momentum investments

in the moment

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Economic and market snapshot for August 2019

Highlights

- United States (US): Despite solid economic activity and strong employment growth, interest rates are likely to be cut further in light of downside threats posed by a slowing global economy.
- Euro area: Gloomy survey data and rising external global trade risks in the third quarter raise the risk of a technical recession (two consecutive quarters of negative growth) in Germany.
- United Kingdom (UK): The length of the prorogation will limit MPs' time in parliament to pass any no-deal legislation, thus raising the risks of Britain leaving the European Union (EU) without a deal in place.
- China: Trade conflict has supressed sentiment recently, but China's policy and regulatory environment is a bigger constraint. Chinese leaders have taken heed and are focusing on reforms to level the playing field for foreign firms.
- South Africa (SA): The debt relief bill could restrict lending to the more vulnerable part of the market and could raise the cost of borrowing, forcing borrowers into unregulated markets.

Global economic developments

US

Despite solid domestic growth, interest rates are likely to be cut in light of ongoing downside risks to the global economy

A closely watched bond market recession indicator flashed red late in the month of August 2019, with the yield on the two-year Treasury registering more than five basis points higher than the yield on the 10-year government bond. Although the growing inversion of the yield curve warns against the rising risk of a recession in the US economy, some commentators have suggested that the level of bond yields has been artificially suppressed by purchases of bonds by the US Federal Reserve (Fed).

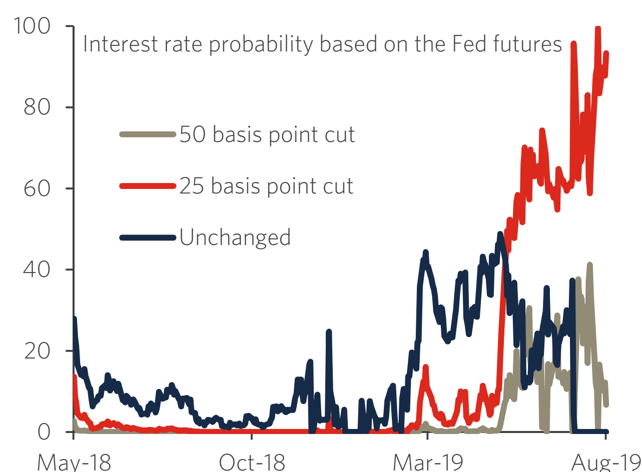
Despite worrying recession signals from the inverted yield curve, the economy continues to grow at a healthy clip. The US economy expanded by 2% in the second quarter of the year (only marginally lower than the initial estimate of 2.1%). The consensus growth expectation for 2019 and 2020 has only deteriorated by 0.2% to 2.3% and 1.8% respectively in the past year. Similarly employment gains remain robust, with non-farm payrolls having printed at 164 000 for July 2019, which is higher than the average for the past six months of 141 000.

As such, Philadelphia Fed President, Patrick Harker and Kansas City Fed President, Esther George, have indicated little reason for additional stimulus. US Fed Chairman Jerome Powell gave little away on the Fed's view on the interest rate outlook at the Jackson Hole Symposium in August 2019. Reiterating his response

made in June 2019, Powell noted the Fed "will act as appropriate to sustain the expansion".

Ongoing threats of political interference in central bank monetary policy decision-making have arisen in the recent weeks. President Donald Trump continues to publicly criticise Powell on social media platforms, more recently commenting "My only question is, who is our bigger enemy, Jay Powell or Chairman Xi?". However, Powell retorted by saying "while monetary policy is a powerful tool that works to support consumer spending, business investment and public confidence, it cannot provide a settled rule book for international trade."

Chart 1: US interest rate cut almost fully priced in



Source: Bloomberg, Momentum Investments

Market expectations for the US Fed to cut interest rates have increased significantly in the past weeks (see chart 1). Data from Bloomberg based on futures prices suggests that traders are pricing in a 93% chance of an interest rate cut of 25 basis points at the September interest-rate-setting meeting, while the chance of a larger cut of 50 basis points dropped from a peak of 41% in the middle of August 2019 to below 7% by the end of the month. Momentum Investments' expects at least two more interest rate cuts of 25 basis points each in the coming months in light of growing downside threats to the global economic outlook.

Euro area

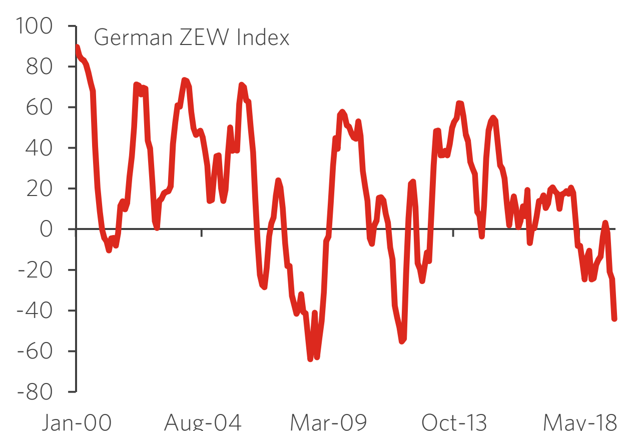
Gloomy survey data and rising external risks in the third quarter raise the risk of a technical recession in Germany

The second estimate of economic growth in the second quarter of the year confirmed a contraction of 0.1% in Germany. The underlying breakdown of the data showed exports to be the main detractor from growth in activity in the three months ended June 2019. Exports fell by 0.8% in year-on-year (y/y) terms (negative 1.3% quarter on quarter [q/q]). Forward-looking expectations of exports remain weak in light of recent escalations in trade conflict, which continue to weigh negatively on Germany's key export markets.

Growth in domestic demand was positive, but has weakened from previous quarters. Consumption edged up 0.1% q/q in the second quarter of the year, while growth in investment in machinery and equipment rose by a higher 0.5%.

Surveyed confidence for the third quarter remained bleak. The German ZEW indicator of economic sentiment plummeted to negative 43.6 points in August 2019 from negative 20.3 points in the previous reading and disappointing expectations of a narrower deterioration to negative 21.7 points (see chart 2). Depressed confidence was confirmed by a drop in the German IFO Business Survey to the lowest level since 2012. The index slipped to 94.3 points in August from 95.8 in July 2019 and disappointed estimates of 95.1.

