

Monthly Market Highlights

Monthly edition | January 2024 recap

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Monthly market recap | January in review

Market news

- The rand lost -9% against the US dollar in 2023, and -17% over the past two years. The currency has weakened against the dollar in seven of the last 10 years.
- The FNB/BER Consumer Confidence Index for SA fell to -17 points in the fourth quarter of 2023 from -16 points in the previous three-month period. It marks the worst fourth-quarter reading in 23 years, amid ongoing concerns over the country's economic situation.
- The S&P Global US Manufacturing Purchasing Managers' Index (PMI) expanded to 50.3 in January 2024 from 47.9 in December 2023. The reading was the highest since October 2022 and pointed to an improvement in operating conditions at goods producers.
- Eurozone annual inflation increased to 2.9% in December 2023 from a more than two-year low of 2.4% in November. It also marked the first uptick in inflation since April, mainly driven by energy-related base effects.

International markets

MSCI World (\$)	1.20%
Global Bonds (\$)	-1.38%
Global Property (\$)	-3.99%
MSCI EM (\$)	-4.64%
FTSE (£)	-1.32%
S&P 500 (\$)	1.68%

Bond market

All Bond	0.71%
Bonds 1-3 years	0.78%
Bonds 3-7 years	0.83%
Bonds 7-12 years	0.69%
Bonds 12+ years	0.65%

Local markets

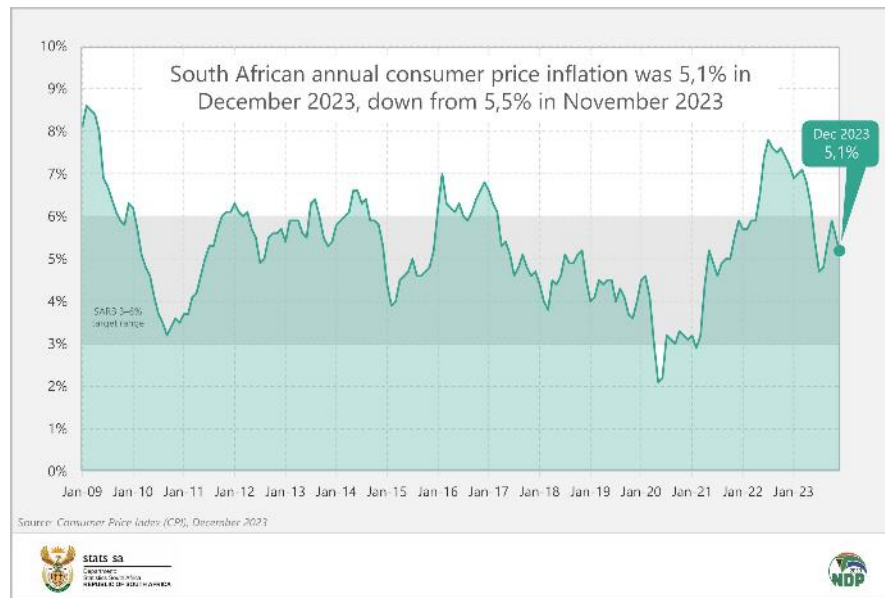
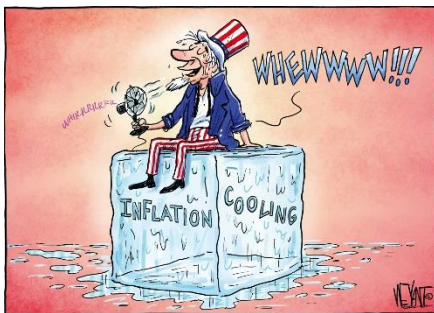
FTSE/JSE All Share	-2.93%
Industrials	-4.32%
Resources	-6.31%
Property	4.06%
Financials	-3.17%
Cash	0.70%

Currency

Rand vs USD	-1.67%
Rand vs EURO	-0.01%
Rand vs GBP	-1.57%
Rand vs JPY	0.09%
Rand vs AUD	0.001%

