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Economic and market snapshot for October 2019

Highlights

- United States (US): Growth in economic activity slowed in the third quarter of 2019 on weaker business investment to 1.9% in annualised terms, but the overall figure still managed to outperform expectations of 1.6%.
- Euro area: Stubbornly low inflation and headwinds to growth, posed by the global slowdown, necessitate an accommodative monetary policy stance.
- United Kingdom (UK): Prime Minister Boris Johnson is heading into the election on 12 December with a lead over the Labour Party, but the possibility of a hung parliament, which would lead to more political deadlock, cannot be ruled out.
- China: Significant regional economic disparities are emerging, partly as a result of the ongoing trade war with the US. Domestic structural issues are exacerbating this problem.
- South Africa (SA): SA remains in investment grade for now, but Moody's downgraded the outlook on the country's credit rating from stable to negative, indicating a rise in fiscal and economic risks.

Global economic developments

US

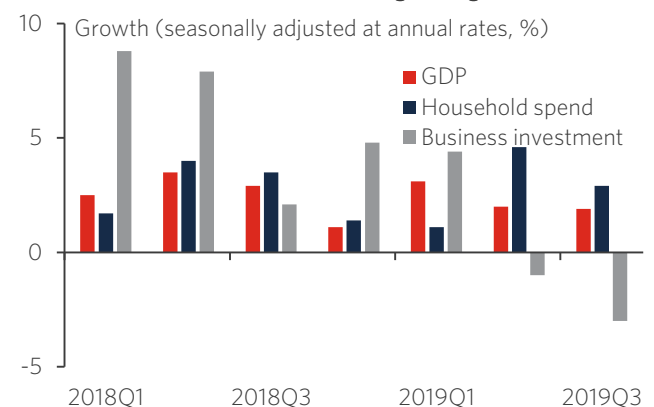
Growth slowed in the third quarter, on a contraction in business investment, but the figure still outperformed expectations

The initial third-quarter growth estimate by the Bureau of Economic Analysis (BEA) suggested economic activity had expanded by 1.9% in quarter-on-quarter annualised terms in the third quarter of 2019, bettering consensus expectations of 1.6%. Growth still slowed from 2% in the second quarter as the contraction in business investment deepened.

Growth in household spending surged ahead at 4.6% in the second quarter of the year to its highest level in

four and a half years. Spending remained firm in the third quarter, but slowed to 2.9% (see chart 1).

Chart 1: Business investment drags US growth lower



Source: BEA, Momentum Investments

Notable positive contributions also came from residential investment and government spending. Lower mortgage rates have buoyed a recovery in the US housing market with residential investment making its first positive contribution to growth in gross domestic product (GDP) in two years.

Despite generous tax cuts granted in 2018 (the Tax Cuts and Jobs Act of 2017 was signed into law by US President Donald Trump in December 2017 and went into effect in January 2018), business investment contracted for yet another quarter. Growth in business investment disappointed at negative 1% in the second quarter. The contraction in spending widened to 3% in the third quarter of 2019.

The slower growth print was followed by an interest rate cut of 25 basis points to a range of between 1.5% and 1.75% by the Federal Reserve Chair, Jerome Powell. He mentioned, "Weakness in global growth and trade developments have weighed on the economy and impose ongoing risks". These factors have likely outweighed the positive effect of tax cuts on business sentiment, leading to softer investment spending by corporates.

While the Federal Open Market Committee (FOMC) did not rule out the possibility of additional interest rate cuts should the favourable outlook on the economy falter, the FOMC hinted at a higher hurdle for further interest rate reductions. In its interest rate statement, the FOMC noted it would monitor economic activity as it "assesses the appropriate path" of rates, whereas previously it highlighted it would "act as appropriate to sustain the economic expansion". Momentum Investments expects interest rates to remain on hold in the US for the remainder of the year.

Euro area

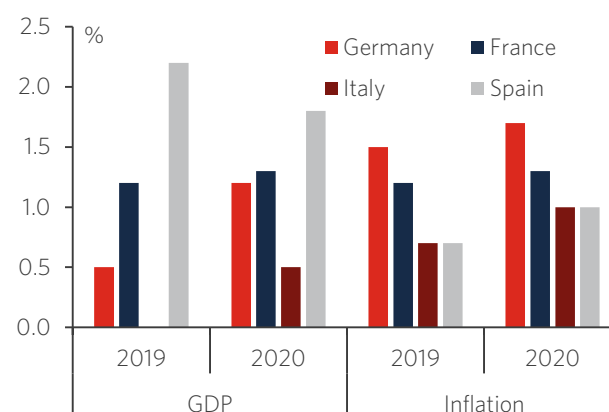
Stubbornly low inflation and headwinds to growth necessitate an accommodative monetary policy stance

In October 2019, the European Central Bank's (ECB) governing council reiterated that interest rates would not rise until the "inflation outlook robustly converge(s) to a level sufficiently close to, but below, 2% within its

projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics". Eurozone inflation fell to 0.8%, a three year low, in September 2019 from 1% in August and undershot expectations for a marginal rise to 0.9%. Energy prices dropped, while the core or underlying measure of inflation (excluding more volatile food and energy prices) remained unchanged at 1%. France and Germany reported headline inflation rates of 1.1% and 1%, respectively, while price pressures were largely absent in Spain and Italy.

Moreover, growth remains under pressure from slowing global growth exacerbated by the trade war between the US and China, continuing to weigh on global investment. Exports from the Eurozone to the rest of the globe sank 2.2% in August relative to the same period a year ago, while intra-Eurozone exports plunged 5.5%. The International Monetary Fund (IMF) downgraded growth for the Euro area for 2019 from 1.3% in July 2019 to 1.2% in October 2019 and from 1.6% for 2020 to 1.4%. From the four-largest economies, growth is expected to be highest at 1.8% in Spain for 2020 and the lowest in Italy at 0.5%. Germany and France are expected to grow by 1.2% and 1.3% in 2020, respectively (see chart 2).

