

WEEKLY REVIEW | NUMBER 39 | 25 OCTOBER 2024

More speculation about SARB lowering target after below 4%-inflation print

THE WEEK IN PERSPECTIVE

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It was a quiet data week on the domestic front, with the consumer inflation print being the most important. Annual **headline CPI inflation** moderated to 3.8%, the lowest rate of increase since March 2021. Local political news was dominated by President Cyril Ramaphosa's attendance of the BRICS summit in Russia. On the global front, market movements were driven by readjusting expectations around the speed and extent of monetary policy easing by the **US Federal Reserve** (Fed) and speculation about the impact on the economy of the outcome of the upcoming **US election**. The election will take place on the fifth of November. Markets will likely remain jittery until then, and until we have more clarity on the outcome (and how the outcome will be handled by the losing party). Adding to the expected volatility in the next two weeks is that the Fed meets just after the election (6-7 November) to decide on its policy rate.

Back to the domestic newsflow, the below-4% inflation print and comments to Bloomberg by SARB Governor Lesetja Kganyago that SA's inflation target is out of line with other emerging markets refuelled the debate about how the SARB's desire for a **lower inflation target** could impact upcoming interest rate decisions. However, members of the Monetary Policy Committee (MPC) have made it quite clear that they are working with a 4.5% inflation target when making decisions about the appropriate monetary policy stance. They are unlikely to 'secretly' pursue a lower target, as this could harm their credibility (and thus the effectiveness of monetary policy) over the long term. The SARB would also want inflation expectations to anchor around a new target. So, as they did with the gradual move from effectively targeting the upper end of the 3-6% inflation to focusing more on the midpoint of the range, they will likely be firm and vocal on what they are working with when making monetary policy decisions so that price setters can (hopefully) adjust their expectations accordingly. The SARB has also expressed a preference for changing the target with the public support of National Treasury, as it has some control of important administrative price increases that play into long-term inflation dynamics. There is, of course, a chance of such an announcement being made in the Medium Term Budget Policy Statement next week. That said, for now, the downtick in inflation is welcome and makes us more confident that the SARB will indeed cut by a further 25bps in November. However, the deceleration was in line with what the SARB expected and thus does not argue for a bigger cut. While we expect inflation to remain below 4% until about the middle of next year, significant upside risks remain, and inflation is set to return to closer to the (current...) 4.5% target over the medium term. This means that the SARB will remain cautious about easing too much, but until it announces publicly that it is now pursuing a lower target, its upcoming decisions should be based on keeping inflation at 4.5%, not 3% (for example).

Another noteworthy domestic development was the announcement that more than 2GW of **renewable energy projects** were registered with Nersa in Q3. The surge (from about 1.3GW of projects registered in the first half of the year) was driven by a few large projects. High and

rising Eskom tariffs imply that there often still is a case to be made for investing in one's own generation capacity even though there is no load-shedding. This should still spur further investment in the electricity-intensive mining sector too.

Global financial market movements were in part driven by worries that the US Fed may not ease interest rates as much as expected as recent data showed that the labour market remains solid. Amid fresh concerns about US fiscal deficits and the impact this could have on inflation, US bond prices plunged during a global selloff on Monday. As such, (inversely related) yields rose back above 4.2% for the first time since July, with global bond yields increasing across the globe. Normally, higher bond yields would weigh on the non-yielding asset gold, but, in nominal terms, the price continued to track higher. On the back of geopolitical tension boosting the appeal of the asset, the price rose above a record high of \$2 700/oz. The gold price has experienced a remarkable rally in recent months, considering that it traded around \$2 000/oz up to about March this year. Meanwhile, concerns about geopolitical tension in the Middle East pushed the Brent crude price above \$75/bbl mid-week, with the price of the commodity up 1% w-o-w on Thursday.

In addition to changing expectations around the Fed's trajectory, increased odds of Trump winning the upcoming US presidential election also helped strengthen the **dollar** this week. Trump's plans to ramp up tariffs are expected to push up inflation, which would limit the extent to which the Fed could cut its policy rate (which is positive for the dollar). At the moment, swap markets are pricing in one or two more 25bps rate cuts this year (which implies the possibility of the Fed remaining on hold during one of its two remaining meetings in 2024).

Weekly Key Indicators		
	Close	w-o-w
R/\$	R17.71	-0.1%
R/€	R19.12	-0.4%
R/£	R22.95	-0.4%
\$/€	\$1.08	-0.3%
Brent	\$74.97	1.0%
Gold	\$2 734	1.6%
Platinum	\$1 035	3.6%
JSE ALSI	86 937	0.4%
10y gov. bond	9.37	6bps
FRA (1x4)*	7.80	-18bps

*Forward rate agreement

In the end, the **rand exchange rate** drifted between R17.50 and R17.85/\$ for most of the week, with little change by the end of Thursday against the dollar and a touch stronger to the euro and pound relative to last week. The JSE ALSI closed slightly higher w-o-w relative to last Thursday, with most global equity markets closing lower. The local outperformance is mainly on the back of PGM miners doing well on Thursday in particular. Indeed, the platinum price closed above \$1 000/oz each day this week.

