October 2024

GLOBAL MARKET THEMES

- As the US presidential election drew nearer, markets became more cautious.
- The MSCI World Index decreased by -2.0%, while the MSCI All Country World Index declined by -2.2%.
- The Dow Jones Industrial Average dropped by -1.3%, while the S&P 500 dipped by -0.9% for the month.
- The latest published US inflation numbers came in at +2.4% for September 2024. Core inflation rose for the month of September, coming in at +3.3%.
- The Eurozone economy grew collectively by 0.4% in the third quarter of the year compared to the previous quarter’s 0.2% growth.
- Growth within South Asia is expected to increase to 6.4% in 2024, exceeding earlier projections.
- In an effort to boost the economy, China’s Finance Minister, Lan Fo'an, announced that the country will start introducing targeted incremental fiscal policy measures.
- In Japan, the Liberal Democratic Party (LDP) lost its parliamentary majority in the national election.
- This year’s BRICS Summit focused on building a unified payment system, expanding the BRICS network of countries, and improving cooperation on infrastructure, energy, and space projects.
- Brent crude oil settled at $72.81 per barrel in October.

SOUTH AFRICAN MARKET THEMES

- South Africa's financial markets began Q4 sluggishly, with the FTSE/JSE SWIX Index declining by 0.9% and the FTSE/JSE All Property Index falling by 2.7%. Inflation-linked bonds outperformed nominal bonds, although both posted negative returns.
- The South African rand depreciated by 2.6% against the US dollar and 1.6% against the pound sterling following the Medium-Term Budget Policy Statement (MTBPS), reflecting market concerns about the country's fiscal outlook.
- The South African government's MTBPS indicated wider budget deficits and rising debt levels over the next three years. The fiscal outlook did not meet market expectations, leading to a weaker rand.
- The Absa PMI for October showed ongoing private sector growth (score of 52.6), fuelled by reduced business costs, increased confidence, and new orders. However, employment decreased, and port congestion continues to be a challenge.
- South Africa's inflation rate fell to 3.8%, the lowest level since March 2021, primarily due to decreasing fuel prices. This decline has boosted expectations for interest rate cuts, with a 25-basis point reduction anticipated in the upcoming November SARB MPC meeting.

Global market themes

As the US Presidential election drew closer, markets became more cautious. US and global indices recorded lower performance for the month. The latest global growth projected rates for both 2024 and 2025 came in at 3.2%. Factors that play a role in these forecasts included disruptions to shipping, conflict, civil unrest, and adverse weather conditions. On the other hand, growth was bolstered by increased demand for electronics and investments in artificial intelligence.

For the month of October, equities slid lower as shown by the relevant indices. The Dow Jones Industrial Average dropped by -1.3%, while the S&P 500 dipped by -0.9%. The Nasdaq Composite decreased by -0.5%. The MSCI World Index declined by -2.0%, while the MSCI All Country World Index fell by -2.2%. The MSCI EM Index saw a larger drop of -4.5% for the month, while the Nikkei 225 saw an increase of +3.1%. The STOXX All Europe fell by -3.4% over the month.

The latest US inflation rate posted a lower rate, at 2.4% for September 2024, while core inflation rose to 3.3%. Over October, the US ISM Manufacturing PMI declined, whereas the Services PMI rose higher. Sectors that experienced poor performance in October included healthcare, consumer staples, and real estate. On a stock level, semiconductors and semiconductor equipment performed poorly. Sectors that ended the month in positive territory included financials, communication services, and energy.

On 30th October, Chancellor Rachel Reeves delivered the UK Budget, which included £40 billion in tax hikes, including an increase in employer National Insurance contributions. The Chancellor also pledged a £22 billion boost for the National Health Service (NHS). The Eurozone economy grew collectively by 0.4% in the third quarter of the year, compared to 0.2% growth in the previous quarter. However, this growth could be impacted by the outcome of US elections and escalating trade tensions with Asian counterparts.

Growth within South Asia is expected to increase to 6.4% in 2024, exceeding earlier projections. Key factors for unlocking this growth include increasing women's labour force participation and further opening up to international trade. In an effort to boost the economy, China's Finance Minister, Lan Fo'an, announced that the country will start introducing targeted incremental fiscal policy measures. This will include increasing the debt ceiling to assist hidden debt of local governments and to alleviate debt risks. The People's Bank of China (PBC) is also expected to further reduce the reserve requirement ratio (RRR) by 0.25-0.5% towards the end of 2024.

In Japan, the Liberal Democratic Party (LDP) lost its parliamentary majority in the national election. Despite this, Prime Minister Shigeru Ishiba's party remained the top party in Japan's parliament, and a change in government is not anticipated. However, the lack of a majority makes it difficult to get policies through parliament, and a third coalition partner might be necessary.

India's overall coal production in October recorded a 7.5% (84.45 million tonnes) increase from the previous year. Coal dispatches also rose by 4.6% (82.89 million tonnes).

During October, the BRICS 2024 summit took place in Kazan, Russia. The coalition has expanded to include Iran, Egypt, Ethiopia, the United Arab Emirates, and Saudi Arabia. This year's BRICS Summit focused on building a unified payment system, expanding the BRICS network of countries, and improving cooperation on infrastructure, energy, and space projects.