Chart 2: Growth and inflation forecasts for key countries in the Euro area



Source: IMF, Momentum Investments

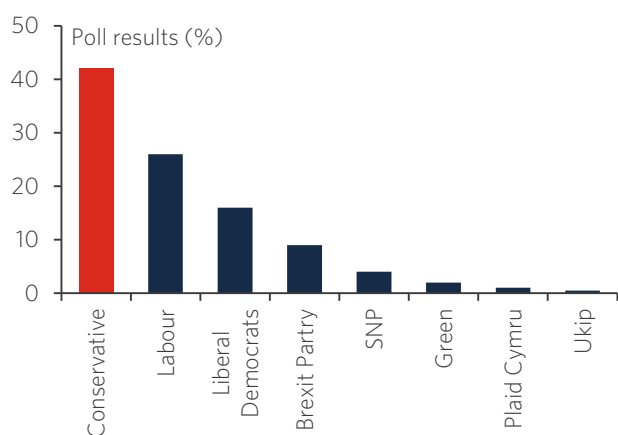
Muted inflation and limp growth should force an accommodative stance by the ECB in the coming quarters, in Momentum Investments' view.

UK

The Conservative Party has a lead in the polls, but if there is a hung parliament, more political deadlock is probable

According to the polls, the Conservative Party has a lead over the Labour Party and the Liberal Democrats (see chart 3), but the possibility of a hung parliament cannot be completely ruled out.

Chart 3: Polls indicate the Conservative Party will have a significant lead in the general elections



Source: Opinium, Momentum Investments, surveying 2004 adults from 30 October to 1 November 2019

A hung parliament refers to a situation when no single party wins enough seats in a general election to secure a majority of seats in parliament, which makes it harder for government to get legislation passed by the House of Commons. The prime minister, who was in position before the election, Boris Johnson, in this case, would stay in charge under this scenario and would either have to negotiate with other parties to form a coalition or sustain a minority government. He could also opt to resign under this scenario.

Johnson's pledge to achieve Brexit by the end of October 2019 was scuppered after the House of Commons voted against Boris' plan to get his withdrawal agreement through parliament in three days.

Brexit now depends on the outcome of the general election to be held on 12 December 2019. Brexit can take place on the existing deal by 31 January 2020, the deal can be renegotiated, a referendum can be held,

Brexit can be cancelled or a no-deal Brexit can occur on 31 January 2020.

A referendum can also take the form of voting between a particular Brexit deal and the 'remain' option. If it is a referendum with more than two options, further time will be required by the Electoral Commission to prepare, resulting in a further delay in the Brexit deadline.

Although cancelling Brexit remains an option, this implies a change in government, as the current government does not back this option. The Liberal Democrats have come out in support of cancelling Brexit through the revocation of Article 50.

Under a hung parliament, there is an option of a new deal being negotiated and voted upon. While the new deal may move away from more extremist political posturing, it can also create more political deadlock in the interim.

China

The regional gap in China's economy is widening, partly due to domestic structural issues and the trade war with the US

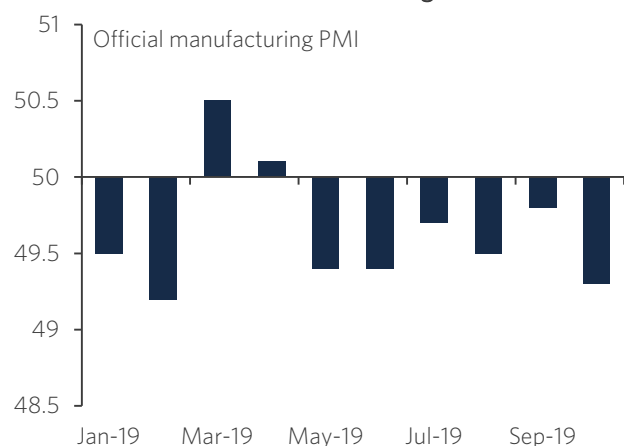
The South China Morning Post reported that official data showed that more than one third of China's provinces have failed to meet this year's growth targets. Traditionally, poorer regions have suffered the greatest setback, while coastal provinces were sheltered from economic headwinds.

Guangdong, China's most prosperous province in 2018, registered growth of 6.4% on average for the first three quarters of 2019 and surpassed the national growth figure for the same period of 6.2%. Meanwhile, China's rust belt provinces in the north-east have failed to carry out reforms to ease political interference and were among the slowest growing provinces for the first three quarters of the year.

China has increasingly shifted its growth reliance towards consumption in the face of slowing exports, driven weaker by ongoing trade conflict with the US. However, in the provinces where structural reform

efforts have been slow to materialise, growth has been impeded.

Chart 4: Dull Chinese manufacturing sentiment



Source: Bloomberg, Momentum Investments, data up to October 2019

The Caixan China General Manufacturing Purchasing Managers' Index (PMI), which gives a snapshot of the operating conditions in the manufacturing sector, improved to 51.7 points in October 2019, which is the highest reading since February 2017. The new orders' sub-index surged encouragingly to its highest level since January 2013. Nevertheless, the official PMI reading, which surveys a larger proportion of big firms and state-owned entities, fell to 49.3 points, which is below the neutral reading of 50 (see chart 4).

Regional data in Asia also appeared mixed due to the varying exposures of these countries to the Sino-US trade war, making it uncertain on whether China's data will render a positive growth trend for the region.

Local economic developments

Moody's downgrades the outlook on SA's credit rating from stable to negative to flag fiscal and economic risks

Close to midnight on 1 November 2019, Moody's announced its decision to keep SA's credit rating in investment grade at Baa3, but flagged rising fiscal and economic risks to the sovereign by lowering the outlook on the country's rating from stable to negative (see chart 5).

