

Economies at a glance

August 2020

Forecast 2020:

GDP: -5.7%

Inflation: 1.0%

Forecast 2021:

GDP: 3.5%

Inflation: 1.6%

EUROZONE

Pent-up demand was the driving force behind a rebound in retail sales, given excess household savings and a substitution away from travel and entertainment. However, an increase in unemployment and a second wave of COVID-19 infections could deal a further blow to growth for the year as a whole, as consumers may remain cautious on their spending habits. Nonetheless, policymakers appear more confident of their central forecasts for the year, opposed to a more severe economic fallout scenario. For now, we do not expect an increase in the European Central Bank's €1.35 trillion Pandemic Emergency Purchase Programme but prolonged below-target inflation, amid continued weak demand, could substantiate an increase in the envelope.

Forecast 2020:

GDP: -9.0%

Inflation: 0.8%

Forecast 2021:

GDP: 3.9%

Inflation: 1.4%

JAPAN

Japan entered the COVID-19 pandemic from recessionary conditions. A state of emergency to stem the contagion of the outbreak plunged economic activity further in the second quarter of 2020, following two consecutive quarters of contraction. Despite Japan's comparatively low rate of infections and notwithstanding substantial monetary and fiscal stimulus (40% of GDP in comparison to 15% in the US), we remain cautious on the extent and sustainability of the economic recovery, given weak global growth weighing on industrial output and exports, cautious consumers and a tricky leadership transition. In our view, monetary policymakers will hold off on any major changes until a more informed assessment can be made on how the stimulus enacted has affected the broader economy.

UNITED STATES

Economic activity resumed, as foot traffic began to level out, promising a substantial rebound in growth in the third quarter of 2020. Nevertheless, the sustainability of the rebound will depend on the availability of further fiscal support and a recovery in household sentiment as the rate of new daily COVID-19 cases continues to drop.

Although Joe Biden's announcement of Kamala Harris as his running mate boosted Biden's position in the polls, the falling number of infections and a simmering in protest action could narrow his gap with President Donald Trump in the run-up to the November 2020 elections. The most notable divide in policy views between the two candidates is taxation and spending. However, both proposals are likely to ensure that fiscal policy remains accommodative for growth in the coming years.

Forecast 2020:

GDP: -8.1%

Inflation: 0.4%

Forecast 2021:

GDP: 3.4%

Inflation: 1.1%

UNITED KINGDOM

Extensive support from temporary government schemes mitigated the financial effects of COVID-19 on households, but the prospects for employment after those schemes unwind remain indeterminate. Though some areas of consumer spending could recover quicker on a further easing of social distance guidelines, business investment will likely lag the recovery, given the uncertain outlook on the balance between demand and supply as well as lingering uncertainty related to the future of the trading relationship between the United Kingdom (UK) and the European Union (EU), as the UK leaves the EU's Single Market and Customs Union by the end of the year.

Forecast 2020:

GDP: -4.7%

Inflation: -0.1%

Forecast 2021:

GDP: 1.5%

Inflation: 0.3%

CHINA

Forecast 2020:

GDP: 1.1%

Inflation: 2.8%

Forecast 2021:

GDP: 6.5%

Inflation: 1.8%

Although economic activity sprang back in the second quarter, after collapsing at the start of the year, there are mixed signals on the strength of the recovery for the third quarter of 2020.

Public sector investment, exports and manufactured output showed strength, while many categories of retail spending, including entertainment and restaurants, reflected ongoing consumer caution. Officials have space to increase fiscal spending, deploy tax relief and apply further cuts to the lending rate and reserve requirement ratio, but at 317% of GDP, debt worries have kept a tight leash on stimulus efforts. Trade tensions with the US add to downside risks to growth for the second half of the year. Disagreements with the US have shifted from trade to accusations of espionage, intellectual property theft and human rights violations.

Forecast 2020:

GDP: -0.7%

Inflation: 3.5%

Forecast 2021:

GDP: 4.3%

Inflation: 3.2%

EMERGING MARKETS

The majority of new daily global COVID-19 cases are prevalent in emerging markets (EMs).

However, the fatality rate has been lower than what has been experienced in developed markets.

Countries are more likely to stick to localised measures in the event of a resurgence in new cases, given active measures to resource health facilities, thereby limiting the effect on economic activity. That said, a renewed surge in cases could put the brakes on consumer spending in the third quarter of the year, suggesting the EM recovery, outside of China, will not be as rapid. An uneven recovery appears to be underway with China as well as Central and Eastern Europe experiencing a sharper rebound in activity.

Forecast 2020:

GDP: -8.1%

Inflation: 3.1%

Forecast 2021:

GDP: 2.0%

Inflation: 3.6%

SOUTH AFRICA

COVID-19 indicators are showing signs of decline.