Brent crude oil settled at $72.81 per barrel in October. During the month, Gold, Platinum, and Silver all increased by +4.2%, +1.3% and +4.8%, respectively. Copper decreased by -3.3%, while Palladium had a strong performance, coming in at +11.6%. The price of Iron Ore was down by -5.6%. The USD/ZAR exchange rate ended the month at R17.68.

South African market themes

South Africa's economic landscape in October was marked by a mix of positive and negative developments. While some indicators pointed towards a potential recovery, persistent challenges continue to weigh on the country's growth prospects. The Government of Unity's first Medium-Term Budget Policy Statement (MTBPS) provided a sobering assessment of the country's fiscal health.

In October, the FTSE/JSE SWIX Index decreased by 0.9%, while the FTSE/JSE All Property Index experienced a more significant decline of 2.7%. Inflation-linked bonds, represented by the FTSE/JSE CILI, outperformed nominal bonds (FTSE/JSE ALBI), even though both categories posted negative returns. Inflation-linked bonds fell by 1%, while nominal bonds dropped by 2.2% over the month.

Additionally, the South African rand weakened following the release of the MTBPS, which indicated that the country's fiscal outlook did not meet market expectations. The strength of the US dollar also contributed to rand weakness. As a result, the rand depreciated by 2.6% against the US dollar and 1.6% against the pound sterling, while its decline against the euro was more modest at 0.1%.

On a more positive note, the South African private sector continued its trend of expansion in October, as indicated by the Absa Purchasing Managers' Index (PMI), which scored at 52.6 index points. This marked the third consecutive month of growth, driven by factors such as a decline in business costs and selling prices, along with improved business confidence. Despite these encouraging signs, employment continued to decline, and port congestion remains a significant challenge. Overall, the PMI data suggests that the South African economy is gradually recovering, but risks persist, particularly concerning global economic conditions and domestic structural issues.

South Africa recently experienced a significant slowdown in inflation, which eased to 3.8%, the lowest rate since March 2021, largely due to falling fuel prices. This decline in inflation has strengthened expectations for further interest rate cuts by the South African Reserve Bank (SARB). With softer oil prices, moderating food prices, and a stronger rand, the inflation outlook appears more favourable. Although the SARB is expected to proceed cautiously, a 25-basis point rate cut at the November Monetary Policy Committee (MPC) meeting is widely anticipated.

In addition to immediate rate cuts, the SARB is advocating for a lower inflation target to improve South Africa's competitiveness. The current target range of 3% to 6% is considered high compared to other emerging economies, and a review of this target is expected following the Medium-Term Budget Policy Statement. However, the SARB is likely to maintain a cautious stance due to potential risks, such as fuel supply constraints and global economic uncertainties.

South Africa's financial markets are undergoing a significant transformation with the transition from the Johannesburg Interbank Average Rate (JIBAR) to the South African Rand Overnight Index Average (ZARONIA) by 2026. JIBAR's reliability has come under scrutiny due to its dependence on estimates and the decline in unsecured interbank lending. In response, the SARB is adopting ZARONIA, a more transparent and data-driven benchmark. This transition is likely to affect a wide range of financial instruments and will necessitate substantial adjustments from financial institutions. The convergence of these two developments— the shift to ZARONIA and the potential interest rate cut — signals an important period for South Africa's financial sector.

In October, the first MTBPS of the Government of National Unity (GNU) was presented, highlighting expected wider budget deficits and increased debt over the next three years. While the government forecasts a slight slowdown in GDP growth for 2024, it expects a gradual recovery in the medium term. However, the debt-to-GDP ratio is projected to peak at a higher level, necessitating fiscal discipline to stabilise debt levels.

Revenue collection is anticipated to fall short of initial estimates due to factors such as lower fuel levy and VAT collections. Nevertheless, the government remains committed to infrastructure investment as a key driver of economic growth. To improve transparency and efficiency in public procurement, it is introducing reforms along with a new Public Procurement Act.

The MTBPS also addressed South Africa's international obligations. The country has received positive feedback from the Financial Action Task Force (FATF) regarding its progress in tackling deficiencies in anti-money laundering and counter-terrorism financing.

Furthermore, the International Monetary Fund (IMF) has revised its outlook for South Africa's economic growth, projecting a more optimistic rate of 1.1% for 2024. This upward revision is attributed to improved sentiment and policy actions taken by the new Government of National Unity. However, the IMF remains cautious about the country's high unemployment rate, forecasting a further deterioration in the coming years.

In addition, Fitch ratings consider South Africa's MTBPS to be optimistic but acknowledges that positive rating implications could arise if debt reduction follows the projected path. While the MTBPS anticipates subdued growth, the government's focus on public-private partnerships and investment incentives may stimulate economic performance. Fitch's forecasts remain conservative, reflecting concerns about potential spending pressures and slower debt reduction. However, if the government can effectively implement fiscal consolidation measures and accelerate economic growth, this could positively impact South Africa's future credit rating.