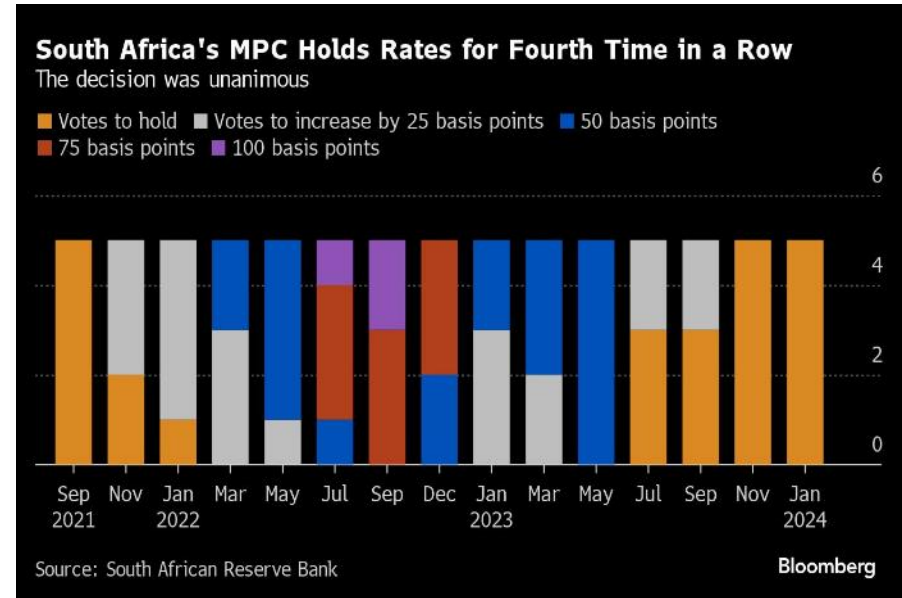
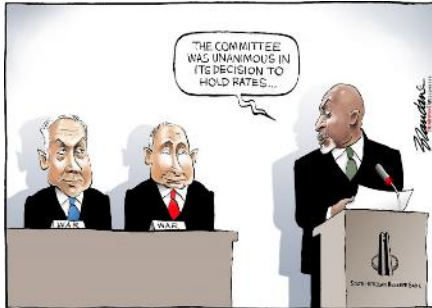
Inflation eases in SA for a second month

- SA's headline inflation eased in December to 5.1% year-on-year, as reported by Statistics South Africa.
- Inflation averaged 6% in 2023, compared with 6.9% the previous year.
- This was slightly below market expectations and could potentially influence the country's future interest rate trajectory.
- Lower price increases for bread, cereals, oils and fats helped annual inflation to dip to the lowest reading in four months.