The pandemic and associated lockdown measures imposed by government affected the construction, personal services, trade, hospitality and transport sectors the most. Those at the bottom end of the income scale have suffered disproportionately and job losses have been the most severe among women and manual labourers. A dip in local economic activity and disruptions to global supply chains merely add to the country's structural constraints, dismal growth climate and deteriorating socio-economic outcomes.

The Reserve Bank took swift and decisive policy action early in the crisis by lowering the interest rate by 275 basis points since March 2020 and ensuring adequate liquidity in the financial system. Given the subdued inflation outlook and muted currency passthrough, a marginal cut of 25 basis points is still possible from here, in our view, but SA's chronically weak growth problem raises the urgency for growth-enhancing structural reforms against the backdrop of mounting fiscal constraints.

The macro research desk

Herman van Papendorp is the head of the Momentum Investments research and insights team and takes ultimate responsibility for macro research and asset allocation. Economist, Sanisha Packirisamy, is responsible for providing a macro framework to inform investment opportunities and strategies.



Indices summary for August 2020

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
Equity indices									
FTSE/JSE All-Share Index (ALSI)	-0.26%	10.21%	3.85%	2.64%	4.47%	5.29%	4.58%	7.22%	10.68%
FTSE/JSE Shareholder Weighted Index (SWIX)	-1.03%	9.50%	-0.20%	-0.42%	1.60%	3.02%	3.28%	6.45%	10.21%
FTSE/JSE Capped SWIX All Share index	-0.88%	9.23%	-3.36%	-2.66%	-0.45%	1.11%	1.68%	5.04%	
FTSE/JSE All Share Top 40 Index	-0.09%	10.37%	7.40%	4.02%	5.70%	6.03%	5.03%	7.59%	11.06%
FTSE/JSE Mid Cap Index	-1.65%	6.09%	-16.20%	-6.35%	-4.01%	-0.34%	0.54%	3.77%	7.40%
FTSE/JSE Small Cap Index	1.37%	14.30%	-16.43%	-11.66%	-8.63%	-4.99%	-2.82%	0.81%	6.44%
FTSE/JSE Resources Index	0.65%	19.39%	30.39%	21.29%	20.28%	14.64%	4.44%	6.20%	6.02%
FTSE/JSE Financials Index	-4.21%	0.18%	-30.05%	-11.80%	-6.67%	-6.13%	-2.23%	2.06%	6.81%
FTSE/JSE Industrials Index	0.46%	7.41%	5.08%	-0.27%	1.72%	3.84%	4.78%	7.52%	13.67%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (RAFI)	-0.84%	7.48%	-8.13%	-0.45%	3.36%	4.29%	2.38%	5.24%	8.64%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	-0.67%	7.67%	-8.45%	-0.96%	2.94%	3.70%	2.06%	4.82%	8.30%
FTSE/JSE SA Listed Property Index (SAPY)	-8.59%	0.36%	-44.25%	-22.73%	-15.71%	-12.18%	-6.55%	-3.12%	2.44%
Interest-bearing indices									
JSE ASSA All Bond Index (ALBI)	0.89%	0.30%	4.16%	7.74%	8.35%	7.56%	7.20%	7.83%	7.71%
JSE ASSA All Bond Index 1-3 years (ALBI)	0.62%	2.83%	11.76%	9.67%	9.71%	9.21%	8.73%	8.41%	8.01%
JSE ASSA SA Government ILB Index	3.95%	1.75%	-0.37%	1.57%	1.18%	2.36%	2.87%	4.50%	5.83%
Short-term Fixed Interest Composite Index (SteFI)	0.39%	1.25%	6.46%	7.02%	7.18%	7.15%	7.02%	6.81%	6.45%
Commodities									
NewGold Exchange-Traded Fund	-1.00%	9.11%	42.44%	24.23%	14.12%	16.73%	15.42%	12.33%	13.36%
Gold price (in rands)	-0.85%	8.54%	41.19%	24.43%	14.62%	17.00%	15.75%	12.62%	13.62%
Platinum Exchange-Traded Fund	2.14%	6.96%	10.12%	6.52%	0.14%	2.84%	0.23%	1.38%	
Platinum price (in rands)	1.69%	8.01%	11.49%	6.65%	0.48%	3.30%	0.63%	1.56%	-0.56%
Currency movements									
Rand/euro movements	0.68%	3.39%	21.22%	9.46%	5.44%	6.39%	6.35%	5.97%	8.02%
Rand/dollar movements	-0.45%	-3.86%	11.62%	9.24%	3.62%	5.01%	8.08%	7.46%	8.68%
Inflation index									
Consumer Price Index (CPI)			3.19%	4.09%	4.21%	4.57%	4.64%	4.88%	5.07%

Important notes

1. Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
2. Returns for periods exceeding one year are annualised.
3. The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
4. The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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