Chart 2: German economic sentiment is flagging



Source: Bloomberg, Momentum Investments, data up to end of August 2019

A further ramp up in trade frictions between the US and China, together with an increased likelihood of a no-deal Brexit, are expected to put additional strain on German industrial production and exports in the coming months. According to Capital Economics, German exports to the UK accounted for 2.5% of German gross domestic product (GDP) in 2018. More than a quarter of these exports constituted vehicles, with machinery contributing another 23%. With a rising chance of a no-deal Brexit, consumers are likely to delay the purchase of big-ticket items and businesses are likely to hold-off on investment, particularly if higher import tariffs ensue. Capital Economics estimates that in the event of a no-deal outcome, German exports to the UK could drop by as much as 10% for a six-month period, which would detract 0.25% from annual growth in Germany.

German growth accounts for more than a quarter of growth in the euro area. The country's slowdown will likely, in turn, hit the rest of Europe. Persistent economic weakness will likely strengthen the case for further easing by the European Central Bank, through a lowering of interest rates and a further round of asset purchases in the coming quarters.

UK

The length of the prorogation will limit MPs' time in parliament to pass any no-deal legislation

Prime Minister, Boris Johnson, has requested a formal mechanism to end a session of parliament, which suspends all current legislation under discussion.

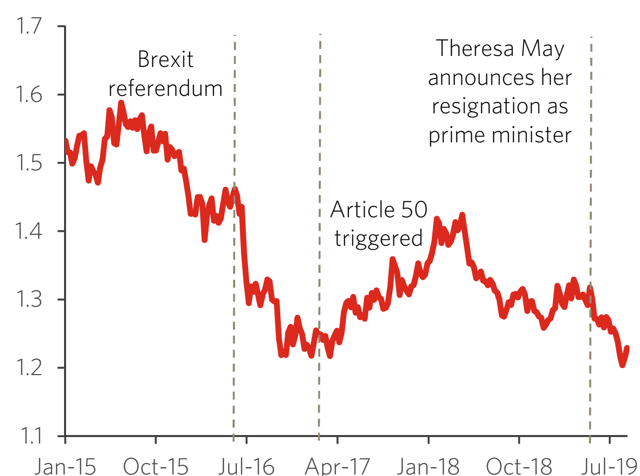
According to the Guardian, the current parliamentary session, which began in June 2017, is the longest in almost 400 years. Typically, a prorogation has lasted less than a week since the 1980s, making the current prorogation unprecedented in recent times.

Parliament is expected to return from recess on 3 September 2019. Opposition leader, Jeremy Corbyn, could then decide to call a vote of no confidence. If Prime Minister Johnson loses the vote of no confidence, the opposition would have 14 days to put together an alternative majority. A general election would likely follow. Alternatively, MPs may also try to pass legislation mandating an extension to article 50, but Johnson could choose to ignore this.

If a no confidence vote is not held, parliament will be suspended from the week of 9 September 2019 and MPs would return to parliament by 14 October 2019. The European council meeting would be attended by Johnson on 17 October 2019 with a renegotiated deal. If the EU ratifies this deal, MPs would vote on the new Brexit deal on 22 October 2019. If they vote the deal in, Britain would leave the EU with this new deal in place on 31 October 2019. If not, the default would be a no-deal Brexit. This could still be prevented if the opposition calls for a vote of no confidence just before the exit day. Should the EU fail to ratify the deal, Britain would exit the EU on 31 October 2019 without a deal in place.

The sterling dropped sharply on news the UK parliament would be prorogued in the second week of September 2019 (see chart 3). The sterling is likely to continue taking cues from political developments in the upcoming weeks.

Chart 3: Sterling to remain volatile in the coming weeks



Source: IRESS, Momentum Investments

China

Trade conflict is suppressing sentiment, but the regulatory environment in China is a bigger hindrance

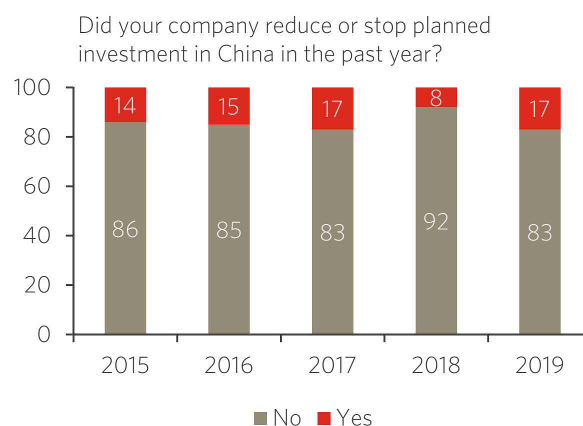
According to the US-China Business Council Annual Member Survey for 2019, three themes dominated the survey outcomes. Bilateral trade tensions have topped the concerns of American companies operating in China in 2019, given the uncertainty over punitive tariffs contributing to a more unpredictable business environment. The survey showed that the business operations of more than 80% of American firms operating in China have been affected by trade tensions.

Secondly, Chinese customers are concerned about the supply chains that depend on American companies. Chinese customers are increasingly finding American firms unreliable due to the volatility of the trade relationship between the US and China. In the 2019 survey, 37% of American firms indicated a loss in sales in China due to concerns about doing business with American companies. This represented a seven-fold increase since the 2018 survey. This trend has made it progressively difficult for US firms to compete in China.

Thirdly, the survey highlighted China as one of the top five global markets for American companies. US firms see the Chinese market as a significant driver of revenue growth. The number of respondents reporting a profit margin rate for the Chinese operations, that exceeds the rate for their overall operations, increased from 38% to 46% in 2019.

Nevertheless, US-China tensions have resulted in a higher percentage of US companies that have decided to stop or reduce new investments (see chart 4). 60% of respondents cited increased costs arising from the US-China standoff, while 47% of respondents cited the untenable political climate for American companies in China as the number one reason halting planned investment in the country.

Chart 4: Trade conflict weighing on US investment in China



Source: US-China Business Council, Momentum Investments

Despite trade conflict suppressing sentiment more recently, the survey data showed that China's policy and regulatory environment is the main underlying reason for US firms' deteriorating outlook on China in the long run. Chinese leaders have taken heed and are focusing on reforms to equalise treatment between foreign and domestic firms, reducing market-distorting factors which lead to unfair competition and improving intellectual property protection.