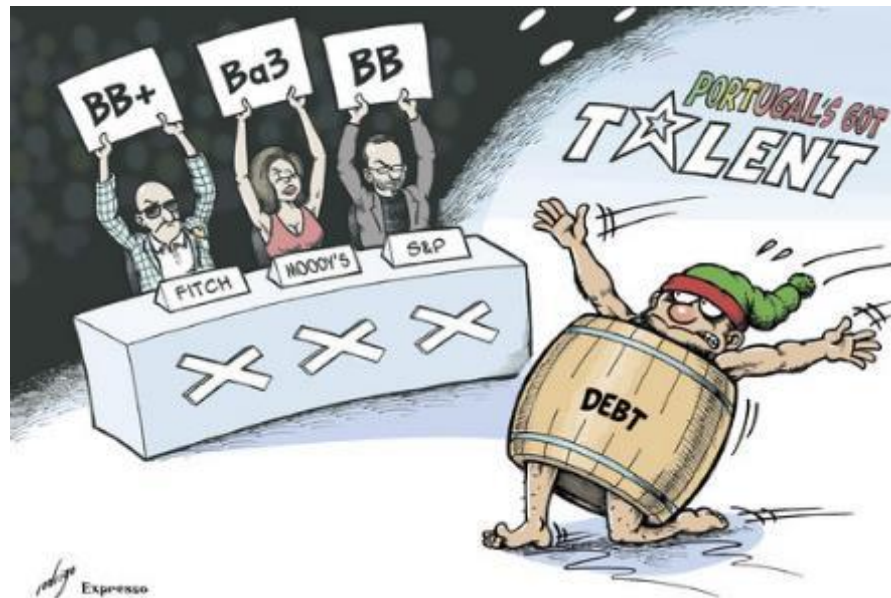
Interest rates unchanged in SA

- The South African Reserve Bank (SARB) has opted to keep interest rates unchanged for the fourth consecutive Monetary Policy Committee (MPC) meeting.
- The MPC held the key repo rate steady at 8.25%, with the interest rate charged by commercial banks remaining at 11.75%.
- Reserve Bank Governor Lesetja Kganyago emphasised that any decision to lower interest rates will hinge on whether the headline consumer inflation rate aligns with the midpoint of the central bank's inflation target range of 3% to 6%.



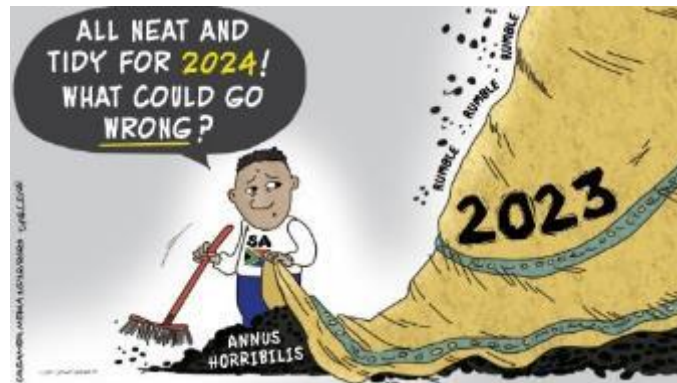
SA's rating unchanged by Fitch Ratings

- The international credit rating agency Fitch Ratings has kept SA's credit rating unchanged at 'BB-' with a stable outlook.
- While the country could see less load shedding this year, Fitch is concerned about its weak growth prospects and ballooning government debt.
- Moody's rates SA slightly higher at Ba2, which is equivalent to the BB rating Fitch and S&P use.
- The Fitch Ratings Report projected that the local economy would grow by 0.9% in 2024 and 1.3% in 2025, from an estimated 0.5% in 2023.



Factors for South Africans to watch in 2024

- 1. Inflation and interest rates** – With inflation expected to decrease this year, the focus has shifted from the possibility of central banks cutting rates in 2024 to the timing of such actions.
- 2. Shipping** – According to the Bureau for Economic Research, financial and commodity markets will be affected by the wars in Gaza and Ukraine and the developments in the Red Sea.
- 3. Slow growth** – SA expects stronger growth in comparison to 2023, but this improvement comes off a low base as ongoing load shedding continues to impede the country's potential.
- 4. Elections** – Countries representing 60% of global GDP, including the US, UK and India, are heading to the polls this year. SA's elections could create a period of rand volatility.



Fed keeps interest rates steady

- Following a two-day session of the Federal Open Market Committee, the US Federal Reserve has kept benchmark rates steady at 5.25% to 5.5%, marking the fourth consecutive meeting without a change and aligning with market expectations.
- The US Fed sent a cautious signal that it has finished raising interest rates but made it clear that it is not ready to start cutting rates yet.
- The central bank emphasised that it does not yet plan to cut rates with inflation still running above its target.

