Quarterly Newsletter

(2021: Q1)

SOUTH AFRICA – Economic Outlook

South Africa's GDP has grown by 4.6% during the first quarter of 2021 on an annualised basis.

Further, the accommodative monetary stance from the South African Reserve Bank (SARB), in the form of record low interest rates should aid further economic recovery as the ZAR continues to remain relatively strong (currently trading below long-term equilibrium of roughly R14.95 ZAR/USD). We should acknowledge that the SARB makes use of an inflation targeting regime of 3% – 6% and as we reach the upper bound, we expect the SARB to increase the interest rate by 25 basis points (to 3.75%) during the second half of 2021.

If the Rand can continue to remain strong, as it did during the latter half of 2020 and most of 2021, inflation should in turn also remain stable and allow for the SARB to hold their accommodative stance as the current monetary policy lays the foundation for the recovery period.

GDP – A better than expected start to the recovery from COVID-19

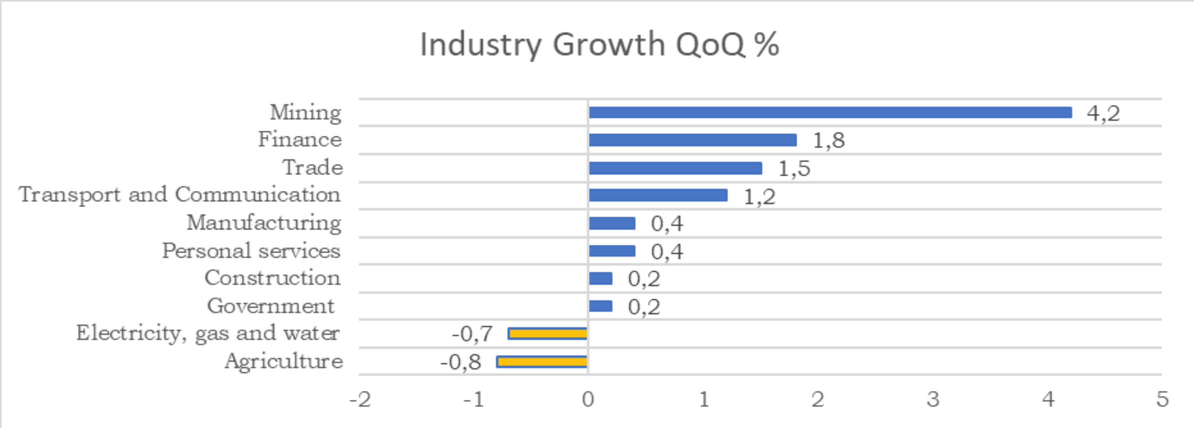
The local economy performed better than what was expected during the first quarter of 2020, with eight out of the ten industries recording positive gains

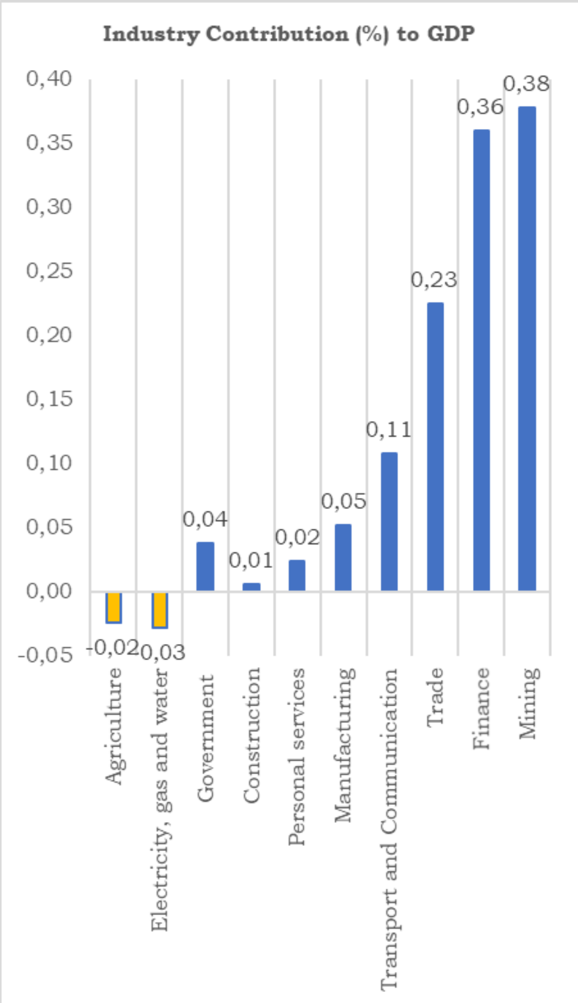
Admittedly, the economy remains well below 2019 GDP output levels and it is still projected that the economy will only reach 2019 output levels during 2023. However, the recovery is underway and we expect this trend to continue as further vaccine rollouts should accelerate further economic growth.

