Weekly Monitor

ECONOMICS | SOUTH AFRICA

NEDBANK

Review of 10 to14 July and preview of 17 to 21 July 2023

- The **rand** briefly broke through R18/$ on Thursday, recording its strongest gain in five weeks.
- **Manufacturing output** expanded for the second month in succession.
- **Mining output** dipped in May, reflecting the weak underlying trend in the industry.
- We expect a **25 basis points hike by the SA Reserve Bank** this week, likely the last in this cycle.
- The **US dollar** fell further as better-than-expected **US CPI** supported expectations of an end to Fed rate hikes.
- **Eurozone business sentiment** remains subdued, while **industrial activity** is lacklustre.
- **Chinese inflation** remained low at 0.2% yoy on the back of weak demand.

Domestic: Market Indicators

The rand recorded its best weekly gain in five weeks as better-than-expected US CPI data weighed on the US dollar. The local unit firmed briefly above R18 on Thursday, touching R17.92 before dipping on Friday.

Table 1: Key domestic market indicators

	14/07/2023	07/07/2023	Past week	Past 4 weeks	YTD
	Actual	Actual	%Δ	%Δ	%Δ
Currencies					
ZARUSD	18.08	18.81	4.0	0.6	-5.9
ZAREUR	20.29	20.68	1.9	-2.0	-10.4
ZARGBP	23.68	24.14	2.0	-1.8	-13.4
Money market rates (change in percentage points)					
3m JIBAR	8.50	8.50	0.00	0.03	1.24
6m JIBAR	9.03	9.05	-0.03	-0.07	1.09
9m JIBAR	9.26	9.36	-0.10	-0.17	0.95
12m JIBAR	9.50	9.68	-0.18	-0.23	0.82
Bond yields (change in percentage points)					
R186 (2025)	9.23	9.41	-0.18	0.00	0.46
3yr BESA	7.58	7.58	0.00	0.00	0.18
5yr BESA	9.23	9.41	-0.18	-0.24	0.46
10 yr BESA	10.48	10.77	-0.30	-0.27	0.29
Equities (JSE)					
ALSI	77750.51	74823.02	3.9	-1.0	6.4
Industrials	113413.38	109981.14	3.1	1.1	17.0
Financials	41958.29	40639.60	3.2	2.6	6.8
Basic Materials	46985.12	44135.68	6.5	-6.0	-7.6

Source: Refinitiv

Money market rates and **bond yields** eased as the firmer rand dampened inflation fears.

The **JSE all-share index** recorded broad-based gains in line with the strong global market momentum.

Domestic: Last week's key economic releases and events

Manufacturing production grew in line with our expectation of 2.5% yoy in May, marking the second consecutive month of growth after five successive months of contraction. While the output growth is positive, it comes off a low base associated with the effects of the floods experienced a year ago in KwaZulu Natal. Eight of the ten manufacturing sub-categories grew, with the largest contribution from motor vehicles, parts and accessories, and other transport equipment, which increased by 15.1% and contributed 1.4 ppt to overall production. On a mom basis, manufacturing production decreased by 1.3% in May, following growth of 0.7% in April and 3.8% in March - resulting in growth of 2.8% in the three months ending in May. Manufacturing sales slowed to 7.5% yoy in May from 12.9% the previous month.

Mining production decreased by 0.8% mom in May, reflecting the weak underlying momentum in the sector, after output expanded by 3.2% in April and following more than a year of contractions. Total output was down by 0.8% yoy from a 3.2% gain in April. However, the April improvement was misleading as it came off a low base. Mining output fell by a significant 14.8% in April 2022 due to the strikes experienced in the sector. In May, output was weighed down by a 7.2% yoy contraction in PGMs, a 1.7% drop in coal volumes, and a 5.9% decline in iron ore production. In contrast, gold and manganese ore production grew by 27.3% yoy and 9.4%, respectively. Mineral sales were down by 11.4% in the first five months of 2023 compared to 2022. This reflects the impact of tough operating conditions domestically and the lower global commodity prices.