Fed Holds Steady, Signaling Rate Cuts for 2024

Upper limit of the U.S. federal funds target rate range*



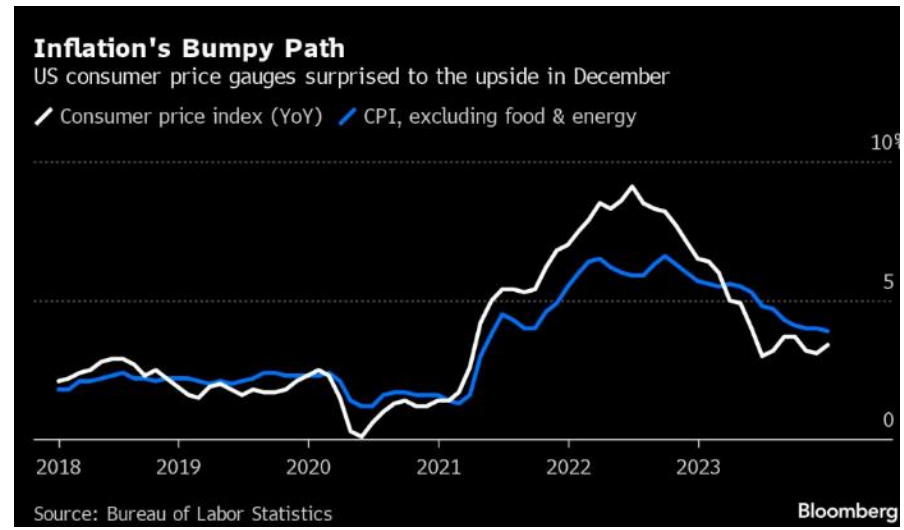
* Dotted lines indicate median projections of the midpoint of the appropriate target rate range at the end of the specified calendar year

Source: U.S. Federal Reserve



US inflation rises

- The consumer price index rose by 0.3% in December and 3.4% in the year to December, the most in three months.
- Surpassing predictions, there were monthly increases in housing costs, fuel expenses, and energy prices – marking the first increase since September.
- The data indicates that the Fed is navigating a challenging course to curb inflation.
- There is a risk of inflation staying elevated in coming months if prices of goods, particularly in sectors like clothing and automotive, continue to climb.



US economic growth accelerates in 2023

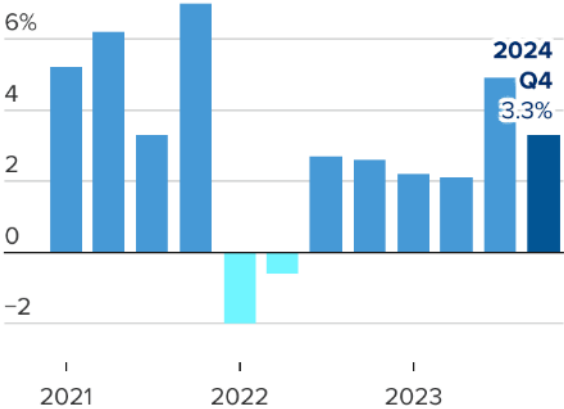
- Despite the ripple effects of the US Fed's aggressive interest rate hikes, the US economy remained robust in 2023.
- The US economy expanded over the past year, supported by a resilient labour market and robust consumer spending, despite projections of a recession.
- Gross domestic product grew at an annualised rate of 3.3% in the final quarter of the year, down from 4.9% in the previous quarter but in line with pre-pandemic growth.



Source: Wall Street Journal, The Guardian, Cagle, West Central Tribune – January 2024

U.S. real gross domestic product

Percent change from previous quarter



Note: Seasonally adjusted annual rate
Source: U.S. Bureau of Economic Analysis via FRED
Data as of Jan. 25, 2024