Local economic developments

Debt relief bill could restrict lending to the more vulnerable part of the market and could raise the cost of borrowing

The National Credit Amendment Act was gazetted on 13 August 2019. It was originally under consideration by government when parliament tabled it as the Debt Relief Bill in May 2016.

The aim behind the legislation was to allow a court of the National Consumer Tribunal to extinguish debt of consumers earning a gross income of less than R7 500 per month, who have unsecured debt of more than R50 000 (will not remain on the bureau record) and who the National Credit Regulator has classified as critically indebted. Secured credit (backed by an asset),

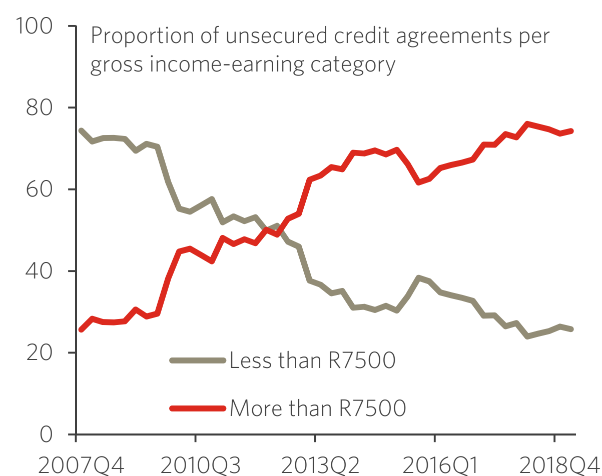
which accounts for nearly three quarters of the outstanding debt in SA, is not expected to be affected by the law.

The legislation does not clarify what classifies as over-indebted and implies that customers have to apply for this classification. According to the Mail & Guardian, there is a process of interventions that first allow a restructuring of customer debt to cater for repayments over a five-year period. If this fails, a suspension in credit payments between one and two years is allowed under review. Thereafter, the full amount or a portion of the debt can be extinguished if the consumer cannot afford to repay it. After the debt is written-off, a two-year period applies, in which the individual cannot apply again.

Bodies such as the Banking Association of SA, have warned against the adverse effects of the legislation. These include incentivising bad consumer payment behaviour and a reduction in the risk appetite of lenders. Lenders in the formal sector are likely to clamp down on lending to lower-income earners, forcing them into unregulated markets and encouraging reckless borrowing.

According to SBG Securities, the National Treasury has estimated that a total of between R13.2 billion and R20.7 billion could be written-off under the Act, but the implementation of the regulations is still uncertain and it is unknown whether the industry (including the National Clothing Retail Foundation) will challenge the legislation in court.

Chart 5: Lower-income accounting for smaller proportion of unsecured credit agreements



Source: National Credit Regulator, Momentum Investments

Financial market performance

Global markets

Global equity markets sank 2.4% in August 2019. President Trump accused Beijing of currency manipulation which sent markets tumbling early in the month, but investor angst over the health of the global economy contributed to weakness in the MSCI All World Index in the remainder of the month.

Developed equity markets dipped 2.0% in the month, driven lower by Japanese stocks. The Nikkei 225 Index plunged 3.7% in August 2019 in line with further strengthening in the yen. Investors rushed into safe-haven assets, which included the yen, after the Reserve Bank of New Zealand (RBNZ) surprised markets by slashing its official cash rate by 50 basis points to 1% from 1.5% on 7 August 2019. RBNZ Governor, Adrian Orr, further stunned markets by indicating it was "within the realms of possibility" that the country may follow Japan and the Eurozone into negative interest rate policy. This sparked jitters over further possible policy easing around the world and urged investors into safe-haven and defensive assets. The strengthening in the yen weighed negatively on Japanese exporters, sending the Nikkei 225 Index lower for the month.

Losses were more muted for US and European shares. The S&P 500 Index lost 1.6% by the end of August 2019, after a volatile intra-month performance. The index rallied in the middle of the month on the back of an announcement by the Trump administration that the 10% tariff on certain Chinese goods (including cellular phones, video game consoles and laptops) would be delayed until 15 December 2019. Sentiment dipped

towards month-end as market expectations for earnings on S&P 500 firms experienced the largest drop on a year-to-date basis since 2016. The lingering trade war and a cloudier outlook on the global economy are stifling earnings prospects and business expansion plans. According to the Financial Times, 96% of companies on the S&P 500 Index have reported earnings indicating a 0.4% contraction for the second quarter of the year, after slowing by 0.2% in the first quarter of 2019. This trend underscores the risk of an earnings recession (two consecutive quarters of negative earnings growth).

Weakness across global equity markets ricocheted to European equities. The Eurostoxx 50 Index ended the month 1.1% lower. Deterioration in the outlook for the German economy, highlighted by disappointing prints in the ZEW economic sentiment and the IFO Business Climate Surveys, depressed European shares, while the rising possibility of a no-deal Brexit added to investor concerns. The resignation of Italy's Prime Minister, Guiseppe Conte, on 20 August 2019 added to uncertainty in Europe. The resignation triggered the prospect of new elections in Italy as infighting ensued within the governing coalition between the League and the anti-establishment Five Star Movement.

Ten-year government bond yields in the US dropped by a meaningful 52 basis points in August 2019. US 10-year yields experienced the biggest weekly decline since 2012, during the month. The difference in yields between the three-month and 10-year Treasury fell to its most negative since April 2007, triggering concerns about the increased probability of a US recession. 10-year government bond yields in Germany followed suit, falling by 26 basis points to new lows on elevated global uncertainty.

Emerging equity markets suffered a 4.9% blow in August 2019. This was accompanied by a rise in the CBOE Volatility Index (Vix), more commonly regarded as the fear gauge. The Vix spiked to nearly 25 points at the start of the month (the highest level since early January 2019), reflecting the skittish mood of investors. The dip in emerging market equities also reflected a further fall in the Bloomberg Commodity Price Index, which slipped 2.3% in the month. The international price of Brent crude oil fell to its lowest level since early January 2019, with demand concerns outweighing worries about supply. Sanctions on Iran and Venezuela, poor weather in the Gulf of Mexico and the likelihood of further production cuts from the major oil exporting regions have raised supply concerns, but weakening global growth has lowered demand estimates.

The MSCI Latin America Index was amongst the biggest losers in the month. The index tanked 8.1% in August 2019, driven lower by a poor performance in Brazilian shares. Intensification in the trade row between the US and China weighed heavily on Brazil given its reliance on China for trade. Brazil exported 21.8% of its goods to China (its largest trading partner) in 2017, while 18.1% of its imports came from China. The US market also features prominently in Brazil's trading partner line up. Brazil exported 12.5% of its goods to the US in 2017, while importing 16.7% of its goods from the US in the same period.