Domestic: This week's key economic releases and events

This week's focus will be on the release of **consumer inflation** numbers for June, **retail sales** for April, and the **SARB's monetary policy meeting**. We forecast inflation to have moderated further in June, falling to 5.7% from 6.3% in May off the higher base established by the impact of the Russian war on Ukraine last year. The main drivers will remain lower fuel and food inflation. In addition to base effects, fuel prices continue to benefit from lower global oil prices. The downward trend in food prices is also expected to continue, with prices in all the food components cooling off. On a monthly basis, headline CPI is expected to rise by 0.5%, up from 0.2%. June is a heavy survey month, with items such as owners' actual equivalent rent, public transport fares, and domestic workers' wages, among others, surveyed. Relatively hefty increases are expected in owners' actual equivalent rent due to increased interest rates. **Retail sales** are forecast to have contracted for the sixth consecutive month in May, down by 1% yoy from -3.4% in the previous month, impacted by load-shedding, weak consumer confidence, and higher interest rates.

Although we still believe that the SARB has done enough to tame inflation and facilitate a sustainable decline towards the target range, we suspect that the MPC will err on the side of caution. In our opinion, the recent rise in inflation expectations, the threat of renewed severe load-shedding, and the rand's extreme vulnerability against the backdrop of the Fed's hawkish rhetoric will set the tone for this week's decision. It is also possible that the SARB would argue that the damage of pausing too soon is much more significant than the cost of over-tightening. We have pencilled in **one last hike of 25 bps in this cycle**. Given that the aggressive tightening over the past two years is already visible in slowing credit demand, rising loan defaults, and stagnant consumer demand, we don't see the need for any further rate hikes this year. We expect the easing cycle to start early in 2024.

International: Market Indicators

Global equities were broadly firmer last week. US markets were buoyed by strong second-quarter earnings by some large banks, while upbeat earnings expectations against the backdrop of robust services activity boosted technology stocks. European and Asian equities generally gained from the positive US momentum and higher expectations of the imminent end of Fed tightening.

The **US dollar** fell to its lowest level since February 2022, falling to $1.12 against the euro as better-than-expected inflation data boosted expectations that the Fed could hike one more time instead of the two hikes priced in by the markets a few weeks ago. The British pound broke through $1.30 for the first time since April 2022 as strong UK pay growth pointed towards the Bank of England hiking further. The Japanese yen was above ¥140, reversing all of its losses since mid-June.

In **commodity markets**, the Brent crude oil price broke through $80 per barrel, albeit marginally, as the International Energy Agency warned that despite expected lower global demand, Saudi Arabian production cuts would support the oil price. **Precious metal prices** continued their slight rebound as lower US inflation boosted hopes of an end to interest rate hikes.

Table 2: Key international market indicators

	14/07/2023 Actual	07/07/2023 Actual	Past week % Δ	Past 4 weeks % Δ	YTD % Δ
Currencies					
USDEUR	1.12	1.10	-2.3	-2.6	-4.7
USDGBP	1.31	1.28	-1.9	-2.1	-7.6
JPYUSD	138.73	142.07	-2.4	-2.2	5.8
Equities					
S&P500	4505.42	4398.95	2.4	2.2	17.3
NASDAQ	14113.70	13660.72	3.3	3.1	34.8
Dow Jones Industrial	34509.03	33734.88	2.3	0.6	4.1
FTSE 100	7434.57	7256.94	2.4	-2.7	-0.2
German Dax	16105.07	15603.40	3.2	-1.5	15.7
French CAC	7374.54	7111.88	3.7	-0.2	13.9
Japanese Nikkei	32391.26	32388.42	0.0	-3.9	24.1
Commodities					
Brent crude ($/barrel)	80.45	78.00	3.1	5.8	-3.5
Gold ($/ounce)	1954.93	1924.28	1.6	-0.1	7.2
Platinum ($/ounce)	971.57	908.24	7.0	-1.0	-9.2

