

Economies at a glance

May 2021

Forecast 2021:

GDP: 7,2%

Core PCE Inflation: 2,2%

Forecast 2022:

GDP: 4,7%

Core PCE Inflation: 2,1%

EUROZONE

Europe's economy contracted 0,6% in the first quarter of 2021 following a 0,7% decline in the fourth quarter of 2020, making it a technical recession. However, a quick resolution of vaccine bottlenecks created an environment for the economy to grow at a faster pace. The number of daily vaccine doses administered is now higher than in the US on a per-capita basis. This made for a faster opening of the economy, which will accelerate economic growth, but also contributed to CPI surging to 1,6% y/y in April. Although the Monetary Policy Committee (MPC) of the European Central Bank viewed the bulk of the increase in CPI as transitory, the surge contributed to the MPC noting CPI risks to be tilted to the upside. However, they indicated tightening is still a long way off.

Forecast 2021:

GDP: 6,8%

Inflation: 1,9%

Forecast 2022:

GDP: 5,8%

Inflation: 2,0%

JAPAN

A debate is raging in Japan whether the Olympic and Paralympic Games should proceed. A Nomura Research Institute (NRI) estimate showed Japan could lose economic benefits worth US\$17 billion if both Games are cancelled. However, should the Games proceed and cause a new wave of COVID-19 infections and lockdown, the cost is estimated to exceed US\$17 billion. Nearly 60% of respondents in a Kyodo News survey in mid-May said the Olympics and Paralympics should be cancelled. Elsewhere Japan's y/y change in March nominal wages increased for the first time in a year (0,7% in March compared to -0,5% in February). However, the situation may again revert to contractions due to the lockdowns instituted in a number of regions. Japan faces the risk of another economic contraction in the second quarter of 2021 after the economy shrank by 5,1% in the first quarter.

UNITED STATES

Headline CPI jumped to 4,4% year on year (y/y) in April from 2,6% in March. However, trimmed mean CPI, which removes 'short-term' outliers at the top and bottom of the index, shows an increase of only 2,4% from 2,1% in March. The outliers were caused by behaviour-change-purchases in a small number of items, driven by an opening economy. For instance, prices of used cars were up 21% y/y. Meanwhile, the US is on a peacemaking drive that will affect future trade. American and European negotiators are working to resolve the Trump-trade-tariff-conflict on steel and aluminium products. In addition, to assist Germany, the US waived sanctions against the Russian developers of the Nord Stream 2 pipeline, while a main deal was reached to lift US sanctions on Iran's oil. However, such a deal is conditional to an agreement on a number of details.

Forecast 2021:

GDP: 4,4%

HICP Inflation: 1,5%

Forecast 2022:

GDP: 4,8%

HICP Inflation: 1,2%

UNITED KINGDOM

The composite Purchasing Managers Index (PMI) continued to increase, as the economy opened in response to rising vaccinations. Current indications are for 'super-charging' economic growth as indicated by, among other factors, retail sales which were 10,6% higher in April 2021 compared to February 2020 (before the outbreak of COVID-19). UK economists ascribe the surge to consumers starting to spend the pent-up savings acquired during months of lockdown. Although the central bank views the surge in CPI as transitory, the PMI-report noted the services sector ascribing some of its price pressures as emanating from rising staff salaries. Should this become a trend, the possibility of a faster tightening in monetary policy may increase.

Forecast 2021:

GDP: 1,9%

Inflation: 0,0%

Forecast 2022:

GDP: 2,5%

Inflation: 0,6%

CHINA

Forecast 2021:

GDP: 8,3%

Inflation: 1,6%

Forecast 2022:

GDP: 6,5%

Inflation: 2,1%

Economic indicators continue to point to slowing growth, while CPI is increasing. The People's Bank of China views the higher CPI to be of a passing nature and kept the medium-term lending facility unchanged at 2,95%. In terms of economic policy, Vice Premier, Liu He, reaffirmed the commitment to reforms aimed at reducing financial risks, especially credit risks. The State Council's Financial Stability and Development Committee outlawed any mining and trading of Bitcoin, as well as the issuance of any crypto-related financial products as part of the effort to maintain financial stability and develop its own digital currency. China also announced a consumption tax on the imports of light cycle oil (to make gas oil), mixed aromatics (to make gasoline) and bitumen (to make asphalt) from 12 June to increase the competitiveness of local refiners.

Forecast 2021:

GDP: 6,9%

Inflation: 3,5%

Forecast 2022:

GDP: 5,3%

Inflation: 3,4%

EMERGING MARKETS

Emerging market currencies appreciated on the back of a weaker US dollar and country-specific reasons. Brazil's CPI increased more than 7% for the month to mid-May, strengthening the view that the central bank will raise interest rates by another 75 basis points next month to 4,25%. This supported the Brazilian real. While the daily number of COVID-19 cases in India is on a declining path, government is working on a stimulus package to assist the tourism, aviation and hospitality sectors, along with small- and medium-sized companies. In Turkey, President Erdogan replaced the central bank's deputy governor, (the fourth replacement since March) calling into question the independence of monetary policy and putting downward pressure on the Turkish lira. In the meantime, US Federal Reserve presidents stated that 'taper talk', which can put downward pressure on emerging market currencies, is not yet on the horizon.