The MSCI Europe, Middle East and the Africa (EMEA) Index dove 7.3% in August 2019. Although the Russian equity market was one of the best performers in the first seven months of the year, Russian shares underperformed in August 2019 on the imposition of new sanctions by the US on the country. The sanctions were linked to the poisoning of a former Russian double agent.

The MSCI Asia Index also lost ground in August 2019. Asian shares fell 3.8% in the month on elevated tensions in Asia's key financial centre, Hong Kong. Additional onerous tariffs announced by the US added to the pain. The Trump administration announced it would increase tariffs on US$250 billion worth of Chinese imports from 25% to 30% by 1 October 2019. It aims to raise tariffs on an additional US$300 billion worth of Chinese imports (including toys and clothing) from 10% to 15%, with half the tariffs becoming effective by 1 September 2019 and the other half only coming into effect by 15 December 2019. Weaker manufacturing data in China added to investor woes. Growth in industrial production faltered to a 17-year low in July 2019 pressuring Chinese counters. Fears over

weaker growth stretched across a number of emerging economies. The Reserve Bank of India (RBI) cut interest rates for the fourth time this year to a nine-year low, boosting a sagging economy. Additional liquidity support given by the RBI to the Indian government could boost stock markets in the coming months.

Sentiment soured towards emerging market (EM) bonds in August 2019. The JP Morgan EM Bond Index (EMBI) spread climbed 52 points in the month (but dropped 8 points in the last three months). The largest monthly rise in credit default swap spreads were in Argentina (up 359%), South Korea (up 16%) and Indonesia (up 14%), while spreads narrowed marginally for Romania and Hungary.

Similarly, the JPMorgan EM Currency Index weakened by 4.1% in the month. Notable losses were recorded for the Argentine peso (26.3% weaker), Brazilian real (8.0% weaker) and SA rand (5.6% weaker) in August 2019, while the Thai baht made marginal gains against the dollar in the same period. In Argentina, market-friendly President Mauricio Macri unexpectedly lost a primary vote by a surprisingly large margin. This rattled investors and incited fears of a return of populist policies.

Local markets

It was a month of two halves for the FTSE/JSE All-Share Index. The index slumped 5% by the middle of the month, but tracked largely sideways for the second half of August 2019, ending the month 2.4% softer. Earlier in the month, the SA market took its direction from the bearish note struck by global stock markets, which were roiled by the unpredictable path of trade talks between the US and China. The local equity market largely shrugged off an economic policy paper released late in the month by National Treasury, which outlined a set of actions to revive economic growth. Concerns over domestic growth, the fiscal outlook and the financial and operational viability of energy utility Eskom continued to weigh on local markets in the month.

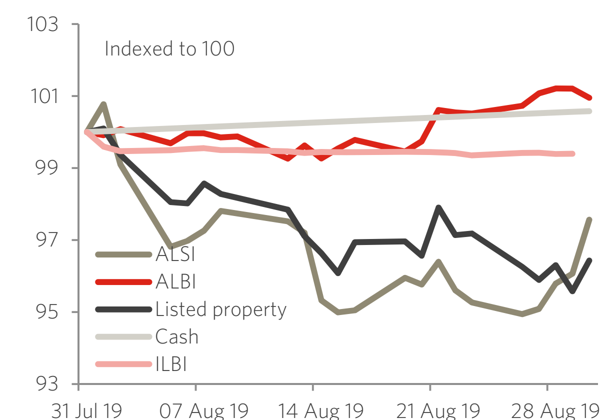
Financial shares dragged the local bourse lower in the month, followed by a poor performance in industrial shares. Resource shares also ended the month in the red, but losses were capped by a positive run in platinum prices.

The FTSE/JSE Financials Index collapsed 6.0% by the middle of the month, but edged up marginally in the second half, ending the month 3.7% weaker. Bank shares were hit hard, diving 6.4% in late August 2019, before clawing back some gains on the last day of the month, which allowed the index to finish the month only 3.0% lower. Unlike financial shares which traded sideways for the second half of the month, the FTSE/JSE Industrials Index continued to slide marginally lower into the back end of the month, finishing August 2019 3.0% down. Retail shares struggled in the month as a poor economy dampened trading statements for a number of retailers.

Losses were limited for the FTSE/JSE Resources Index in the month. Resource shares dipped by 4.9% by the middle of the month, but the index clawed back gains in the second half of the month and ended only 0.2% in the red. The price of gold reached a six-year high early in the month as it broke through US$1 500/oz as investors fled to safe-haven assets. Gold prices eased by the middle of the month on a reprieve in trade negotiations between the US and China. Meanwhile, the price of platinum rose to its highest level since April 2019 in the month boosting gains in the platinum sector.

The SA 10-year government bond yield rallied 7 basis points by the end of the month to 8.8%, after topping out at 9.0% in the middle of the month. The JSE ASSA All Bond Index gained 1.0% in the month, while the JSE ASSA Government Inflation-linked Bond Index (ILBI) edged 0.6% lower. The FTSE/JSE SA Listed Property Index stuck to a downward trend for the most part of the month and ended the session 3.6% weaker.

Chart 6: Returns from local asset classes (%)



Source: Iress, Momentum Investments, data up to 31 August 2019

The SA rand weakened by 5.6% against the US dollar in the month on global trade uncertainty and ongoing growth and fiscal woes, locally. The rand ended the month 4.8% weaker against the euro. Despite the sterling initially coming under pressure on the news of the prorogation in the UK, the rand still weakened 5.5% against the sterling in August 2019. SA's five-year credit default swap spread widened by 18 points (2.9%) in the month, but remains 35 points lower than at the beginning of 2018.