WEEK AHEAD: NO SURPRISES IN MEDIUM TERM BUDGET POLICY STATEMENT (?)

The biggest event on the domestic calendar is National Treasury's (NT) **Medium term budget policy statement (MTBPS)** on Wednesday. We expect no major surprises on the policy front, with Finance Minister Enoch Godongwana likely once again committing the government to further fiscal consolidation – i.e. keeping expenditure in check. This will not be an easy task, and it will be interesting to see how NT deals with its assumption for growth in the public sector wage bill, for example. It will also be of interest to see NT's forecast for real and nominal GDP growth in the coming years. Just this week, the IMF released a forecast of 1.1% growth for this year (which is roughly in line with our thinking) and 'just' 1.5% for next year (which is lower than we have forecast). Faster economic growth would be the only way to escape the need for more fiscal consolidation. On the expenditure side, we will look out for more insights on how NT is planning to deal with a possible extension of the social relief of distress grant (SRD) and how this could

potentially be shaped into a (form of a) Basic Income Grant, as well as any provisions made for the National Health Insurance over the medium term – although we do not expect much detail in this ‘mini budget’. There might also be mention of the government tying itself more firmly to a so-called fiscal rule – for example, to ensure debt remains below a certain level of debt to GDP or maximum deficit per year, but again, such details are more likely in the National Budget in February next year (or even later). On the revenue side, tax income growth so far has been somewhat slower than anticipated by NT, but more revenue from higher-than-expected withdrawals following the introduction of the two-pot retirement system may counter this. The lower bond yields in recent months should benefit NT’s debt issuance dynamics over time, but due to the long-dated maturity of much of SA’s debt, this will take some time to feed through (and only really help us if sustained). *As always, clients can expect to receive a **Comment** on the statement during the course of Wednesday afternoon.*

Under the shadows of the MTBPS, we will see the usual batch of month-end and month-starting data released on the domestic side. The October data in the form of the **Absa PMI** and **naamsa vehicle** sales releases on Friday will be of particular interest as the first indication of how demand and production dynamics played out at the start of the fourth quarter. Both data series have been volatile in recent months, with official data released with a lag following a similar jagged pattern. The most recent Absa PMI for September was, however, quite encouraging, and hopefully, this was sustained into October.

The international calendar is also busy, with **Q3 GDP data** for the Eurozone and US taking centre stage. The outperformance of the US economy relative to its advanced economy peers is expected to have continued this quarter. Markets will also keenly await the **US price data** due for release on Thursday and **jobs** data out on Friday to get a better sense of how the Fed will approach the pace of interest rate easing going forward. As mentioned earlier, recent speculation is that the Fed may be less aggressive, but a slower-than-expected PCE print, and a subdued jobs outcome may turn this expectation around (again). Finally, the **Chinese PMI** data will be of interest next week. It will likely be too soon to see much impact of the recent ramp-up in policy stimulus on the data.

Date	Event	Latest
Tuesday (29 Oct)	DE: GfK consumer confidence (Nov)	-21.2
Tuesday (29 Oct)	SA: Private sector credit (Sep)	4.95% y-o-y
Tuesday (29 Oct)	US: JOLTS job openings (Sep)	8.04 million
Wednesday (30 Oct)	EZ: GDP growth rate (Q3, flash)	0.2% q-o-q
Wednesday (30 Oct)	SA: Budget balance (Sep)	-R19.4bn
Wednesday (30 Oct)	US: GDP growth rate (Q3)	3% q-o-q
Wednesday (30 Oct)	SA: Medium term budget statement	-
Wednesday (30 Oct)	UK: Budget statement 2024	-
Thursday (31 Oct)	CN: NBS manufacturing PMI (Oct)	49.8
Thursday (31 Oct)	SA: Producer inflation (Sep)	2.8% y-o-y
Thursday (31 Oct)	EZ: Consumer inflation (Oct, flash)	1.7% y-o-y
Thursday (31 Oct)	SA: Balance of trade (Sep)	R5.63bn
Thursday (31 Oct)	US: Core PCE price index (Sep)	2.2% y-o-y
Friday (01 Nov)	CN: Caixin manufacturing PMI (Oct)	49
Friday (01 Nov)	SA: Absa manufacturing PMI (Oct)	52.8
Friday (01 Nov)	US: Non-farm payroll; unemployment rate (Oct)	254k;4.1%
Friday (01 Nov)	SA: naamsa new vehicle sales (Oct)	44.08K

DOMESTIC SECTION

Pabalelo Mosoma

SA CONSUMER INFLATION MODERATES FOR A FOURTH MONTH

According to Stats SA, the rate of increase in annual **headline consumer inflation** moderated to 3.8% y-o-y in September, following a 4.4% rise in August. This was in line with consensus.