Source: Refinitiv

International: Last week's key economic releases and events

US consumer inflation dropped to its lowest level since March 2021. It eased to 3% yoy in June from 4% in May, slightly below the market consensus of 3.1% in a Bloomberg survey. Energy prices remained the most significant contributor to the decline, falling by another sharp 16.7% in June (-11.7 yoy in May), while food inflation eased to 5.7% from 6.7%. The core inflation rate, which excludes food and energy prices, also eased further but remained relatively sticky at 4.8% yoy in June (the lowest since October 2021) from 5.3% in May. Overall, the June inflation data pointed towards core PCE inflation, the US Fed's preferred inflation measure, dropping further in the coming months. The rebound in consumer sentiment continued in July, climbing to its highest level since September 2021, buoyed by easing inflation and the favourable labour market. The **University of Michigan consumer sentiment index** rose to a preliminary 72.6 in July from 64.4 in June, surpassing the market consensus of 65.5. The **current conditions** subindex improved to 77.5 from 69, while the **expectations** subindex increased to 69.4 from 61.5. However, consumers expect inflation to remain sticky. **One-year inflation expectations** rose slightly to 3.4% from 3.3%, while **five-year inflation** expectations edged higher to 3.1% from 3.0%.

Eurozone industrial production increased by a seasonally adjusted 0.2% mom in May, down from a 1% rise in April, as volumes of capital goods increased by only 1% from a 14.7% jump in April. On a yoy basis, total production contracted by 2.2% in May from a 0.2% increase in April. Among the large Eurozone economies, industrial activity remained subdued in Germany (0.9% yoy) and France (2.9% yoy), while volumes contracted further in Italy (-3.7% yoy) and Spain (-0.4% yoy). The **trade deficit** narrowed to €0.3 billion in May from the €12 billion gap in April. Exports fell by 2.3% yoy due to declines in raw materials (-18.3%) and manufactured goods (-0.2%). Imports dropped by 12.8% yoy, the sharpest decline since January 2021, caused by weak domestic demand. Businesses remain less optimistic about economic developments, with the **ZEW indicator of economic sentiment** at -12.2 in July from -10 in June. This is the lowest reading since December 2022, as interest rates continue to increase in the Eurozone and its trade partners. The survey showed that 48.8% of businesses expected no changes to economic activity, while 31.7% expected the conditions to deteriorate.

In **Germany**, headline and core **inflation** rose to 6.4% yoy and 5.8% in June from 6.1% and 5.4%, respectively. Accelerating energy (3% from 2.6%) and services (5.3% from 4.5%) were mainly to blame, while food inflation eased to 13.7% from 14.9%. The **ZEW confidence indicator** showed that German businesses remained pessimistic, consistent with the mood in the Eurozone. The **current conditions index** dropped to -59.5 in July, in line with the market forecast of -60, and from -56.5 in June. Similarly, **expectations** for the economy deteriorated as the subindex fell to -14.7 from -8.5, worse than the market forecast of -10.5. Low confidence persists amid fears that interest rates will rise further and demand for exports will weaken further.

In **France**, **inflation** slowed to 4.5% yoy in June from 5.1% in May, in line with preliminary estimates. The decline was led by a fall in energy prices by 3% yoy due to a sharp decline in the prices of petroleum products. Monthly consumer prices rose by 0.2% from a 0.1% decline in the previous month.

The **UK unemployment rate** increased to 4% in May, the highest level since November 2021, against the market consensus of an unchanged 3.8%. The number of unemployed people rose to 1.37 million due to a rise in those unemployed for up to 12 months, while employment increased to 33.05 million. Although the data showed that the labour market is easing, pay growth remained buoyant. Growth in **average earnings, excluding bonuses,** remained unchanged at 7.3% yoy over the three months to May, better than the market forecast of 7.1%. **Industrial production** fell by 0.6% mom in May from a revised 0.2% decline in April. The drag came from lower output of electricity, gas, steam, and air conditioning (-2% from 0.7%). Over the year, **industrial production** fell by 2.3% in May from -1.6 in April, in line with market expectations. At the same time, **manufacturing production** dropped by 0.2% mom May from a 0.1% fall in April. The **Bank of England's** annual stress tests showed that the UK's largest eight banks hold enough capital to withstand a housing market crash and up to 6% lending rates.