Indices summary for August 2019

	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)	-2.44%	-0.20%	-2.58%	4.67%	5.65%	4.73%	7.79%	9.82%	11.49%
FTSE/JSE Shareholder Weighted Index (SWIX)	-2.50%	-1.69%	-4.71%	2.21%	3.85%	3.99%	7.60%	9.30%	11.53%
FTSE/JSE Capped SWIX All Share index	-2.70%	-3.02%	-7.19%	0.54%	2.26%	2.72%	6.51%	8.35%	
FTSE/JSE All Share Top 40 Index	-2.67%	-0.12%	-2.92%	5.14%	5.69%	4.57%	7.63%	9.94%	11.31%
FTSE/JSE Mid Cap Index	0.35%	0.77%	1.41%	0.44%	4.08%	4.27%	7.53%	7.99%	11.70%
FTSE/JSE Small Cap Index	-5.80%	-5.47%	-15.17%	-5.88%	-1.89%	0.16%	4.01%	6.81%	9.83%
FTSE/JSE Resources Index	-0.18%	4.21%	10.14%	17.09%	11.01%	-0.10%	2.62%	3.70%	3.62%
FTSE/JSE Financials Index	-3.74%	-8.78%	-9.32%	2.74%	1.03%	4.54%	8.69%	9.63%	12.24%
FTSE/JSE Industrials Index	-3.00%	1.89%	-5.28%	0.63%	3.53%	4.72%	7.93%	11.27%	15.01%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (RAFI)	-2.70%	-1.96%	-3.01%	7.50%	7.64%	4.63%	7.65%	9.24%	10.80%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	-2.73%	-2.19%	-3.07%	7.04%	6.98%	4.31%	7.21%	8.83%	10.51%
FTSE/JSE SA Listed Property Index (SAPY)	-3.57%	-2.63%	-5.52%	-3.26%	-1.61%	3.62%	6.22%	5.31%	11.40%
Interest-bearing indices									
JSE ASSA All Bond Index (ALBI)	0.98%	2.51%	11.19%	9.79%	8.43%	7.82%	8.46%	7.23%	8.74%
JSE ASSA All Bond Index 1-3 years (ALBI)	0.74%	1.72%	10.60%	9.03%	8.58%	8.13%	7.86%	7.26%	7.75%
JSE ASSA SA Government ILB Index	-0.24%	0.12%	3.73%	1.70%	3.05%	3.53%	5.33%	5.04%	6.98%
Short-term Fixed Interest Composite Index (SteFI)	0.58%	1.78%	7.36%	7.44%	7.33%	7.14%	6.87%	6.63%	6.54%
Commodities									
NewGold Exchange-Traded Fund	14.57%	22.22%	31.25%	5.99%	11.06%	10.66%	7.97%	6.96%	11.61%
Gold price (in rands)	14.69%	23.20%	32.04%	6.93%	11.63%	11.24%	8.45%	7.68%	12.11%
Platinum Exchange-Traded Fund	15.09%	22.86%	22.08%	-2.98%	1.10%	-1.63%	-0.01%		
Platinum price (in rands)	12.89%	22.45%	22.63%	-2.94%	1.35%	-1.42%	-0.01%	-2.39%	0.78%
Currency movements									
Rand/euro movements	5.93%	3.05%	-2.03%	0.65%	2.97%	3.61%	3.62%	6.69%	4.11%
Rand/dollar movements	7.09%	4.28%	3.56%	1.09%	3.42%	7.38%	6.78%	8.77%	6.89%
Inflation index									
Consumer Price Index (CPI)			3.96%	4.55%	4.91%	4.93%	5.16%	5.33%	5.12%

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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August 2019

Economies at a glance

01 United States

The economy is in a late-cycle phase, however, further anticipated interest rate cuts should help cushion the slowdown and extend expansion. Although growth and employment remain robust, trade war uncertainty is undermining confidence and makes the case for additional interest rate easing. Policy rates are expected to be cut by another 50 basis points before the middle of 2020, before reaching higher in the longer term in response to a recovery in growth and inflation outcomes.

Forecast 2019:
GDP: 2.3%
Inflation: 1.7%
Forecast 2020:
GDP: 1.7%
Inflation: 2.1%

02 Eurozone

Despite falling unemployment and rising wages, growth remains constrained. A turbulent external environment has suppressed investment spending and exports. Even with ultra-accommodative monetary policy, core inflation measures remain below target and inflation expectations have softened further. With policy rates already close to their lower bound, the European Central Bank may have no choice but to extend its asset purchases to combat slow growth and muted inflation.

Forecast 2019:
GDP: 1.1%
Inflation: 1.3%
Forecast 2020:
GDP: 1.2%
Inflation: 1.4%

03 China

Growth softness is expected to extend into the second-half of the year. Consumers' expectations of future income are beginning to wane, while infrastructure growth is unlikely to match the pace seen last year. Growth support from services and higher value add manufacturing sectors remain firm nonetheless. Ongoing trade conflict with the US continues to undermine exports. China is unlikely to make significant concessions to the US, thus the trade war could grind on for much longer. Policy-stimulus measures undertaken are expected to mostly offset softness in trade and private demand, but have not been fully effective. Further cuts to the reserve requirement ratio are likely but financial stability could be a deterrent. Selling-off US treasuries are less likely at this stage.

Forecast 2019:
GDP: 6.0%
Inflation: 2.3%
Forecast 2020:
GDP: 5.9%
Inflation: 2.2%

04 South Africa

South Africa (SA) is in its longest economic downturn in history, but fractious politics are stymying the pace of reform. The economy is likely to muddle along at moribund levels and will remain reliant on positive global factors to provide interim growth boosts. Moody's methodology does not warrant a junk rating for SA yet, but the risks are rising and we could see SA losing its stable outlook later this year. There is little sign of demand-pull inflation pressure, providing space for an additional rate cut, but reforms are ultimately needed to drive growth higher.

Forecast 2019:
GDP: 0.6%
Inflation: 4.5%
Forecast 2020:
GDP: 1.3%
Inflation: 4.7%

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the macro research desk

Economies at a glance: United States

- The consumer confidence index declined to a seven-month low in August 2019. The index dipped by more than expected and can mainly be explained by the new round of tariffs introduced by United States (US) President Donald Trump and by recession fears finally weighing on consumers.
- Jobless claims have been volatile but have continued to decline. Wage growth remains strong and supportive of consumer spend in the low inflation environment.
- Although high-frequency data in the US has been undershooting in the last few months, retail trade data has been strong. This highlights consumer resilience. The upward revision of consumption growth in the second quarter growth print further corroborates consumer strength.