Forecast 2021:

GDP: 4,4%

Inflation: 4,2%

Forecast 2022:

GDP: 2,3%

Inflation: 4,4%

SOUTH AFRICA

Mild economic restrictions, which should not detract much from economic growth were implemented on 31 May, as the third wave of COVID-19 infections seem to be occurring at a flatter pace compared to the previous two waves. Meanwhile, the rate of vaccination is speeding up. The largest constraint to faster growth will be electricity shortages and slow reforms. Nevertheless, increasing world demand, a recovery in consumer finances and higher commodity prices supported growth in the first quarter. At R96 billion, the trade surplus for the first quarter was 205% larger compared to a year ago. Seasonally adjusted (not annualised) retail sales increased by 1,6% in the first quarter of 2021 from the fourth quarter of 2020, while mining and manufacturing production increased by 3,9% and 0,2% respectively. Furthermore, personal income tax revenue in April was 2,2% higher compared to April 2019, while value added tax collections were 29% up, suggesting a strong start to the second quarter of 2021.

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. Economists, Sanisha Packirisamy and Johann van Tonder, are responsible for providing a macro framework to inform investment opportunities and strategies.



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Indices summary for May 2021

	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)	1.56%	4.17%	38.11%	9.98%	9.48%	7.98%	7.69%	7.81%	10.97%
FTSE/JSE Shareholder Weighted Index (Swix)	1.31%	4.18%	35.44%	6.96%	6.35%	5.66%	5.74%	6.68%	10.53%
FTSE/JSE Capped Swix All Share index	2.93%	7.61%	40.75%	6.11%	5.48%	4.72%	4.83%	5.88%	
FTSE/JSE All Share Top 40 Index	1.14%	3.09%	36.12%	10.79%	10.25%	8.33%	8.07%	7.89%	11.01%
FTSE/JSE Mid Cap Index	6.16%	12.36%	45.28%	5.13%	4.39%	4.31%	4.18%	6.05%	9.53%
FTSE/JSE Small Cap Index	3.33%	17.45%	85.72%	3.47%	2.89%	3.39%	3.25%	4.95%	10.21%
FTSE/JSE Resources Index	-1.24%	2.80%	50.64%	25.97%	26.97%	21.65%	13.32%	7.67%	6.07%
FTSE/JSE Financials Index	9.30%	12.81%	41.03%	-3.09%	0.33%	0.80%	0.47%	3.58%	9.26%
FTSE/JSE Industrials Index	1.59%	2.26%	28.85%	7.49%	5.27%	4.70%	5.90%	7.32%	13.31%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	3.61%	8.69%	44.56%	8.06%	9.55%	8.95%	7.55%	6.88%	9.72%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	3.72%	8.61%	45.95%	7.98%	9.35%	8.89%	7.24%	6.74%	9.43%
FTSE/JSE SA Listed Property Index (Sapy)	-2.88%	9.80%	37.33%	-10.91%	-9.81%	-7.25%	-4.67%	-0.16%	4.85%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	3.73%	3.01%	11.11%	8.42%	8.92%	9.79%	8.27%	8.44%	8.43%
FTSE/JSE All Bond Index 1-3 years (Albi)	-0.08%	1.75%	5.92%	8.89%	8.60%	8.85%	8.43%	8.17%	7.78%
FTSE/JSE Inflation-linked Index (Ili)	3.42%	5.22%	15.52%	4.76%	4.44%	3.93%	4.43%	4.69%	6.69%
Short-term Fixed Interest Composite Index (Stefi)	0.31%	0.93%	4.15%	6.14%	6.45%	6.69%	6.70%	6.64%	6.28%
Commodities									
NewGold Exchange-Traded Fund	2.21%	-0.08%	-14.22%	16.26%	11.47%	6.11%	9.94%	9.91%	9.08%
Gold price (in rands)	3.10%	0.28%	-13.54%	16.56%	12.07%	6.57%	10.41%	10.38%	9.55%
Platinum Exchange-Traded Fund	-7.53%	-8.81%	10.23%	11.89%	6.54%	0.87%	2.70%	0.46%	
Platinum price (in rands)	-6.70%	-11.91%	11.34%	11.92%	6.99%	1.12%	3.14%	0.82%	-0.67%
Currency movements									
Rand/euro movements	-3.94%	-7.81%	-14.41%	4.30%	3.13%	-0.87%	3.89%	2.17%	5.51%
Rand/dollar movements	-5.43%	-8.64%	-22.17%	2.70%	1.00%	-2.70%	2.04%	3.78%	7.21%
Inflation index									
Consumer Price Index (CPI)	0.67%	2.04%	4.43%	3.92%	4.07%	4.32%	4.64%	4.62%	5.04%

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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