In **Japan, core machinery orders** plunged 7.6% mom in May from a 5.5% increase in April. Private capital investment in the manufacturing sector rose by 3.2%, while the non-manufacturing sector saw a decline of 19.4%. Annually orders fell 8.7% in May from -5.9% in April.

As expected, the **Bank of Canada** hiked its **overnight rate** by 25 basis points to 5% after pausing in March and April. The committee stressed that inflation remains sticky due to a strong labour market and higher-than-expected consumption, indicating the likelihood of more hikes.

Chinese consumer prices were flat in June after dropping by 0.2% mom in May. The annual inflation rate was unchanged at 0.2%. Inflation remained low due to a fall in non-food prices, as transport (-6.5% mom) and housing costs (-0.2%) declined. **Core inflation** moderated to 0.4% yoy in June from 0.6% in May. Over the month, the **core consumer prices** dropped by 0.2%. **Producer inflation** fell to 5.4% yoy in June from 4.6% in May, driven by a drop in production material prices (-6.8% yoy) as demand weakened and commodity prices moderated. The **trade surplus** widened to $70.62 billion in June from $65.79 billion in May, below the market expectation of $74.8 billion. **Exports** declined by 12.4% yoy, the lowest since February 2020, as local and international demand remained weak, while **imports** fell by 6.8%.

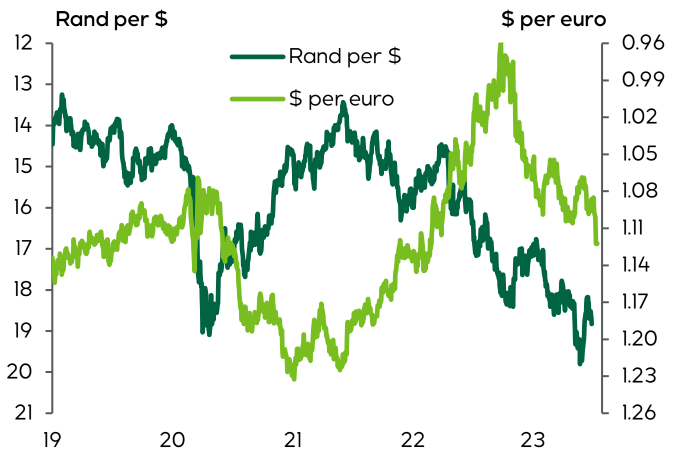
The **International Energy Agency** (IEA) has revised its global oil demand lower for the first time this year. Although its July 2023 forecasts still show 2023 demand higher than in 2022, buoyed by the reopening of the Chinese economy, demand growth has weakened as the global manufacturing slowdown dampens energy demand. The oil market is forecast to be in deficit throughout 2023 and 2024. World output is projected at 101.5 million barrels per day (mbpd) in 2023 (1.6 mbpd higher than in 2022) and will rise further to 102.8 mbpd in 2024. Supply will be boosted by gains of 1.9 mbpd and 1.2 mbpd in non-OPEC+ output. World oil supply rose 101.8 mbpd in June (up by 480 000 bpd) but will fall sharply as Saudi Arabia reduces its production by one mbpd from July. Global oil demand is projected at a historical high of 102.1 million barrels per day (mbpd) in 2023 (up by 2.2 mbpd from 2022).

International: This week's major economic releases and events

This week's focus will be on **UK CPI** data, due on Wednesday. The market consensus is for a drop to 8.2% after inflation remained sticky at 8.7% in April and May. **US retail sales** and **existing homes sales**, out on Tuesday and Thursday, respectively, are expected to show the impact of high interest rates and tighter lending conditions. **Second-quarter Chinese GDP** data, due on Monday, will show that growth in the world's second-largest economy slowed to 0.5% qoq from 2.2% in the first quarter.