There are a few things that must be considered with the latest GDP release from StatsSA. Firstly, we are seeing a concerning trend where consumer spending increased significantly and very little fixed investment for the longer-term economic outlook. Secondly, a low interest rate environment is only useful for so long. The problem that South Africa is currently facing is the marginal growth we have been seeing in the construction sector. There is no way to achieve sustainable growth levels that are required to take this economy out of its misery if there is little to none improvement within the reinvestment and expansion of the infrastructure that lay the foundation for economic growth.

KEY ECONOMIC INDICATORS – Domestic Economy

Gross Domestic Product (GDP %) – Industry growth in Q1 2021





Source: StatsSA

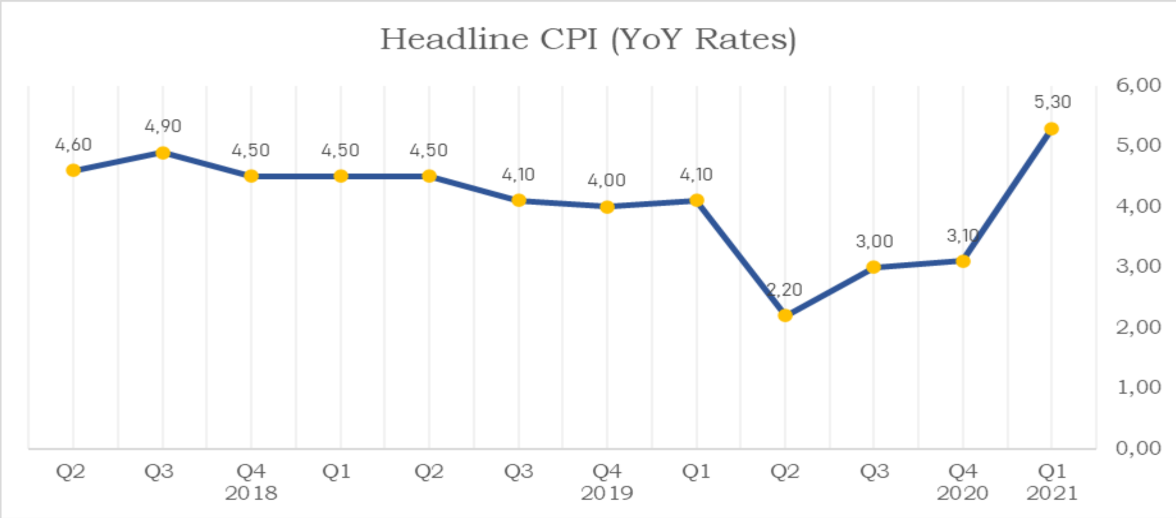
The mining, finance and trade sectors were the main drivers of output during the first quarter of 2021. Output within the mining sector was especially fuelled by the production of iron ore, platinum, gold and chromium.

Stronger than expected wholesale and retail activity boosted output within the trade sector.

The increased production of motor vehicles, parts and accessories was the main contributor to the better-than-expected growth in manufacturing sector. Growth figures, mostly attributable to the low interest rate environment due to the accommodative monetary stance from the SARB.

In order to achieve the expected 4.2% (National Budget) GDP growth by the end of the year, the vaccine rollout programme must accelerate and the supply of electricity across all sectors throughout the nation should remain constant and accommodative of the respective sectors.