Chart 1: Consumer confidence has taken a nose dive

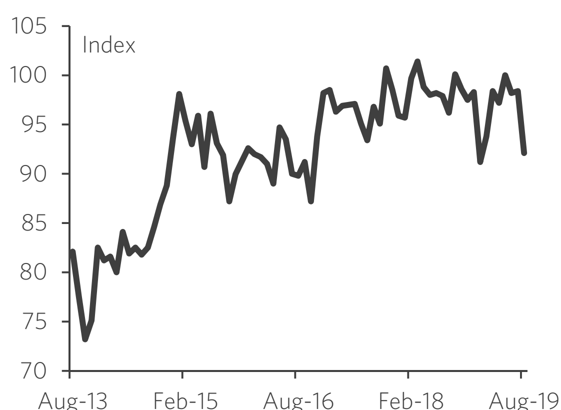


Chart 2: Jobless claims are still in a downward trend

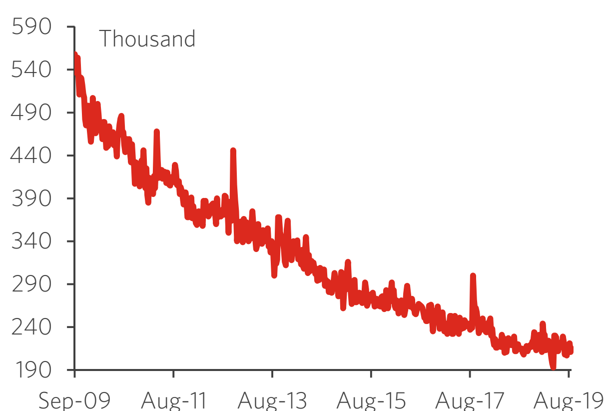


Chart 3: Combined wages across all sectors still strong

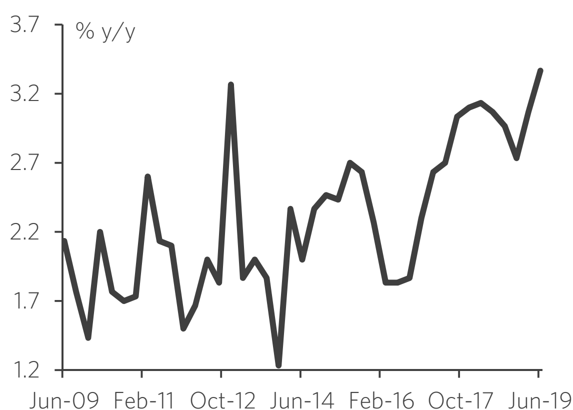


Chart 4: Inflation has rolled over

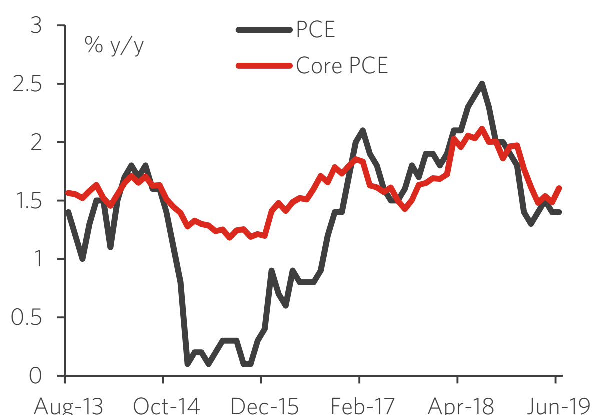
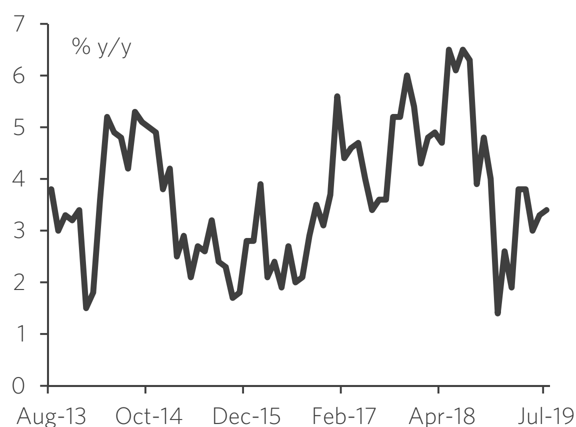


Chart 5: Economic surprises are disappointing by a smaller margin

Chart 6: Growth in retail sales remains robust



Source: Bloomberg, Momentum Investments

Economies at a glance: Eurozone

- Inflation continued to slow significantly below the 2% target set by the European Central Bank (ECB). The ECB has indicated an interest rate cut is on the horizon to boost economic activity. Already low interest rates suggest likely additional asset purchases by the ECB.
- Underlying inflation trends are also stable with no price shocks identified. Lower fuel prices have driven headline inflation lower. House prices, however, remain robust and well above the inflation target.
- The headline rate of unemployment has improved over the last few years, but weaker domestic growth and elevated external risks in the global environment explains the rise in unemployment expectations.

Chart 1: Little room to cut interest rates further despite disappointing inflation prints