Chart 5: Sovereign rating matrix

Long-term rating	S&P	Fitch	Moody's
Investment grade	A-	A-	A3
	BBB+	BBB+	Baa1
	BBB	BBB	Baa2
	BBB-	BBB-	Baa3
Sub-investment grade	BB+	BB+	Ba1
	BB	BB	Ba2
Outlook	Stable	Negative	Negative

Local currency rating

Foreign currency rating

Both ratings

Source: Standard and Poor's, Moody's, Fitch, Momentum Investments

The statement read that its decision "reflects the material risk that the government will not succeed in arresting the deterioration of its finances through a revival in economic growth and fiscal consolidation measures. The challenges the government face are evident in the continued deterioration in SA's trend in growth and public debt burden, despite ongoing policy responses". Moody's admitted structural problems in SA, including high unemployment and income inequality, among other social problems, posing a greater risk (than previously assessed) to government's ability to enhance trend growth prospects and adhere to fiscal consolidation plans.

Moody's warned the medium-term budget policy statement did "not yet represent a developed, credible fiscal strategy". While Treasury explained R150 billion additional cost-saving measures were needed to balance the primary budget (main budget after the deduction of interest) after the deduction of support to Eskom by fiscal year 2022. This is largely premised on containing the public sector wage bill. In Momentum Investments' opinion, this remains a challenging task. Treasury has acknowledged that the average government wage bill rose by 66% in the last 10 years, even after adjusting for inflation. Moreover, government

confessed that expected savings on compensation announced in the 2019 national budget had been reversed. These measures included early retirement without penalties, which were anticipated to generate savings of R12 billion.

A reversal in the lowering of the outlook from stable to negative would depend on SA's success in stabilising the country's debt ratios in the medium term through additional cuts to expenditure, an improvement in tax compliance and higher potential growth. Marked progress in eradicating corruption and

improving the poor financial and operational standing of SA's state-owned enterprises would further need to be seen for an improvement in SA's rating to materialise.

In contrast, further erosion of SA's fiscal and economic strength or signs of lower resilience to countering external financing shocks could exert additional negative pressure on the country's rating. Moody's noted the importance of the February 2020 national budget for further clarity on cost-containment measures contributing to its broader fiscal consolidation strategy.

Financial market performance

Global markets

Global equity markets had decent returns in October 2019. Signs of a recovering global economy and an indication of some progress being made on the trade war between the US and China helped boost the MSCI All Country World Index 2.7% in the month. The global risk environment improved against this backdrop, with the CBOE volatility index (Vix) dropping three points in the same period.

Developed equity markets rose 2.5% in the month, led higher by Japanese equities, while European equities trailed behind. The Nikkei 225 Index shot 5.4% higher in October 2019 on a weaker yen and a softening tone on trade talks between the globe's two economic giants, the US and China.

The announcement of a Phase One Trade Deal by Trump calmed investor sentiment and supported the US equity market. However, gains were capped on the S&P 500 Index to 2.2% on activity data suggesting a softening in growth momentum in the US. Trade-dependent sectors, such as manufacturing and business investment, looked softer in the month, while consumer-related growth sectors held up. A further cut in the federal funds rate to a range of between 1.5% and 1.75% should further bolster consumer confidence and residential investment. The US earnings season for the third quarter so far suggests companies have performed better than expected. According to JP Morgan, earnings per share and sales on the S&P 500 Index are growing at 1% and 4% year on year, respectively.

The outlook for the Eurozone's economy continues to take on a fragile hue. Economies such as Germany have a larger reliance on international trade and, as such, are feeling the effects of the global slowdown.

Although Germany's services PMI remains positive, manufacturing sentiment languished at 45.7 points in October 2019. The Eurostoxx 50 Index trailed the MSCI Developed Market (DM) Index at 1.1%.

DM bond yields tracked higher in the month. The US 10-year government bond yield inched three basis points higher, while the German 10-year government bond yield sold off nearly 17 basis points in the corresponding period.

Emerging market (EM) equities outperformed their DM peers in October 2019, as riskier asset classes outperformed their traditional safe havens on easing geopolitical tensions in the month.

Manufacturing sentiment improved across the EM composite in the month with the Markit EM PMI climbing to above the neutral reading at 51 points. Commodity prices had a buoyant month, with the Bloomberg Commodity Price Index lifting 2.0%, further supporting the 4.2% bounce in the MSCI EM Index.

Shares in the Asian and Latin American regions outperformed in the month. Better industrial production numbers in Asia, a suspension in the scheduled 15 October 2019 tariffs from the US propped-up Asian markets and a third cut in the Brazilian Selic interest rate to 5% aided in a rise in Latin American shares.

The MSCI Asia Index and the MSCI Latin America Index jumped 4.5% in October 2019, while the MSCI Europe, Middle East and the Africa (EMEA) Index brought up the rear at 2.8%. Within the MSCI EMEA Index, equity markets in Hungary, Russia, Greece and Poland took the lead, while those in Qatar, Saudi Arabia and Turkey disappointed. Russia's central bank cut interest rates by 50 basis points to 6.5% in October, citing a sharp fall in inflation and tepid economic growth as reasons for cutting interest rates for the fourth time this year.

Sentiment moved in favour of EM bonds in September 2019. The JP Morgan EM Bond Index (EMBI) spread improved by 4.4% in October 2019. The largest monthly improvements in credit default swap spreads were in Mexico (down 20%), Indonesia (15.3% lower) and Malaysia (down 15.1%), while spreads widened for Chile (up 17.9%) and Argentina (8.4% higher).

Similarly, the JPMorgan EM Currency Index rallied 1.3% in the month. Gains were recorded for the Polish zloty (4.9%), Hungarian forint (4.3%) and Czech koruna (3.5%), while the Argentine peso and Chilean peso made losses against the dollar in the same period (3.5% and 1.6%, respectively).

Local markets

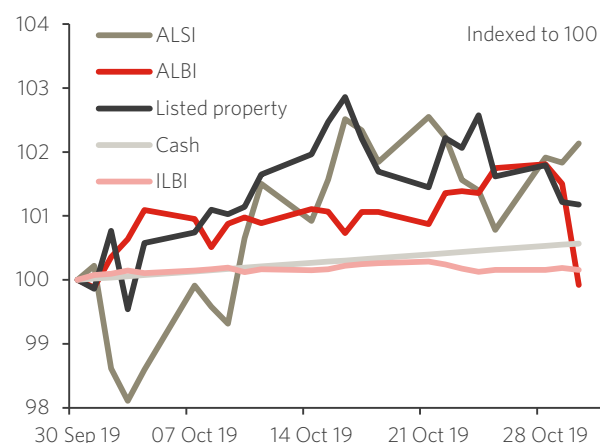
Returns in the local equity market were strong at 3.1% for October 2019, boosted at the tail end of the month on the back of a weaker currency, which reacted negatively to a worsening of government's fiscal trajectory in the medium-term budget policy announcement. Gold mining shares and pharmaceuticals were the biggest gainers in the month, while tobacco and technology shares were drags on the FTSE/JSE All-Share Index.