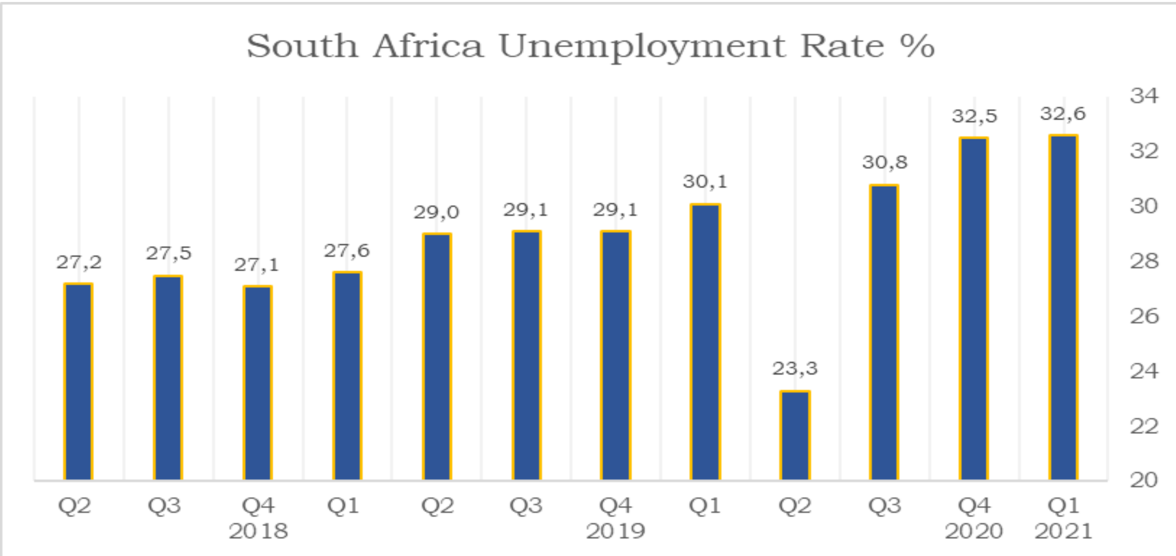
Inflation (CPI %) – Headline CPI (2021: Q1 % YoY)



Source:StatsSA

Increased oil and electricity costs have increased the total expenditure bill across the country as both form part of input costs of most products and services. Although the headline inflation rate rose significantly during May (2021) it is largely influenced by the low statistical base compared to same period of 2020 as inflation was significantly depressed during the peak of the strict lockdown. This is evident in the significant contribution by the transport sector due to the crash in oil prices last year, compared to current oil prices. Overall inflation for the year is still expected to be 4.2% for 2021 as it is expected that inflation will moderate throughout the latter half of the year.

Unemployment Rate (%) – As measured by the narrow definition

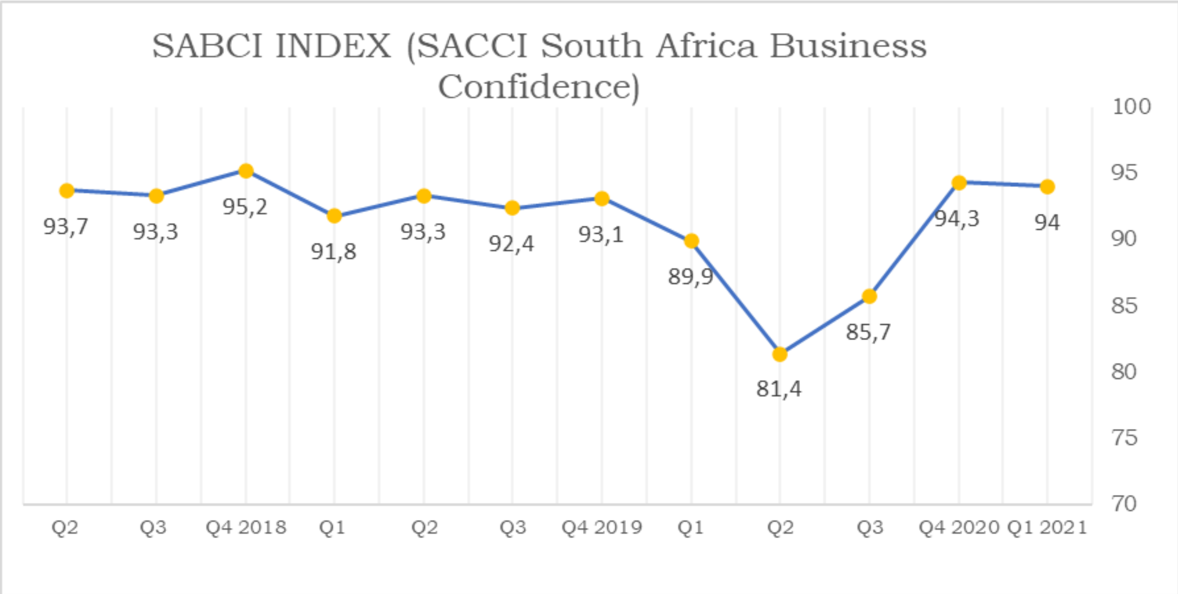


Source:StatsSA

Better than expected GDP growth had no effect on unemployment. In fact, unemployment is still increasing as we are now at another all time high (according to the narrow definition) at 32.6%. As previously mentioned, the stagnant fixed income investment within the country will have devastating long-term effects. As there is not enough funds set aside for the required maintenance and development of our economic infrastructures. Without sufficient electricity supply, service delivery and accessibility within our economic regions, there will be little to none large-scale employment opportunities to decrease the unemployment rate.