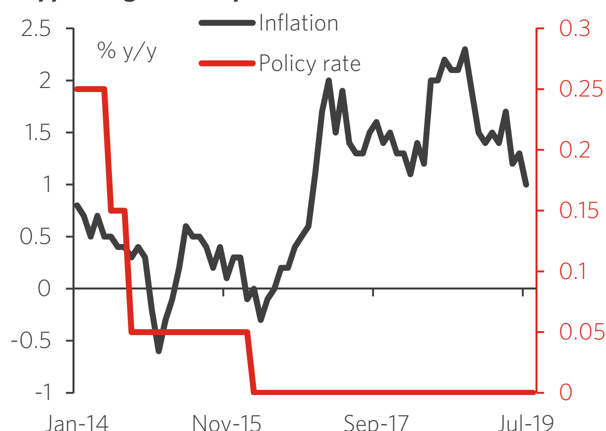


Chart 2: Inflation contribution

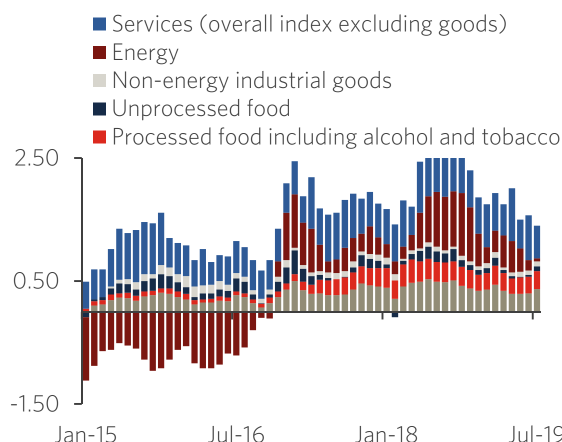


Chart 3: Food inflation trending upwards, but not at an alarming rate

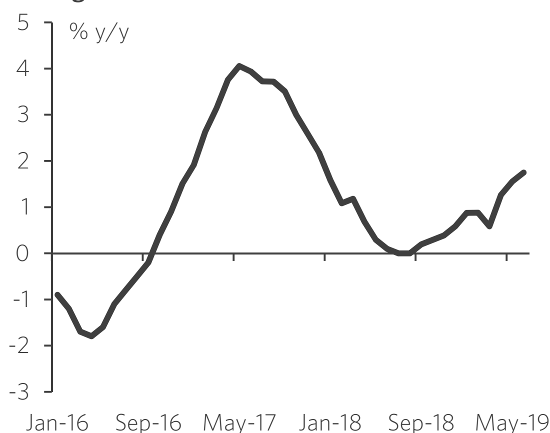


Chart 4: House prices remain close to the 4% mark

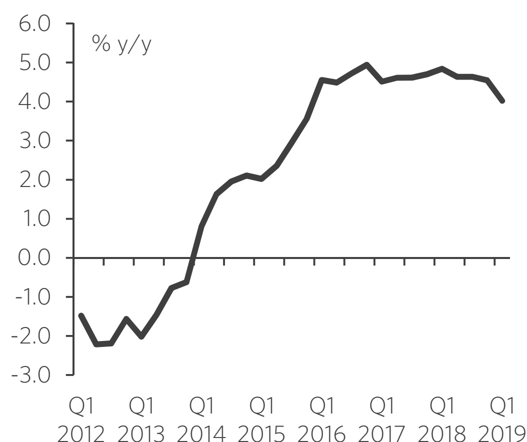


Chart 5: Administered price inflation has shifted structurally lower

Chart 6: Unemployment expectations on the rise, despite a significant improvement in unemployment rates

Source: Bloomberg, Euro Stat, Momentum Investments

Economies at a glance: China

- China has actively worked on declining its debtors' book to induce an economy less dependent on debt. However, the debt repayment burden is still rising. Central bank interventions have nevertheless been made to boost the credit-driven slowdown in the economy.
- Credit seekers are confident in loan application approvals, indicating that lending conditions are still easy. However, the demand for loans has rolled over again. Businesses are also not eager to take advantage of easier lending conditions in a slowing economy.
- Although the credit impulse has slowed mildly it is still significant for growth, but current trends show the decline in lending and borrowing is likely to continue.

Chart 1: Lower corporate borrowing, but interest still high

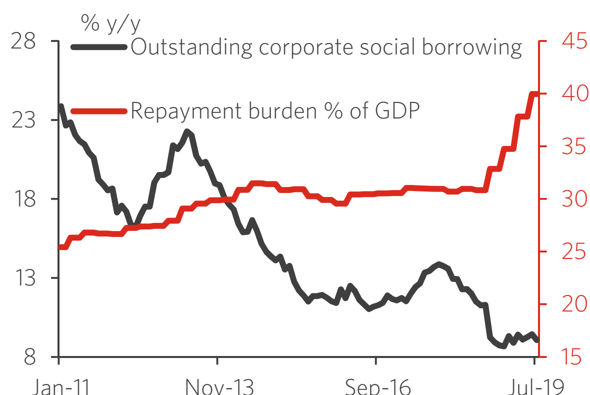


Chart 2: Easier lending conditions to boost economy

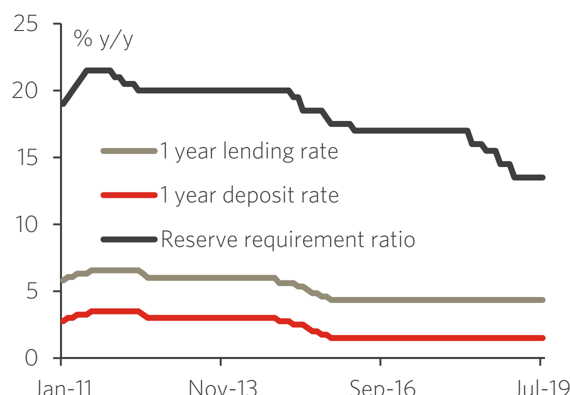


Chart 3: Cooling in loan demand, but confidence in approvals remain strong

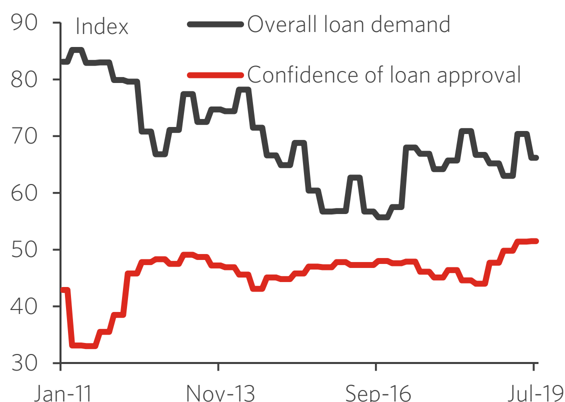


Chart 4: Flat or declining loan demand in different sectors

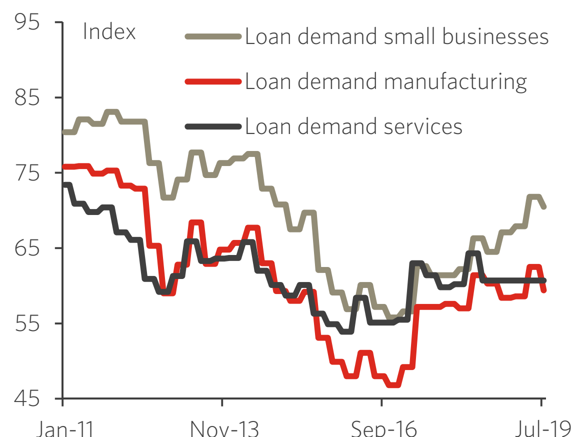
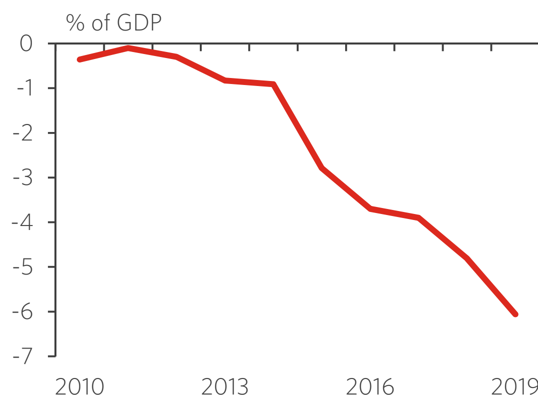