December retail sales exceeded expectations, rising by 0.6% in the US

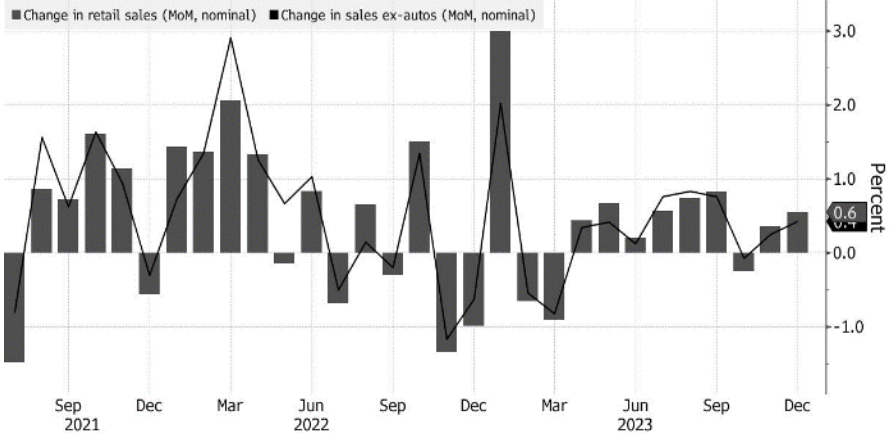
- December's holiday shopping surpassed expectations, with shoppers accelerating their buying pace to conclude a robust 2023.
- Year-on-year, retail sales ended 2023 5.6% higher. The numbers are not adjusted for inflation, indicating that consumers are outpacing the 3.4% annual inflation rate measured by the consumer price index.
- Spending by consumers accounts for nearly 70% of the US economy, which suggests that shoppers will be able to keep fuelling economic growth this year.



"Forget about softness. Tests show we could triple sales if we add pepper."

Source: Bloomberg, CNBC, US News, Cartoonstock – January 2024

US Retail Sales Exceed Forecast Merchant receipts close out 2023 with strong advance in sign of consumer resilience



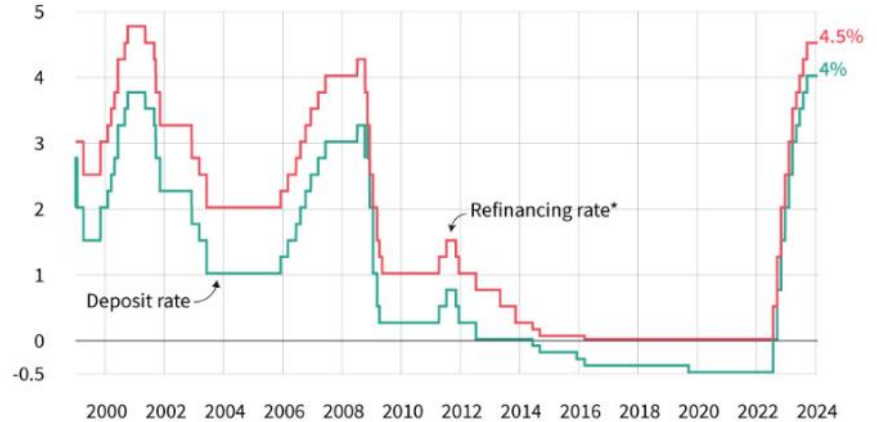
Source: Commerce Department

ECB holds interest rates steady

- The European Central Bank (ECB) maintained current interest rates and reaffirmed its commitment to keeping rates high for a “sufficiently long duration” to achieve the targeted inflation rate.
- The central bank has maintained interest rates for the third consecutive meeting, following a prior increase to 4% in September 2023.
- Markets have priced in interest rate cuts from the beginning of April and roughly a 1.5% reduction in rates this year.



ECB interest rates



*Variable rate between June 2000 and October 2008, minimum bid rate plotted.
Source : European Central Bank