The dollar price of gold and platinum increased by 2.8% and 5.6% respectively in the month underpinning gains in the resource shares. The FTSE/JSE Resources Index rocketed 7.3% in October 2019.

The FTSE/JSE Financials Index ended the month 3.6% higher, adding to gains of 3.8% in the previous month. Industrial shares were the worst performers in the month. The FTSE/JSE Industrials Index moved broadly sideways during the month, inching higher by 0.3%.

The SA 10-year government bond yield sold off 21 basis points by the end of the month to 9.1% on a poor budget announcement. The JSE Assa All Bond Index (Albi) rolled back 0.3% in the month, while the JSE Assa Government Inflation-linked Bond Index (Ilbi) lost 0.1%. The FTSE/JSE SA Listed Property Index climbed 1.9% in October 2019 (see chart 6).

Chart 6: Returns from local asset classes (%)



Source: Iress, Momentum Investments

Notwithstanding the deterioration in the rand late in the month on signs of fiscal weakening, the rand strengthened by 0.3% against the US dollar for October 2019, but weakened by 2% against the euro and 4.7% against the British pound.

SA's five-year credit default swap spread narrowed by four points (2.2%) in the month, but remained 34 points lower than at the beginning of 2019.

Indices summary for October 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)	3.14%	0.82%	11.49%	7.06%	4.34%	5.76%	6.86%	9.43%	11.18%
FTSE/JSE Shareholder Weighted Index (SWIX)	2.64%	0.44%	9.53%	4.52%	3.06%	4.54%	6.44%	9.08%	11.33%
FTSE/JSE Capped SWIX All Share index	3.64%	1.52%	5.99%	3.16%	1.92%	3.52%	5.58%	8.32%	
FTSE/JSE All Share Top 40 Index	2.96%	0.23%	12.39%	7.70%	3.96%	5.58%	6.69%	9.36%	10.97%
FTSE/JSE Mid Cap Index	7.19%	7.38%	11.84%	2.68%	5.48%	5.87%	6.94%	8.84%	11.65%
FTSE/JSE Small Cap Index	1.74%	-2.04%	-7.11%	-4.56%	-1.67%	0.34%	2.97%	7.20%	9.79%
FTSE/JSE Resources Index	7.32%	6.01%	20.52%	19.10%	14.03%	4.58%	2.85%	2.89%	3.56%
FTSE/JSE Financials Index	3.59%	3.24%	2.53%	4.99%	1.55%	4.89%	7.61%	10.45%	12.52%
FTSE/JSE Industrials Index	0.33%	-3.41%	11.05%	2.69%	0.40%	4.17%	6.27%	10.58%	14.24%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (RAFI)	4.36%	1.35%	8.88%	8.79%	7.55%	6.32%	6.90%	8.99%	10.54%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	4.38%	1.52%	8.27%	8.11%	7.11%	5.96%	6.48%	8.66%	10.19%
FTSE/JSE SA Listed Property Index (SAPY)	1.89%	-1.45%	0.84%	-3.07%	-1.79%	2.27%	4.94%	6.77%	11.19%
Interest-bearing indices									
JSE ASSA All Bond Index (ALBI)	-0.35%	1.14%	12.96%	8.54%	8.14%	7.48%	7.73%	7.21%	8.77%
JSE ASSA All Bond Index 1-3 years (ALBI)	0.55%	1.73%	9.43%	8.72%	8.41%	8.01%	7.69%	7.30%	7.71%
JSE ASSA SA Government ILB Index	-0.53%	-0.38%	2.38%	1.27%	2.59%	3.20%	4.58%	4.41%	6.89%
Short-term Fixed Interest Composite Index (StefI)	0.59%	1.77%	7.33%	7.39%	7.36%	7.16%	6.92%	6.67%	6.53%
Commodities									
NewGold Exchange-Traded Fund	1.48%	12.72%	26.59%	9.53%	9.25%	11.74%	9.04%	5.81%	10.53%
Gold price (in rands)	1.04%	12.01%	27.40%	9.54%	9.58%	12.31%	9.49%	6.26%	10.96%
Platinum Exchange-Traded Fund	3.13%	13.34%	12.83%	1.62%	0.37%	0.43%	0.04%		
Platinum price (in rands)	-0.54%	11.87%	13.83%	1.95%	0.75%	0.92%	0.34%	-2.02%	-0.45%
Currency movements									
Rand/euro movements	1.85%	6.68%	0.64%	4.44%	2.51%	4.00%	3.61%	5.90%	3.85%
Rand/dollar movements	-0.35%	6.60%	2.36%	3.88%	2.30%	6.46%	7.11%	8.21%	6.79%
Inflation index									
Consumer Price Index (CPI)			4.13%	4.70%	5.05%	4.96%	5.12%	5.24%	5.10%

Important notes

- Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
- Returns for periods exceeding one year are annualised.
- 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).
- The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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October 2019

Economies at a glance

United States

01

The economy has transitioned into a late cycle phase, but past easing by the US Federal Reserve (Fed) should help to cushion the economic slowdown. While robust wage growth and a healthy labour market continue to underpin consumer strength, downside risks to global growth and trade risks have weighed heavily on business sentiment and have curbed growth in capital spending. Interest rate easing has likely spurred on higher levels of sentiment to improve economic activity but the Fed's latest communication suggests a pause in the cycle.

