

Economies at a glance

July 2021

Forecast 2021:

GDP: 7.1%

Core PCE Inflation: 3.6%

Forecast 2022:

GDP: 4.7%

Core PCE Inflation: 2.4%

EUROZONE

Daily COVID-19 cases in the European Union (EU) increased from around 12 000 a month ago to almost 70 000 by the end of July. However, just more than 47% of the EU-population had been fully vaccinated against COVID-19 compared to 31% a month ago. Consequently, the Eurozone's PMI for services increased from 58.3 in June to 60.4 in July, while manufacturing PMI fell from 62.6 in June to a still high 60.9 in July. The European Central Bank (ECB) adopted a symmetric 2% inflation target in the medium-term and said it is too early to start talks about ending the Pandemic Emergency Purchase Programme. The ECB confirmed owner-occupied housing will be included in the Harmonised Index of Consumer Prices (HICP). The ECB also decided to incorporate climate change considerations in its monetary policy framework. The EU announced climate proposals to cut cumulative greenhouse-gas emissions by at least 55% before 2030.

Forecast 2021:

GDP: 6.8%

Inflation: 1.7%

Forecast 2022:

GDP: 4.9%

Inflation: 1.8%

JAPAN

Japan released a draft Strategic Energy Plan proposing non-fossil fuel power supply sources to account for about 60% of the country's energy mix in 2030 – '31. In this respect, the Ministry of Economy, Trade and Industry also said solar power would become cheaper than nuclear by 2030, as the cost of generating nuclear power will rise by about 10% from its previous estimate, while the cost of solar power will drop. In the meantime, surging coronavirus cases in Southeast Asia are increasingly affecting the supply chains of Japanese companies and may impact economic growth. On the inflation front, core CPI increased by a lower than expected 0.2% y/y in June, driven by higher fuel costs. Japan is also working towards fiscal health as the government is aiming to achieve a primary budget surplus by 2027 on the back of strong increases in tax revenue.

UNITED STATES

The Federal Reserve (Fed) said although substantial progress was made to achieve its economic goals, full employment is still ways off and no 'tapering programme' was discussed. The Fed is not concerned about sharp rising inflation, attributing it to transitory factors. Indeed, the shortage of semiconductors propelled used car inflation to 10.5% month on month (m/m) in June, thrusting core PCE inflation to 4.5% year on year (y/y). If used cars is excluded from core PCE inflation, the y/y rate would have declined from 2.7% in May to 2.6% in June. Meanwhile, the cost and selling price measures in the manufacturing purchasing managers index (PMI) declined for a second month in a row in July. Economic growth for the second quarter disappointed at 6.5% (annualised) compared to an expected 8.4%, due to among other factors rising COVID-19 cases and declining vaccination rates.

Forecast 2021:

GDP: 4.6%

HICP Inflation: 1.5%

Forecast 2022:

GDP: 4.8%

HICP Inflation: 1.3%

UNITED KINGDOM

PMI numbers suggest the United Kingdom experienced a significant deceleration of economic activity in July. Services PMI decreased from 62.4 in June to 57.8 in July, a four-month low, while manufacturing PMI fell from 63.9 in June to 60.4 in July. The deceleration reflects shortages of materials and labour as the UK lost many foreign workers due to Brexit. New orders for services declined in part due to labour shortages, but also due to a surge in COVID-19 infections. The July numbers nevertheless still indicate rapid growth in activity. Meanwhile, members of the Bank of England's Monetary Policy Committee acknowledged that CPI would breach their previous 'high estimate' of 3% and may close in on 4%. Although most of them view increasing CPI as passing, there is uncertainty whether high wage inflation will pull back.

Forecast 2021:

GDP: 2.2%

Inflation: -0.1%

Forecast 2022:

GDP: 2.1%

Inflation: 0.5%

CHINA

The National Bureau of Statistics announced gross domestic product expanded by 7.9% y/y in the second quarter, down from 18.3% in the previous quarter. The People's Bank of China (PBOC) cut the reserve requirement ratio (RRR) for all banks by 50 basis points. This could release around US\$155 billion in long-term liquidity to underpin the post-COVID economic recovery, which appear to be losing steam. Manufacturing PMI decreased from 52 in May to 51.3 in June. China was adversely affected by increasing COVID-19 cases, shortages of labour and constraints on electricity supply in southern China. Chinese manufacturers experienced an easing of input price inflation as shortages were partly resolved. The Political Bureau of the China Communist Party discussed plans for the second half of 2021 and urged deeper structural reform, pro-active fiscal policy, keeping the exchange rate stable and steadying commodity prices.