Chart 5: Credit impulse is rising

Chart 6: Net lending and borrowing forecasted to dip even lower



Source: Bloomberg, IMF, Momentum Investments

Economies at a glance: South Africa

- Females in SA suffer from higher unemployment rates alongside a lower rank in the percentage of professionally qualified adults.
- There is a stark disproportion of females in management relative to males. The finance industry which has been a growing sector and large contributor to overall economic growth in SA is also more male dominated.
- Birth rates have declined globally and in SA and are significantly linked to a lower marriage rate and higher female employment rate.

Chart 1: Unemployment rates in SA (%)

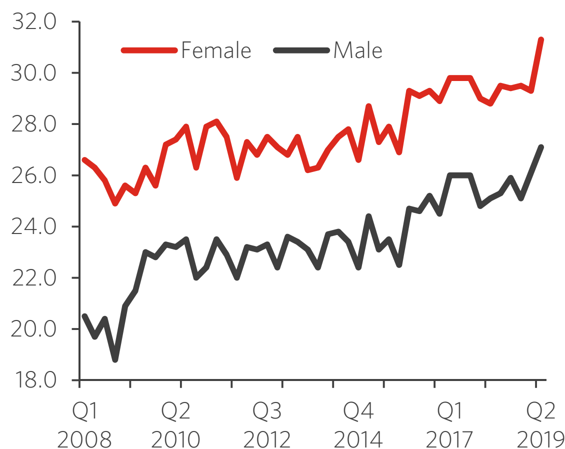


Chart 2: Professionally qualified by gender

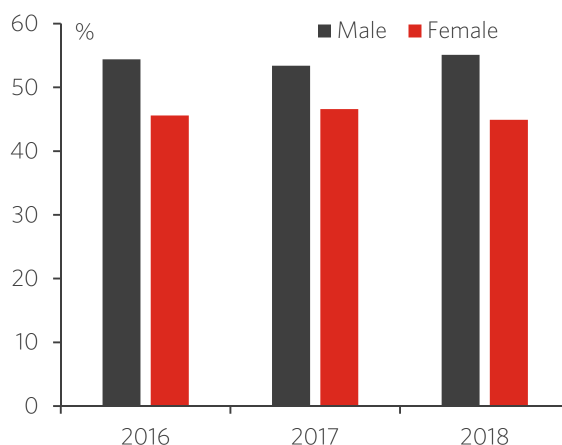


Chart 3: Share of females in management

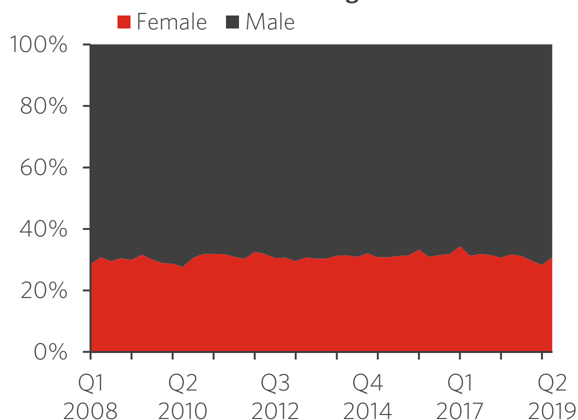


Chart 4: Share of females in finance

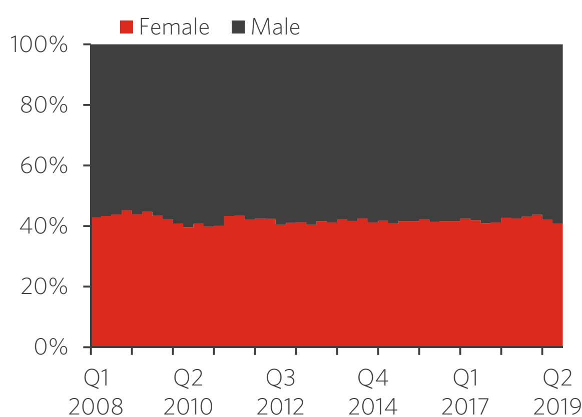


Chart 5: Fertility rates in SA are converging with those in the rest of the world

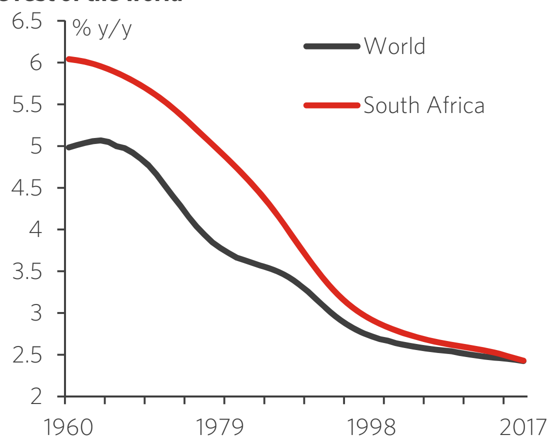
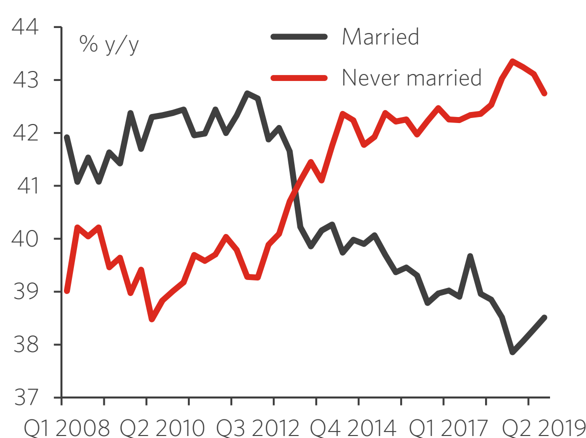


Chart 6: Female employment characteristics



Source: Statistics SA, World Bank, Momentum Investments

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. Roberta Noise has recently joined the team as an economic analyst.

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