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

Eurozone

02

Growth momentum has slowed in tune with downbeat confidence and is worsening in the global backdrop. Concerns over trade wars and Brexit have generated more uncertainty and point to downside risks to the economic outlook for the region. Although the pace of growth in the services-related industries remains solid, the risk of spillovers from the industrial sectors to the rest of the economy remains significant. Inflation remains well below the European Central Bank's (ECB) target, suggesting a continuation of an ultra-accommodative monetary policy stance.

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

China

03

Growth has slowed to a three-decade low on recessionary conditions for the manufacturing sector. Still, resilience in China's services and consumption sectors should allow full-year growth to broadly match the government's target. China's external sector has been the most affected by the escalating trade war with the United States.

Forecast 2019:
GDP: 6.0%
Inflation: 2.3%
Forecast 2020:
GDP: 5.8%
Inflation: 2.2%

South Africa

04

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 has downgraded the outlook on the sovereign to reflect rising economic and fiscal risks and if political will is not exercised to rectify the situation, a downgrade could follow as early as 2020. There is little sign of demand-pull inflation pressure, providing space for an additional rate cut but reforms are ultimately.

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

The likelihood of a truce in the trade war anytime soon nevertheless appears low as China is unlikely to compromise the country's economic development and technological progress. Cuts to the reserve requirement ratio and lower benchmark interest rates by the People's Bank of China have a smaller effect on credit growth than in the past. Government still has plenty of levers to pull, including tax reductions, funding additional infrastructure projects and allowing credit availability to grow at a stronger pace and potentially further currency weakening.

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Economies at a glance: United States

- The unemployment rate has reached an all-time low. Unemployment categorised as newly unemployed and previously unemployed are also at low levels because jobs are plentiful.
- Previously discouraged and part-time workers, who wanted to but could not find permanent employment, also fell to record lows. The labour force participation rate is, however, lower than a decade ago because of the significant amount of ageing demographics in the US, alongside increased college attendance.
- Quit and hire rates are high because workers feel confident about employment opportunities in an improving jobs market.

Chart 1: Headline unemployment rate

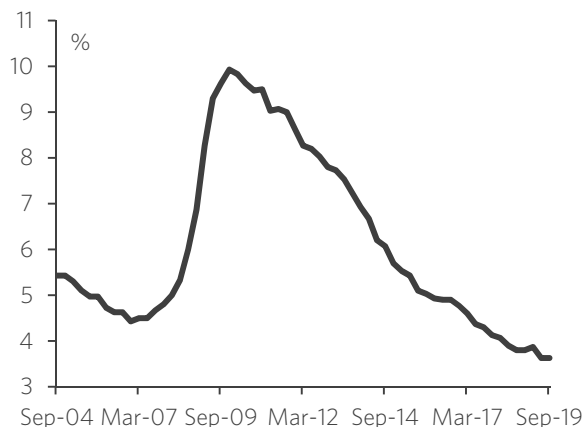


Chart 2: Unemployment entrance continues to stay low (numbers in '000)

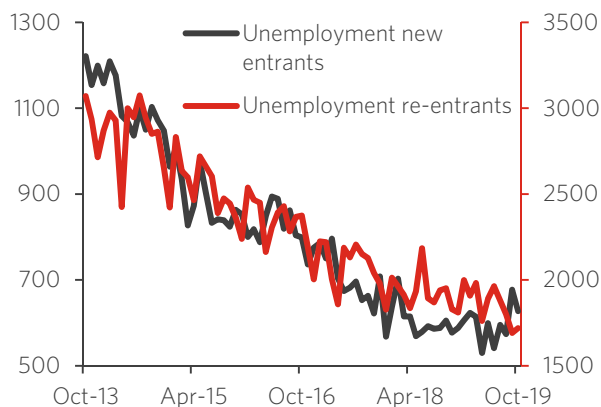


Chart 3: Economy has absorbed the previously discouraged (numbers in '000)