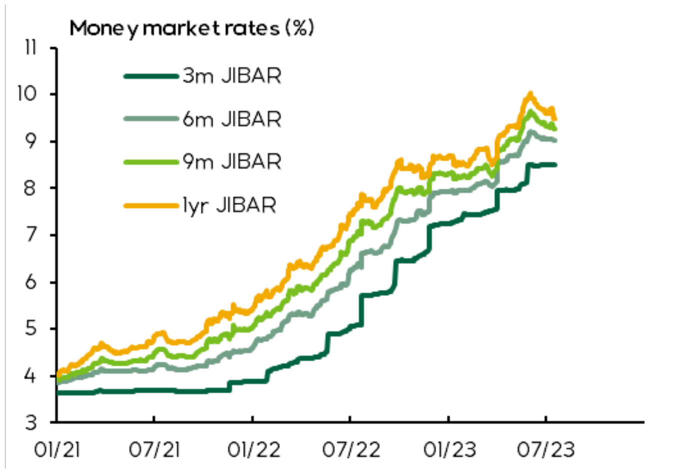
Selected charts: Review of 10 to 14 July 2023

Chart 1: The currency markets



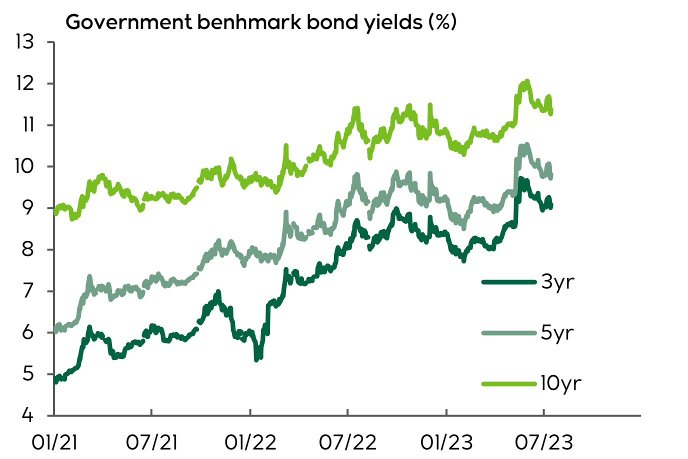
Source: Refinitiv

Chart 2: SA money market rates



Source: Refinitiv

Chart 3: Domestic bond yields

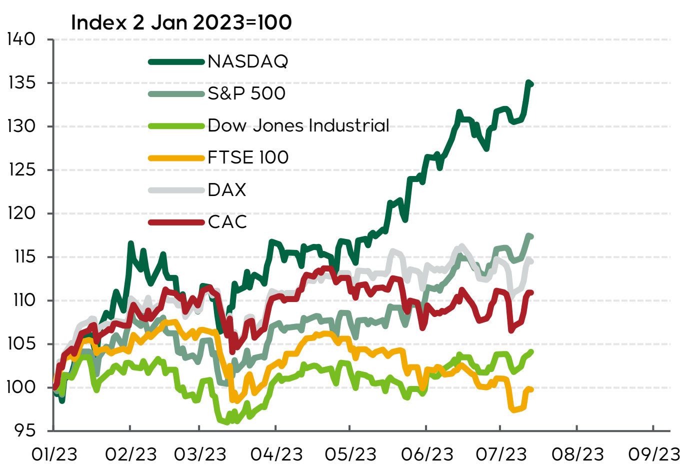


Source: Refinitiv

Chart 4: Trends on the JSE

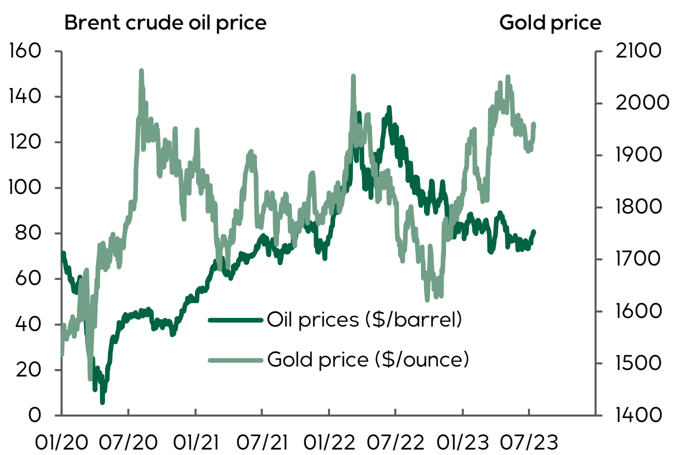
Source: Refinitiv

Chart 5: Global equity markets



Source: Refinitiv

Chart 6: International commodity prices



Source: Refinitiv

Table 3: Release calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Unit
17 Jul 2023	China (Mainland)	Industrial Output (yoy)	Jun	2.6	3.5	%
	China (Mainland)	Retail Sales (yoy)	Jun	3.2	12.7	%
	China (Mainland)	GDP (yoy)	Q2	7.3	4.5	%
	China (Mainland)	GDP (qoq) SA	Q2	0.5	2.2	%
	China (Mainland)	Unemp Rate Urban Area	Jun		5.2	%
18 Jul 2023	US	Retail Sales (mom)	Jun	0.5	0.3	%
	US	Retail Sales Ex-Autos (mom)	Jun	0.3	0.1	%
	US	Retail Sales YoY	Jun		1.6	%
	US	Industrial Production (mom)	Jun	-0.1	-0.2	%
19 Jul 2023	UK	Core CPI (mom)	Jun		0.8	%
	UK	Core CPI (yoy)	Jun		7.1	%
	UK	CPI (mom)	Jun		0.7	%
	UK	CPI (yoy)	Jun	8.2	8.7	%
	SA	CPI (mom)	Jun		0.2	%
	SA	CPI (yoy)	Jun		6.3	%
