EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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GLOBAL UNCERTAINTY AND SOME GOOD NEWS FOR SOUTH AFRICANS

The global economy is heading towards an evermore uncertain place. Late in 2021, markets anticipated that central banks around the world would start to increase interest rates, and they subsequently did. Now, almost 18 months later, economies are giving mixed signals. Inflation is coming down in key regions, like North America and Europe, but not enough. Some economies, like India, are showing signs of life but others, like China, are really struggling. Yet in others, like the United States (US), one set of statistics shows a vibrant economy while others are more concerning. We do, however, see a lot of value in local equity and bond markets, and pockets of value in global equity markets, especially those companies that can play into emerging market growth without getting stuck in them.

China's central bank left its lending benchmark rates unchanged last week even as signs of a faltering economic recovery called for more stimulus. Lowering interest rates to support the economy might, however, not be a favoured stimulus tool because it can widen inflation differentials with the US even more, leading to more short-term capital outflows. China's economy grew at a frail pace of 0.8%, quarter-on-quarter, during the second quarter of 2023, missing analyst expectations by quite a margin. In China, local consumer and investor sentiment is very low, which is restraining demand and leading towards a worrying deflationary environment. Although lower inflation in China is welcome news for their trading partners, like South Africa (SA). The massive real estate sector has struggled to recover, while exports have plunged owing to decreasing global demand. Investors are, therefore, hoping for more supportive measures to ensure Beijing's growth target of 5% for the year remains on track. A healthy, fast-growing China will also be welcome news for the rest of the world.

South Africans received some welcome news last week. On Wednesday, the unleaded petrol price (95) fell by 17 cents a litre, while 93 was lowered by 24 cents a litre. Over the past month, global oil prices fell slightly, mostly owing to fears about a global economic slowdown but also because large oil-producing countries decided not to cut production at their last meeting. The average rand-dollar exchange rate for the past month was R18.68/$, slightly lower than the R18.98 we had during the previous month. Oil prices seem to be settling in a range between $75 and $85, whilst the rand, at levels below R18.00/$, is showing signs of strength. What this means is that we might even have more petrol price cuts in the upcoming months.

Lower petrol prices are not the end of the good news. With a 3-2 majority vote, the South African Reserve Bank (SARB) kept interest rates unchanged on Thursday. The repo rate thus remains at 8.25%, with the prime rate at 11.75%. Our hardliner governor was, however, quick to add that this does not mean that interest rates have peaked. Fortunately for weary South African consumers, inflation seems to have peaked albeit on quarterly and annual rates. Since the 7.8% high that we saw in July 2022, consumer prices have been on a steady decline, falling from 6.8% in April 2023, to 6.3% in May, before reaching 5.4% in June, nicely within the SARB's target range of 3% to 6%. Unfortunately, the US Federal Reserve will, most likely, hike interest rates by 0.25% this week, and maybe once more this year. Considering this, the SARB will, most likely, feel obligated to increase rates too, even though there is little evidence to support their conviction that higher interest rates in SA can attract short-term capital towards SA in this environment. If conditions were different, their plan might have worked but not in the current uncertain global environment.

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