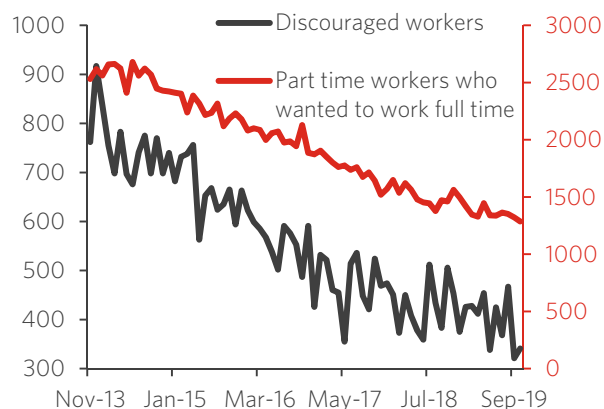


Chart 4: Labour participation is stable but lower than a decade ago

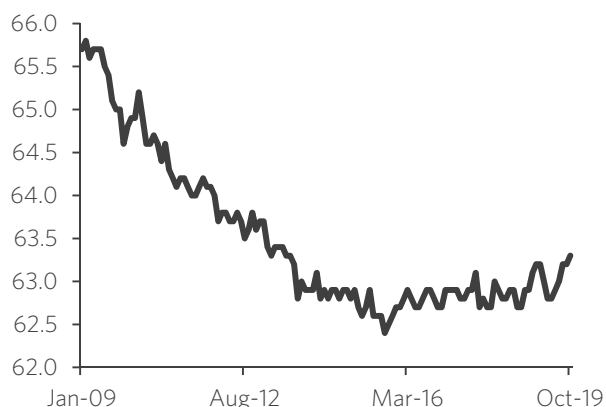


Chart 5: High turnover in job market

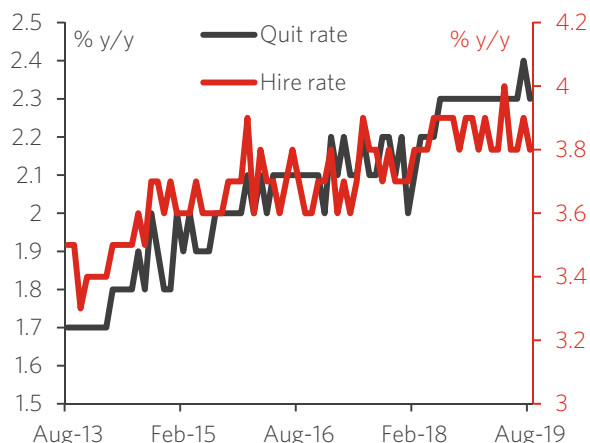
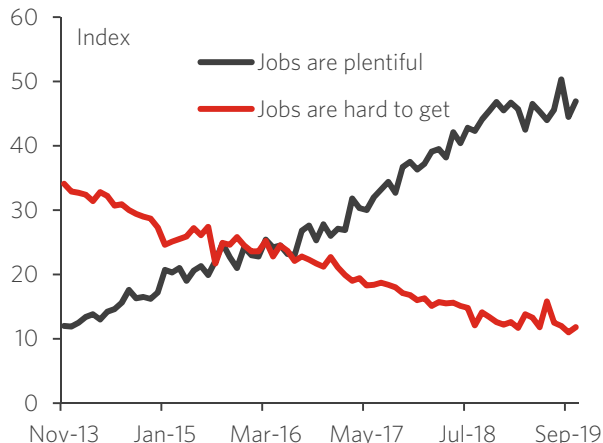


Chart 6: Confidence in ability to find employment



Economies at a glance: Eurozone

- Credit growth has slowed in most Eurozone countries since 2009 but remains elevated in Ireland and still trending upwards in France.
- In particular, household credit-to-GDP in France is rising and is also substantial in the United Kingdom but has slowed significantly in Ireland.
- Government debt is elevated in most Eurozone countries, except in Germany, where space for additional fiscal stimulus exists. Net lending and borrowing in the Eurozone indicates the same pattern.
- Unlike for corporates, debt-servicing costs for households have slowed, particularly in Spain and the United Kingdom.

Chart 1: Total credit-to-GDP ratio

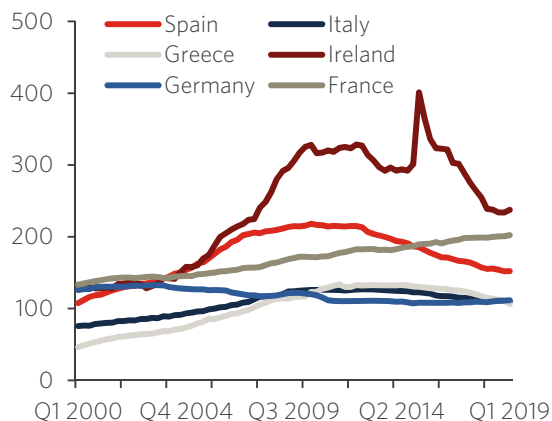


Chart 2: Household credit-to-GDP ratio

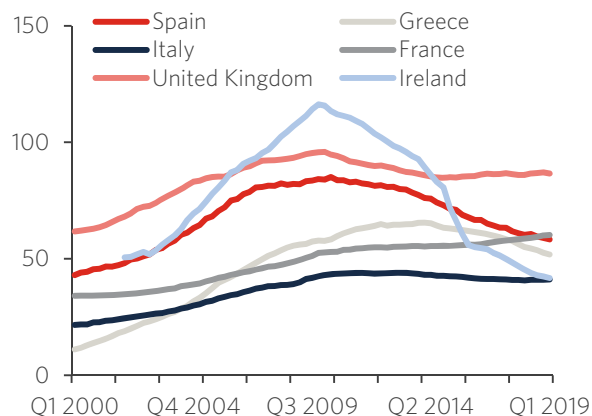


Chart 3: Government credit-to-GDP ratio

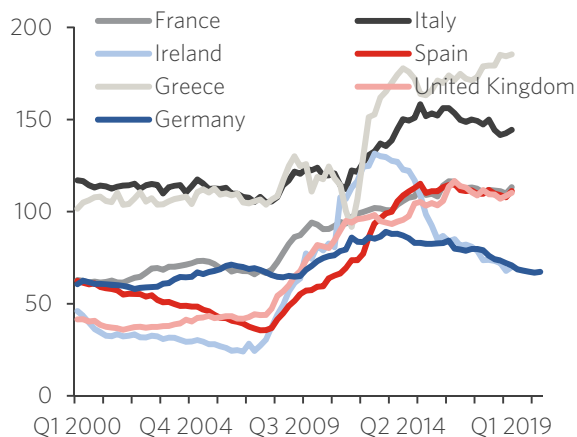


Chart 4: Net lending/borrowing likely to stabilize after rolling over in 2019 (% of GDP)

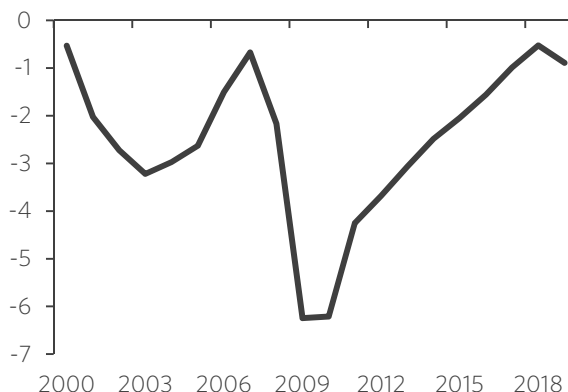


Chart 5: Debt-service costs of households (%)