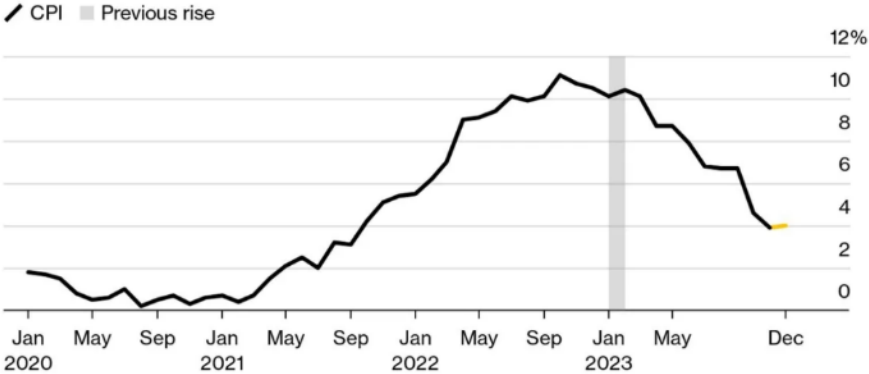
Inflation in the UK increases

- In December, the annual consumer price inflation (CPI) rate in the UK accelerated for the first time in 10 months, reaching 4%. This marked an uptick from November's more-than-two-year low of 3.9%, contradicting market expectations for an imminent Bank of England rate cut.
- Core inflation, which strips out volatile food and energy prices, remained at 5.1%, while services inflation increased from 6.3% to 6.4%.
- The unexpected rise in inflation has complicated the Bank of England's potential plans to cut interest rates, with financial markets anticipating the first rate cut as early as May 2024.



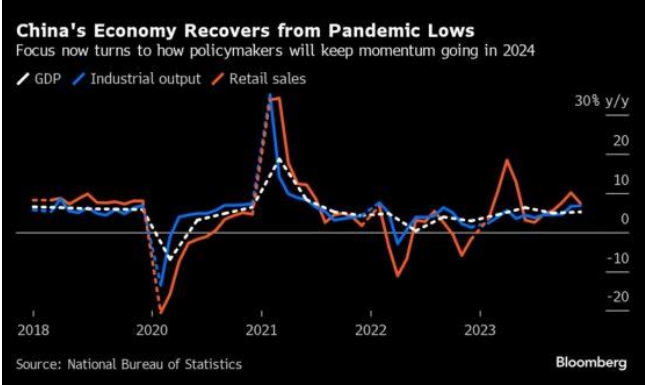
UK Inflation Rises for the First Time in 10 Months

Annual CPI inflation rate



China's worst growth in decades

- In 2023, China's economy experienced its worst annual performance in recent years. Excluding the pandemic years, last year marked China's weakest performance since 1990.
- The unyielding real estate crisis, record youth unemployment and global slowdown are some of the factors which affected economic growth for the world's second-largest economy.
- Gross domestic product expanded 5.2% to hit 126 trillion yuan (US\$17.6 trillion), as reported by China's National Bureau of Statistics.
- This is an improvement on the 3% growth recorded in 2022, when business activity was hammered by tight health restrictions to contain Covid-19.



China maintains lending rates

- The People's Bank of China (PBoC) reported no changes to key policy rates.
- The one-year Loan Prime Rate (LPR) remains at 3.45%, and the five-year rate stays steady at 4.2%, according to PBoC data.
- Most new and existing loans in China are linked to the one-year LPR, while the five-year rate plays a key role in determining mortgage pricing.
- The one-year LPR was cut twice last year by a total of 20 basis points, while the five-year LPR was lowered by 10 basis points.



Bank of Japan keeps interest rates unchanged

- The Bank of Japan (BoJ) maintained its monetary policy but indicated that conditions for phasing out its huge stimulus was falling into place. This implies that the prospect of ending negative interest rates is approaching.
- BoJ Governor Kazuo Ueda refrained from indicating whether the central bank intends to lift short-term interest rates from negative territory during its upcoming meetings in March or April.
- The Governor said that the likelihood of achieving the bank's 2% inflation target was gradually increasing, pointing to the recent steady rise in service sector prices.



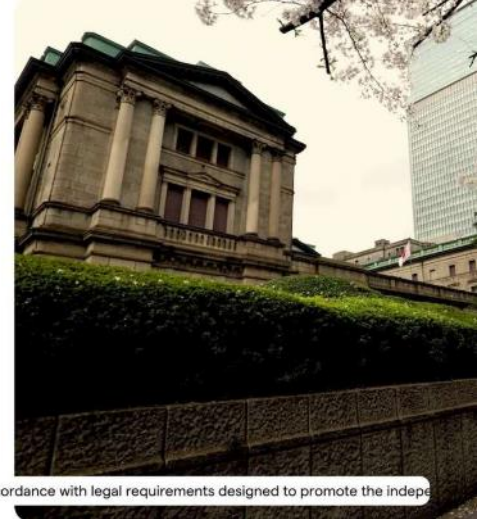
BOJ interest rates decision

Key short-term interest rate remains at -0.1%

10-year bond yields target stays at around 0%

Source: IG.COM, 23 January 2024

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Five risks the global economy faces in 2024

Despite adverse conditions such as wars, surging inflation, and the largest interest rate surge in four decades, the global economy defied expectations in 2023.