The volatile Rand, political unrest, corruption (mismanaged SOEs) and legislation makes it impossible for the private sector to do much more than it already is in terms of employment. The income gap in South Africa will only broaden during the economic recovery phase as the ones who can benefit the most from a low interest rate environment are not benefitting from it at all as unemployment reaches another all time high.

SACCI South Africa Business Confidence Index



Source: StatsSA

Compared to last year, during the same time, the SACCI Business Confidence index improved by 4.1 Index points. However, as the economic recovery is underway, we are not seeing the same optimism as we would have liked, mainly due to electricity supply constraints and the slow-paced vaccine rollout program.

However, the resilience that we are seeing from the business confidence index must be appreciated. Before the COVID-19 pandemic, South Africa was already in a recessionary period (two following quarters of negative growth) and the country has been downgraded by most rating agencies in the world. The silver lining in the most recent index figure (94) is that we can see that future planning is starting to take place, as South Africa has secured at least 20 million vaccine doses from Johnson and Johnson, there is room for forward planning. In turn, we should see business confidence rise with respect to the reopening of the economy. Although, electricity supply constraints still remain a crucial problem as it slows growth potential within South African sectors.

Key Rates – Local Interest Rates

	2017	2018	2019	2020	2021
Repo Rate (%)	7,00	6,50	6,75	6,25	3,50
Prime Rate (%)	10,50	10,00	10,25	7,00	7,00
3-Month Deposit rate (%)	7,15	7,10	6,65	3,33	3,77

Source: SARB

The SARB kept key interest rates unchanged. With the repo rate remaining 3.5% and the prime lending rate also unchanged at 7%. Current inflationary expectations indicates that the key rates will increase by 25bps at least twice during 2021. However, the SARB have stated that key rates will remain accommodative over the medium-term to accommodate of current credit demand to assist the economic recovery from the global pandemic

Global growth (estimated, by the IMF, to be 5.5%) for 2021 seems promising, as a number of developed nations are well under way in terms of vaccinating their populations and reopening their economies. However, due to the delayed vaccine rollout in South Africa we are not seeing similar growth within the local economy. This will inevitably lead to an uneven pace of global economic recovery throughout the rest of 2021 as well as 2022.

DOMESTIC EQUITY MARKET – JSE

	Close (ZAR)	YTD %	1 Year Return	52-week range
FTSE/JSE Africa ALSI	66 555,78	11,64	24,92	51,225.53 - 69,403.75
FTSE/JSE Africa Top 40	60 476,77	10,87	23,31	46,976.12 - 63,969.70

Source: Bllomberg

One must take into consideration that earnings figures are seemingly beating a number of expectations due to the low base that it is measured against (same period, last year) when we were at the peak of our domestic lockdown and a lot of companies were not able to earn a lot.

As we see the ZAR weakening compared to the USD, we should see an increase in commodity prices. This leaves a lot of potential for the resource sector to have a strong second half of 2021.

Rumours of dividend payments from the banking sectors during the second half of 2021 should see the financial sector making positive gains throughout the rest of 2021, if they are able to make dividend payments.

Retailers are fairly well positioned as demand for retail goods is showing good signs of continued, stabilized growth. Key market leaders have significantly reduced costs during the pandemic period as they had little to no income for a number of months. However, this caused a lot of internal restructuring that has reduced input costs and overheads in areas that were not particularly lucrative before the pandemic. This enables the remaining resources to be more focussed to the business segments that have growth potential and that have sustainable revenue streams.

GLOBAL ECONOMY

G10 Countries’ Exchange Rates

Ticker	Jun '21	YTD %	52-week range
EUR/USD	1.1865	-2,87	1.1241 - 1.2349
GBP/USD	1.3824	1,13	1.2458 - 1.4248
USD/JPY	111.05	7,55	102.590 - 111.660
AUD/USD	0.7526	-2,18	0.06921 - 0.8007
NZD/USD	0.7026	-2,20	0.6489 - 0.7465
USD/CAD	1.2322	-3,17	1.2007 - 1.3646
USD/CHF	0.9209	4,03	0,8758 - 0,9473
USD/NOK	8.5957	0,19	8.1493 - 9.6166
USD/SEK	8.5433	3,84	8.1253 - 9.3500
Ticker	Jun '21	YTD %	52-week range
USD/ZAR	14.2509	-3,02	13.4122 - 17.7865
GBP/ZAR	19.7315	-1,78	18.9546 - 23.2406
EUR/ZAR	16.9072	-5,82	16.3106 - 20.9293

With United States employment figures showing significant growth, inflationary periods will start to commence across the globe. The recent strengthening of the Rand might be over. Other economies are already months, if not years ahead of South Africa in terms of vaccination of their populations.