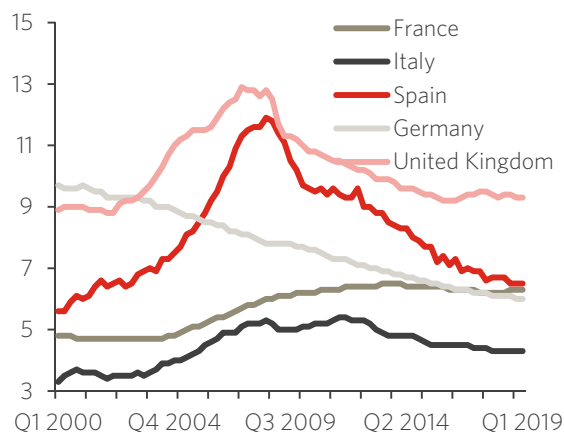
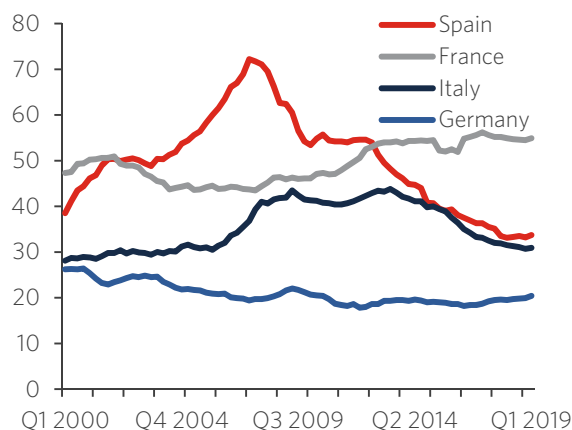


Chart 6: Debt-service costs of non-financial corporates (%)



Economies at a glance: China

- Growth is expected to become moderate in China in the next few years, as investment and exports as a share of gross domestic product (GDP) slows and the economy transitions more into a consumer-driven one.
- Growth in exports is forecasted to flatten from 2019, growing at below 5%, which will narrow the current account surplus in the same period.
- Government debt-to-GDP is likely to remain burdensome, but the widening in the budget deficit should be arrested in the coming years, as China continues to rein in its debt.

Chart 1: Growth expected to moderate to around 5% in the medium term



Chart 2: Total investment as a share of GDP will continue to slow into 2024

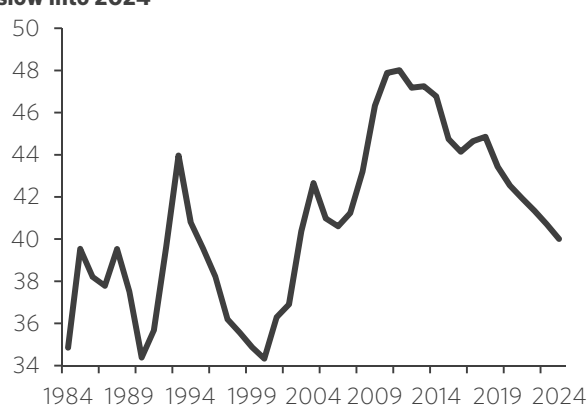


Chart 3: Growth in export volumes expected to stabilise below 5% from 2019 onwards

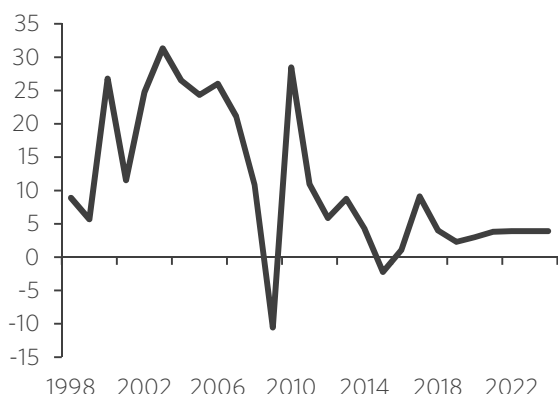


Chart 4: Current account surplus to narrow

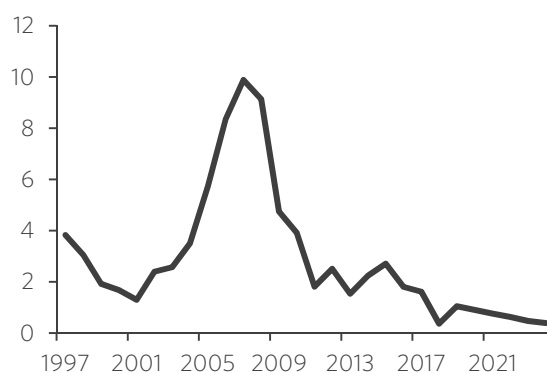


Chart 5: Government debt-to- GDP continues to soar

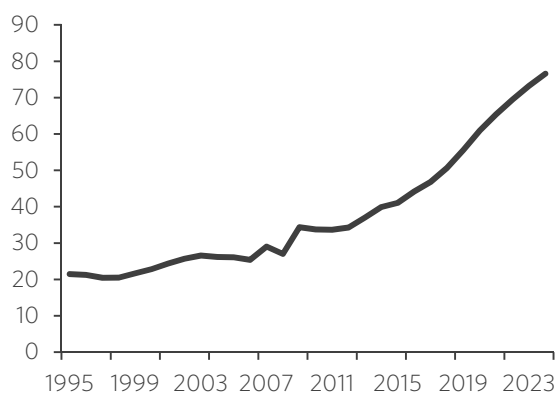
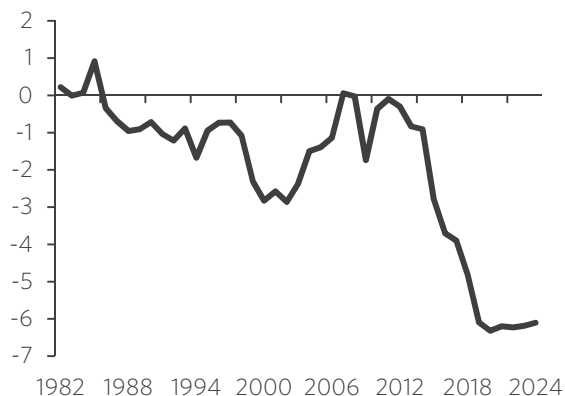


Chart 6: Net lending/ borrowing likely to remain negative



Economies at a glance: South Africa

- The medium-term budget policy statement (MTBPS) announced that nominal growth is expected to underperform in the medium-term economic framework (MTEF) relative to the February budget. Fiscal slippage is deeper than anticipated, underpinned by higher expenditure, due to increased financial support given to state-owned enterprises and lower revenue collection in the MTEF.
- Citizens will continue to carry the cost of corruption and fruitless spending, given that the tax burden is forecasted to hover around 26% in the MTEF. As such, consumer confidence is unlikely to stage a major recovery in the near term.
- The government debt-to-GDP ratio is now estimated to exceed 70% in the fiscal year 2021/22 (FY21/22), due to financial support given to Eskom. Confidence continues to remain in the doldrums, as policy certainty remains vague.