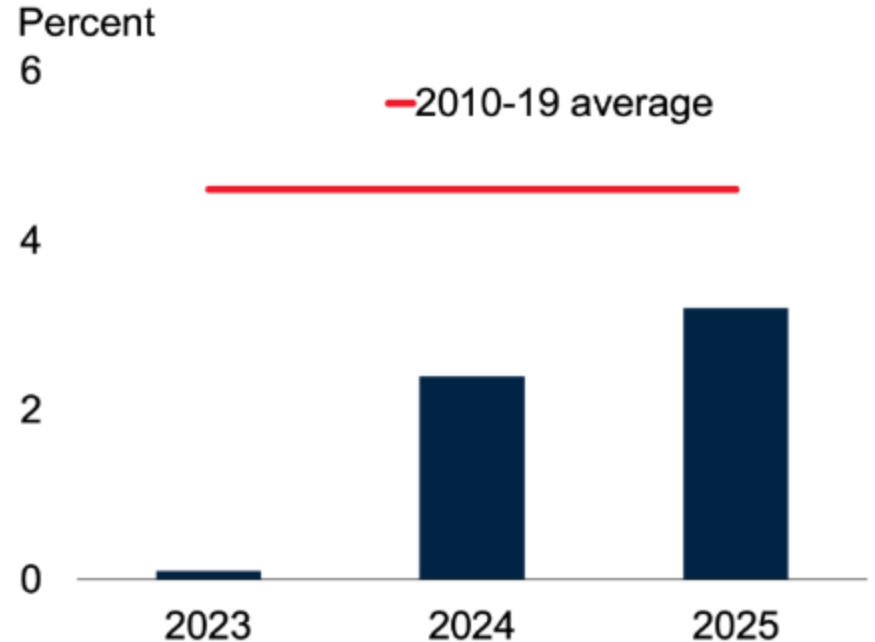
- 1. Rising geopolitical tensions** – Geopolitical tensions have become the single most important risk confronting the global economy. Wars are raging in two regions critical to the world's food and energy supply: Eastern Europe and the Middle East.
- 2. China's economic slowdown** – With a growth rate of 4.5% in 2023, China is poised to experience its slowest economic expansion since 1990, excluding the Covid-19 period, potentially impacting numerous economies reliant on trade with China.
- 3. Surging financial stress** – We experienced the sharpest increase in global interest rates in 40 years. Rates will probably fall this year, but it might not be fast enough for some countries.



Five risks the global economy faces in 2024 (continued)

- 4. Trade fragmentation** – The number of policy measures restricting trade increased sharply in 2023. Global trade growth ground to a halt at 0.2% in 2023 but is expected to rebound this year.
- 5. Climate change** – 2023 was the hottest year on record. A series of droughts, floods, and wildfires also made the impact of climate change more visible around the world.

