in September. The market anticipated as much due to the low base effect in 2023 caused by the sharp drop in energy prices. The decline in energy prices moderated (-4.6% from -6.1%), while food, alcohol, and tobacco prices accelerated (2.9% from 2.4%). Services inflation also edged up slightly to 4% from 3.9%. **Core inflation** remained at 2.7%, its slowest rate since February 2022.

France's inflation edged up to 1.2% yoy in October from 1.1% in September due to the uptick in services (2.3%), transport (4.1%) and rent, water and waste removal (2.9%), while energy prices fell at a slower pace (-2% from -3.3%). Over the month, consumer prices jumped by 0.3% from a drop of 1.2%.

UK inflation accelerated to 2.3% yoy in October, marginally above the Bank of England's 2% target, from 1.7% yoy in September. The upward pressure came from housing and household services (5.5% from 3.8%), mainly electricity (-6.3% from -19.5%) and gas (-7.3% from -22.8%), after the Office of Gas and Electricity Markets (Ofgem) raised the energy price cap by 10% in October.

Monthly, **consumer prices** went up by 0.6%. **Core inflation** edged higher to 3.3% yoy from 3.2%. **Industrial production** tumbled by 0.5% mom in September from a 0.5% increase in August. A plunge in **manufacturing output** (-1% from 1.3%) was mainly to blame. Output also declined for electricity, gas, steam, and air-conditioning (-1.9% from 0.9%) and water supply, sewerage, and waste management (-0.7% from 1.1%). Over the year, **output** fell by 1.8% from 1.7% decline.

The **trade deficit** in **Japan** widened to ¥461.25 billion in October from ¥294.1 in September. **Exports** rose by 3.1%, while **imports** increased slower by 0.4% from a 1.8% increase. **Machinery orders** sank by 0.7% mom in September from a 1.9% decrease in August due to a decline in manufacturing orders. On a yoy basis, **orders** shrunk by 4.8%.

Next week's focus: Key economic releases and events

Locally, key releases include **broad money supply (M3)** and **private sector credit extension (PSCE)**, **producer inflation (PPI)**, and **trade data** for October. We forecast **PSCE** to increase by 4.8% yoy, after slowing to 4.6% in September from 3.5% in August. Growth in loans and advances will likely rise to 4.7% from 4.5%, mainly driven by corporate credit demand. Growth in household demand could also pick up slightly, reflecting some improvement in consumer confidence due to growth in disposable income, lower inflation and the first interest rate cut.

PPI likely dropped to 0% in October from 1% in September. There is even a possibility that PPI could enter deflation, given the higher base established last year, when voluntary production cuts by Saudi Arabia and Russia combined with Israel's response to the Hamas terrorist attacks caused global oil prices to spike. Food prices will also be dragged down by a high base, reflecting shortages caused by the Bird flu outbreak. Therefore, we expect the downward pressure in October to emanate from fuel and food prices. In addition to the base effects, the petrol and diesel prices fell sharply in October due to the lower Brent crude oil price and a stronger rand/dollar exchange rate. The downside on food prices will partly be contained by the lingering impact of dry weather conditions earlier in the year.

The **trade surplus** likely narrowed to around R6.7 billion from R12.8 billion in September. Imports likely rose faster than exports. Economic growth in SA's key trading partners remains relatively modest, weighing on demand for commodities. Apart from gold, the prices of most other essential commodities remained muted. In contrast, imports probably advanced on stronger domestic demand, given lower domestic inflation, improved confidence, a relatively stronger rand and the start of the rate-cutting cycle.

Internationally, the **flash purchasing managers' indices (PMIs)** are due today, and markets expect the PMIs to reflect relatively steady trading conditions, with services expanding while manufacturing remains subdued. Next week's key releases are the **US PCE Price Index**, which the market anticipates rose to 2.2% yoy from 2.1%, reflecting an unchanged 0.2% mom increase. The **core PCE Price index** is expected to be steady at 2.7% yoy. Other releases include **GDP data** for Germany and the **US**.