Remember, the Rand has recently been announced as one of the most volatile currencies when trading against Fiat currencies such as the USD, EUR and GBP. As much as we want a stronger rand, facts are facts.

South Africa’s mildly optimistic GDP figures, after the first quarter of 2021, is not showing any signs of long-term potential and it is evident, now more than ever, that economic growth is a combination of both fiscal and monetary policy. Accommodative interest rates (monetary policy) are a short-term tool that must be utilised only in times where short-term aid is needed to steer the economy in line with its economic and socioeconomic goals. Fiscal policy, especially in a developing nation, is what should steer long term prosperity and growth potential. In South Africa, we have seen the exact opposite. Our unreliable and imbalanced fiscal policy and legislation is undermining the potential of the South African economy, and it has come to a point where it is time to face the facts.

G10 Countries’ Key Economic Indicators

Countries	Real GDP growth YoY		Interest rate		CPI YoY		Unemployment	
	Value	Date	Value	Date	Value	Date	Value	Date
United States	6,40%	Jun-21	0,25%	Jun-21	5,00%	Jun-21	5,90%	Jun-21
Eurozone	-0,30%	Jun-21	0,00%	Jun-21	1,90%	Jun-21	7,90%	Jun-21
Japan	-1,00%	Jun-21	-0,10%	Jun-21	-0,10%	Jun-21	3,00%	Jun-21
United Kingdom	-1,60%	Jun-21	0,10%	Jun-21	2,10%	Jun-21	4,70%	Jun-21
Canada	1,40%	Jun-21	0,25%	Jun-21	3,60%	Jun-21	8,20%	Jun-21
Australia	1,80%	Jun-21	0,10%	Jun-21	1,10%	Jun-21	5,10%	Jun-21
New Zealand	1,60%	Jun-21	0,25%	Jun-21	1,50%	Jun-21	4,70%	Jun-21
Switzerland	-0,50%	Jun-21	-0,75%	Jun-21	0,60%	Jun-21	3,10%	Jun-21
Denmark	-1,00%	Jun-21	-0,50%	Jun-21	1,70%	Jun-21	4,00%	Jun-21
Norway	-0,60%	Jun-21	0,00%	Jun-21	2,70%	Jun-21	5,00%	Jun-21
Sweden	0,80%	Jun-21	0,00%	Jun-21	1,80%	Jun-21	9,80%	Jun-21

Source: Bloomberg

COMMODITIES

	Gold ($/oz)	Brent Crude Oil ($/barrel)
Price	1 787,31	75,84
52-week range	1,676.89 - 2,075.47	39,15 - 76,74
YTD (%)	-5,85%	46,78%

Source: Bloomberg

Brent Crude Oil

One of the biggest crashes in world history and now one of the biggest recoveries in history. Crude oil has taken key market participants for a wild ride over the past year. Although the increased Crude oil prices seem astonishing, one must consider the base (last year same period) period that we are measuring. Global demand plummeted as most countries were placed under strict lockdowns and economic activity was entirely halted in response to the global COVID-19 pandemic.

As the world gets vaccinated, we expect Crude oil prices to further increase as global demand is expected to pick up during the latter half of 2021 and remaining stable during 2022. Increased oil prices will inevitably increase input costs of numerous industries whether it be directly or indirectly. In turn, we expect demand to stabilise as global economic activity returns to pre-pandemic levels.

Gold

Given that we are seeing volatile gold prices and a relatively poor return Year to Date, one must consider the fact that we are still in the early phases of global recovery, and that a number of economies across the globe have are yet to return to their full operational capacity. Thus, as we are still in the beginning of the global monetary accommodative phase of inflation still remains relatively low and interest rates at record lows. Inevitably there will be interest rate hikes and inflation will start to increase. It is part of the economic cycle and that is why Gold, in particular, will remain an efficient hedge against inflation.

Sources:

Bloomberg Markets (*https://www.bloomberg.com/markets*)
The South African Chamber of Commerce and Industry (https://sacci.org.za/)
Trading view (*https://www.tradingview.com/*)
Statistics SA (*http://www.statssa.gov.za/?page_id=593*)
South African Reserve Bank (*https://www.resbank.co.za/Pages/default.aspx*)
The World Bank (*https://www.worldbank.org/en/publication/global-economic-prospects*)

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