Chart 1: Nominal GDP growth (%)

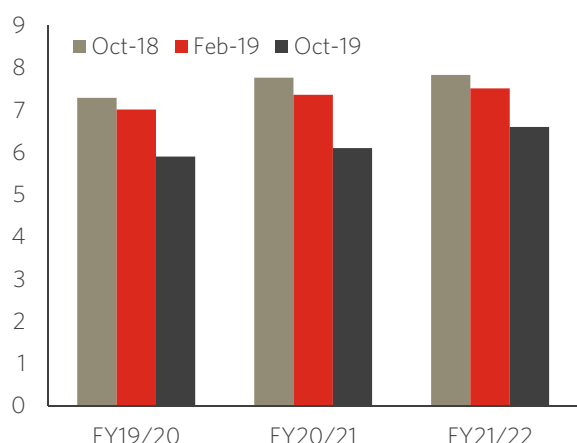


Chart 2: Fiscal deficit deepens to above 6% in the MTEF

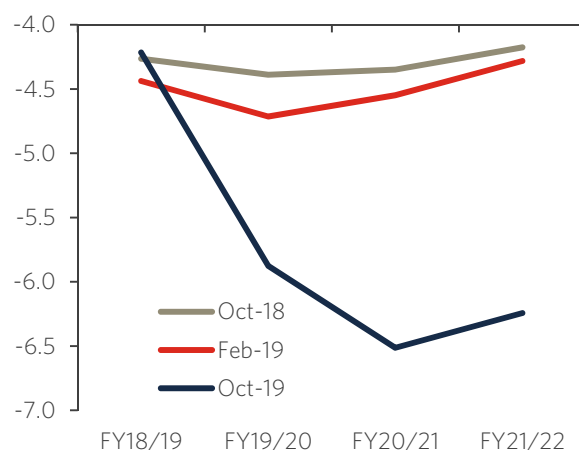


Chart 3: Climbing expenditure (R'bn)

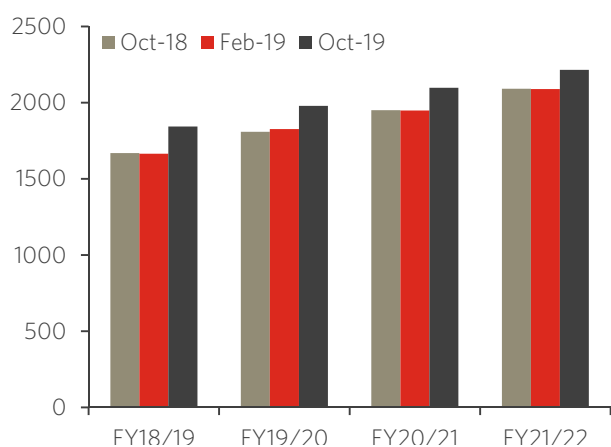


Chart 4: Tax burden hovers around 26% in MTEF

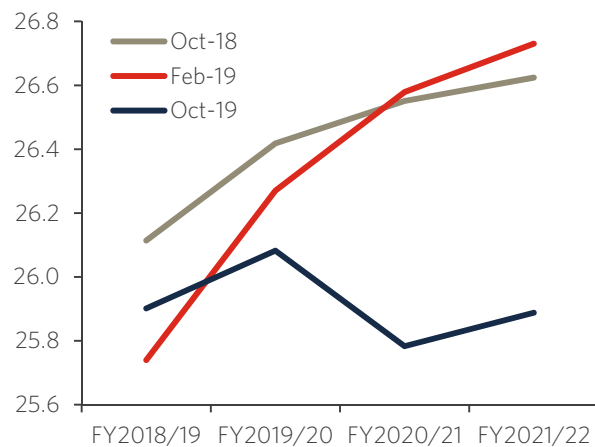


Chart 5: Government debt ratio to exceed 70% in FY21/22

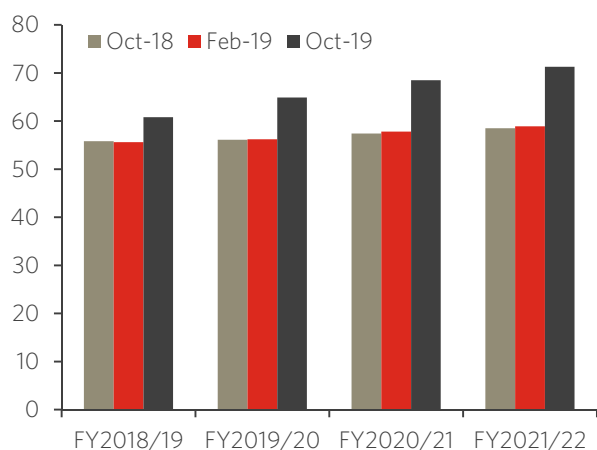
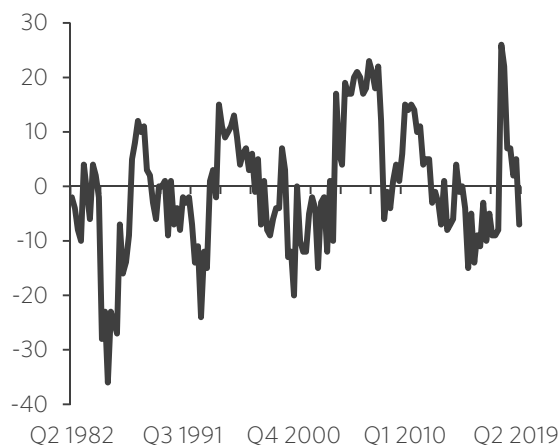


Chart 6: Consumer confidence back into negative territory (index)



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.



Herman van Papendorp

Head of Investment Research and
Asset Allocation



Sanisha Packirisamy

Economist



Roberta Noise

Economic Analyst