Notably, this marks the first time in over three years that inflation dipped below 4%, supporting the SARB's statement in their October monetary policy review that the disinflation process is on track. The in-line-with-expectations outcome enforces our view that the SARB is likely to cut by another 25bp at the next policy meeting in November.

The slowdown in headline inflation was primarily driven by a decline in transport prices. On the back of lower fuel prices, this decreased by 1.1% y-o-y in September, following an increase of 2.8% in August. On the other hand, food inflation (excluding non-alcoholic beverages) remained unchanged at 4.1% y-o-y. On a monthly basis, it ticked up to 0.4% from 0.2% in August, driven by rising meat and vegetable prices. Meanwhile, core inflation, which excludes volatile food and energy prices, remained steady at 4.1% y-o-y.

In other news, the SARB's **composite leading business cycle indicator** declined by 0.7% m-o-m in August, following a 0.7% rise in the previous month. Seven out of ten components decreased, with the deceleration in the six-month smooth growth rate of the real M1 money supply and a fall in SA's US dollar-denominated export commodity index being the main contributors to the downturn.

INTERNATIONAL SECTION

Katrien Smuts

IMF KEEPS GLOBAL GROWTH OUTLOOK STEADY, BUT WITH NOTABLE REVISIONS BENEATH THE SURFACE

According to the IMF's latest October 2024 World Economic Outlook (WEO), the outlook for short- and medium-term **global growth** has remained just above the 3% mark (at 3.2% for 2024 and 2025). Relative to its April forecast, the IMF has lifted its outlook for the US and UK while lowering it for the Eurozone, Japan, and China. India's economic output projections for 2024 and 2025 remained steady, and the IMF expects the country to expand by 7% and 6.5% over the next two years. Sub-Saharan Africa's growth also saw a slight downward revision for 2024, but an upward revision for 2025. On the **inflation front**, the IMF believes most advanced economies have now proven their steady return to inflation targets. The IMF projects global headline inflation will slow from 6.7% in 2023 to 5.4% in 2024, and 4.3% in 2025. Advanced economies are expected to return to inflation targets before emerging economies. However, while disinflation has progressed steadily, this was not without bumps in the road. It has been helped by lower goods prices, while services inflation has remained stubborn in many countries. The IMF attributes the sticky services inflation to higher nominal wages relative to pre-pandemic trends, with wage negotiators still aiming for sizeable increases to counter the cost-of-living crises of the last few years. This signals that the path to target inflation may remain tricky, with country-specific sectoral dynamics likely to determine the pace of disinflation going forward.

MANUFACTURING PMI WEAK AND SERVICES PMI GROWTH SLOWING IN EUROZONE

The HCOB flash Eurozone composite **PMI** output index reflects a marginal increase to 49.7 in October. Despite the 0.1-pt improvement, it still indicates a contraction in private sector activity. Continuing a recent trend, manufacturing remains weak, even as the relevant output Index rose to 45.5 in October. The sector struggles with diminishing demand, evidenced by declining new orders, new export orders, and reduced purchasing activity. In contrast, the services business activity index slipped slightly to 51.2 in October, but remains in expansionary territory (above 50). However, business confidence - an outlook indicator - remains muted, suggesting that optimism for growth in the near term is restrained.

The Eurozone result was driven by continued weak PMIs in the bloc's two largest economies, **Germany** and **France**. In Germany, the composite output index ticked up by 0.9pts to 48.4 in October but is still marred by weak demand and a decline in employment. In France, the output index recorded its second decline in October. While the PMI was in expansionary terrain earlier this year, it is now also facing restricting activity in both the manufacturing and services sectors.

Outside of the Eurozone, the picture is more optimistic in the **UK**, where the PMI composite output index is above 50, although it declined to an 11-month low of 51.7 in October. Both the services and manufacturing PMIs dipped in October but remained in expansionary territory.

US PMI POSES SOLID START TO FOURTH QUARTER

The US flash PMI composite output index increased by 0.3pts to 54.3 in October, indicating a strong start to the fourth quarter. Like the Eurozone, the US economy shows a split performance, with services performing well while manufacturing continues to struggle. The services PMI edged up slightly from 55.2 in September to 55.3 in October. The manufacturing output index also rose in October, but remained below the critical 50-point level, at 48.8.

However, unlike the Eurozone, there was a notable increase in new orders for goods and services, which rose at the fastest pace in 17 months. Additionally, optimism regarding future output recovered significantly in October, pointing to a more positive outlook. The overall expectation is that uncertainty, particularly linked to the early-November election outcome, will diminish in the coming months, providing a more stable environment for growth.

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