Table 3: Release Calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Unit
22 Nov 2024	Japan	CPI, Core Nationwide (yoy)	Oct	2.2	2.4	%
	Japan	CPI, Overall Nationwide	Oct		2.5	%
	UK	GfK Consumer Confidence	Nov	-22	-21	Index
	Japan	JibunBK Manufacturing PMI Flash	Nov		49.2	Index
	Japan	JibunBK Composite PMI Flash	Nov		49.6	Index
	Japan	JibunBK Services PMI Flash	Nov		49.7	Index
	Germany	GDP Detailed (qoq) SA	Q3	0.2	0.2	%
	Germany	GDP Detailed (yoy) NSA	Q3	0.2	0.2	%
	UK	Retail Sales (mom)	Oct	-0.3	0.3	%
	UK	Retail Sales (yoy)	Oct	3.4	3.9	%
	France	HCOB Composite Flash PMI	Nov	48.3	48.1	Index
	Germany	HCOB Services PMI Flash	Nov	51.6	51.6	Index
	Germany	HCOB Composite PMI Flash	Nov	48.6	48.6	Index
	UK	Flash Composite PMI Flash	Nov	51.8	51.8	Index
	US	S&P Global Manufacturing PMI Flash	Nov	48.8	48.5	Index
	US	S&P Global Services PMI Flash	Nov	55.2	55.0	Index
	US	S&P Global Composite PMI Flash	Nov		54.1	Index
	US	U Mich Sentiment Final	Nov	73.7	73.0	Index
	US	U Mich Conditions Final	Nov		64.4	Index
	US	U Mich Expectations Final	Nov		78.5	Index
	US	U Mich 1Yr Inflation Final	Nov		2.6	%
	US	U Mich 5-Yr Inflation Final	Nov		3.1	%
25 Nov 2024	Germany	Ifo Business Climate New	Nov	86.3	86.5	Index
	Germany	Ifo Current Conditions New	Nov	85.5	85.7	Index
	Germany	Ifo Expectations New	Nov	87	87.3	Index
27 Nov 2024	France	Consumer Confidence	Nov		94	Index
	Germany	GfK Consumer Sentiment	Dec		-18.3	Index
	US	Durable Goods	Oct	0.1	-0.7	%
	US	GDP 2nd Estimate	Q3	2.8	2.8	%
	US	Core PCE Price Index (mom)	Oct	0.3	0.3	%
	US	Core PCE Price Index (yoy)	Oct	2.7	2.7	%
	US	PCE Price Index (mom)	Oct	0.2	0.2	%
	US	PCE Price Index (yoy)	Oct	2.2	2.1	%
28 Nov 2024	SA	PPI (mom)	Oct		-0.3	%
	SA	PPI (yoy)	Oct		1.0	%
	Germany	CPI Preliminary (mom)	Nov		0.4	%
	Germany	CPI Preliminary (yoy)	Nov	2.0	2.0	%
29 Nov 2024	Japan	Unemployment Rate	Oct	2.5	2.4	%
	Japan	Industrial Preliminary (mom)	Oct	3.9	1.6	%
	Japan	Industrial Preliminary (yoy)	Oct		-1.8	%
	Japan	Retail Sales (yoy)	Oct	2.2	0.5	%
	SA	M3 Money Supply (yoy)	Oct		7.3	%
	SA	Pvt Sector Credit Ext.	Oct		4.63	%
	Germany	Retail Sales (mom) Real	Oct	0.0	1.2	%
	Germany	Retail Sales (yoy) Real	Oct	0.0	3.8	%
	France	GDP (qoq) Final	Q3	0.4	0.4	%
	France	CPI Preliminary (yoy)	Nov		1.2	%
	France	CPI Preliminary (mom)	Nov		0.2	%
	Germany	Unemployment Rate	Nov	6.1	6.1	%
	SA	Trade Bal (Incl. Region)	Oct		12.8	Billion
	SA	Budget Balance (mom)	Oct		-4.4	Billion

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