B. Global trade growth



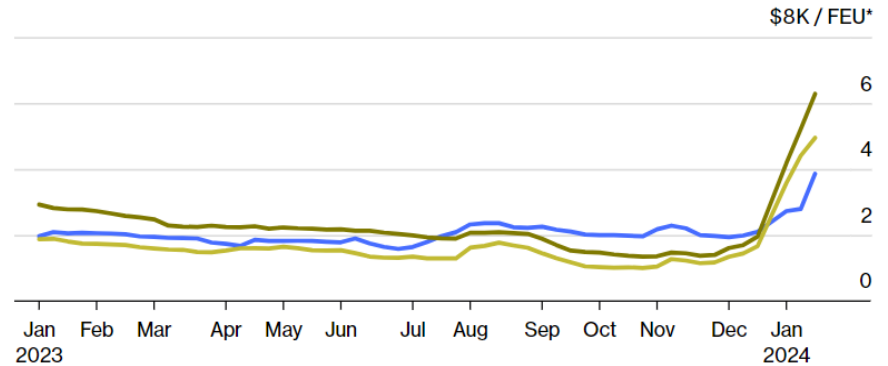
Of interest | Economic shockwaves extend amid Red Sea turmoil

- For the past two months, a series of missile, drone, and hijacking attacks on civilian ships in the Red Sea have resulted in the most significant disruption to international trade in decades. This has raised shipping costs across Asia and North America.
- Over 500 container ships, transporting goods ranging from clothing and toys to auto parts, which would have sailed through the Red Sea to and from the Suez Canal, are now extending their routes by two weeks.
- Vessels needing to sail around the Cape of Good Hope constitute approximately a quarter of the world's container shipping capacity, as reported by Flexport, a digital logistics platform.
- According to Bloomberg Economics, the upside risks from shipping costs could offer central banks another reason to delay interest rate cuts.

Spot Rates For Ocean Freight to Europe, US Marching Higher

Cost to ship a 40-foot container

/ Shanghai to Genoa
 / Shanghai to Rotterdam
 / Shanghai to Los Angeles

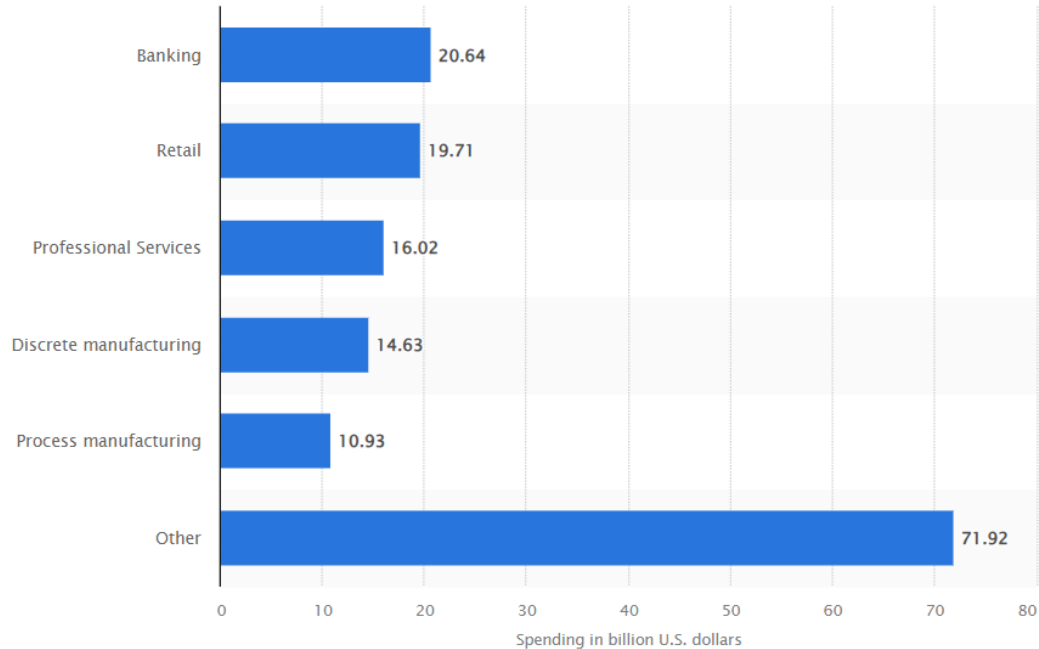


Source: Drewry World Container Index

*FEU = 40-foot container units

Of interest | Estimated spending on AI

Spending on artificial intelligence varied across industries in 2023, with the banking and retail industries spending the most.



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