	SA	Core Inflation (mom)	Jun		0.1	%
	SA	Core Inflation (yoy)	Jun		5.2	%
	EU	HICP Final (mom)	Jun	0.3	0.0	%
	EU	HICP Final (yoy)	Jun	5.5	5.5	%
	SA	Retail Sales (yoy)	May		-1.6	%
20 Jul 2023	Japan	Exports (yoy)	Jun		0.6	%
	Japan	Imports (yoy)	Jun		-9.9	%
	Japan	Trade Balance Total Yen	Jun		-1372.5	Billion
	Germany	Producer Prices (mom)	Jun		-1.4	%
	Germany	Producer Prices (yoy)	Jun		1.0	%
	France	Business Climate Mfg	Jul		101.0	Index
	France	Business Climate Overall	Jul		100.0	Index
	US	Initial Jobless Claims	10 Jul, w/e		237.0	000
	US	Jobless Claims 4Wk Avg	10 Jul, w/e		246.8	000
	US	Cont Jobless Claims	3 Jul, w/e		1.7	Million
	SA	**Prime Rate**	Jul		**11.8**	**%**
	SA	**Repo Rate**	Jul	**8.3**	**8.3**	**%**
	EU	Consumer Confid. Flash	Jul	-16.0	-16.1	Index
	US	Existing Home Sales	Jun	4.2	4.3	Million
	US	Exist. Home Sales % Chg	Jun		0.2	%
21 Jul 2023	UK	GfK Consumer Confidence	Jul		-24.0	Index
	Japan	CPI, Core Nationwide (yoy)	Jun		3.2	%
	Japan	CPI, Overall Nationwide	Jun		3.2	%
	UK	Retail Sales (mom)	Jun		0.3	%
	UK	Retail Sales Ex-Fuel (mom)	Jun		0.1	%
	UK	Retail Sales (yoy)	Jun		-2.1	%
	UK	Retail Sales Ex-Fuel (yoy)	Jun		-1.7	%

Source: Refinitiv

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