EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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GDP, VACCINES, AND A BIT ABOUT YIELDS

Although the results for how South Africa's (SA) economy faired will be a bit late compared to similar prints by other countries across the globe, many are expecting a rosy story after the second quarter's -51% contraction. In fact, analysts at Citadel are expecting a quarter-on-quarter bounce back close to 45%. We are a bit more conservative but will welcome it if we are wrong.

What we have seen is how analysts have slowly started to adjust their forecasts to a rosier outlook as key economic variables came out better than expected. Initially, many believed we would see a year-on-year contraction close to -15% during 2020, now the average forecast is closer to 8%. Ours is still at -10%. Many positive economic indicators are fuelling the optimism. For one, new car sales and retail sales have made a commendable recovery. Although not back to pre-COVID levels, the tempo of the recovery in these indicators point towards a sustained recovery and a strong 2021. Mining and manufacturing are back to about 90% of their pre-COVID capacities. Manufacturing Purchasing Managers Index's (PMI), an indicator that monitors the views of purchasing managers in the industry, not only entered a cycle of expansion but also reached an all-time high. Exports breached their January-levels on the back of upbeat global growth sentiment, spurred on by vaccine-optimism.

Although the South Africa government missed the first payment for our country's vaccines, it seems that under the Covax agreement we should receive our first batch by mid-2021. An initial payment of R327 million is due and will cover roughly 10% of our population. In total, roughly R2 billion would be needed to reach herd-immunity. But then the issue remains if people will actually vaccinate themselves? This should lead to some interesting December braai conversations.

United States (US) Health and Human Services Secretary, Alex Azar, explained that vaccinations in the US can start as early as Friday, and that all Americans should have access to a vaccine by the second quarter of 2021. This was welcome news after the US Labour Department reported that the economy only added 245 000 jobs in November, far short of the 460 000 increase analysts were expecting, and much weaker than October's increase of 610 000. Markets however expressed little concern about the slowdown in growth momentum, hoping that US lawmakers might step in with the much-anticipated second round of stimulus.

Something else worth noting is the general improvement, albeit at a lower base, of the US yield curve. Only a year ago, many market observers were wary about yield-curve inversion in the US, and the expected, imminent recession that would follow. However, because of world class relief and assistance from both fiscal and monetary authorities in the US, the slope of the US yield curve, measured by the difference between the 2-year and 10-year yields, steepened to 81 basis points, the greatest since 2017. If the US Federal Reserve are correct, 10-year yields should continue to improve to 1.3% over the next 12 months, which would continue to support a healthy yield curve.

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