Forecast 2021:

GDP: 8.2%

Inflation: 1.2%

Forecast 2022:

GDP: 5.9%

Inflation: 2.1%

EMERGING MARKETS

In its July outlook, the International Monetary Fund still expects global growth of 6%. The composition of the growth, however, changed in favour of advanced economies. Vaccine access emerged as the fault line between advanced and emerging economies as the latter don't have sufficient access. Consequently, several countries in South and East Asia experienced a surge in new COVID-19 cases, affecting the outlook for economic growth. According to the World Bank, the number of people forced into poverty due to COVID-19 increased by about 180 million in South and East Asia. The Pew Research Center estimates the size of the middle class to shrink by 51 million in South and East Asia. Meanwhile the Central Bank of the Russian Federation increased the key interest rate by another 100 basis points in an attempt to curb rising inflation.

Forecast 2021:

GDP: 4.0%

Inflation: 4.3%

Forecast 2022:

GDP: 2.4%

Inflation: 4.3%

SOUTH AFRICA

Economic growth in the third quarter will be negatively affected by the institution of a stringent adjusted level 4 lockdown (since downgraded to adjusted level 3) and property damaging public unrest which continued from 8 July to 16 July. The government subsequently announced several measures to assist in the 'rebuilding' of the affected areas in KwaZulu-Natal and Gauteng, alleviate poverty via the reintroduction of the R350 per month social relief grant and TERS-payments to workers affected by the lockdown. These measures are estimated to cost R38.9 billion, but the National Treasury confirmed this will not increase the fiscal deficit as it will be financed from a "revenue overrun". In the first quarter tax collections were about R60 billion more than in 2019 (before Covid-19). The government also reached an agreement with labour unions on salary increases, estimated to cost around R27 billion. The South African Reserve Bank kept the repo rate unchanged and lowered its CPI forecast for 2022.

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 July 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)	4.18%	3.24%	27.06%	9.67%	9.04%	8.75%	8.03%	7.50%	11.60%
FTSE/JSE Shareholder Weighted Index (Swix)	1.59%	0.05%	20.90%	5.52%	5.42%	5.27%	5.43%	5.87%	10.72%
FTSE/JSE Capped Swix All Share index	2.59%	2.40%	27.08%	5.19%	4.95%	4.38%	4.64%	5.19%	10.23%
FTSE/JSE All Share Top 40 Index	4.53%	3.02%	25.50%	10.28%	9.73%	9.67%	8.28%	7.62%	11.76%
FTSE/JSE Mid Cap Index	2.79%	6.31%	34.87%	5.75%	4.17%	2.06%	5.18%	5.34%	9.52%
FTSE/JSE Small Cap Index	-1.12%	1.15%	61.23%	4.51%	2.87%	2.42%	3.31%	4.50%	9.99%
FTSE/JSE Resources Index	11.67%	3.19%	32.70%	25.97%	25.39%	22.30%	17.27%	7.11%	7.37%
FTSE/JSE Financials Index	-1.21%	4.70%	29.19%	-4.99%	-1.42%	-0.20%	-0.80%	2.43%	9.18%
FTSE/JSE Industrials Index	0.94%	2.94%	22.10%	7.21%	5.29%	5.81%	5.81%	7.28%	13.57%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	4.30%	5.83%	36.24%	7.62%	8.88%	8.93%	8.53%	6.62%	10.49%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	4.09%	5.58%	37.05%	7.68%	8.58%	8.67%	8.18%	6.40%	10.12%
FTSE/JSE SA Listed Property Index (Sapy)	-0.64%	-0.25%	28.46%	-8.90%	-10.09%	-7.57%	-4.99%	-0.52%	4.85%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	0.83%	5.73%	13.92%	8.67%	9.29%	8.86%	8.46%	8.43%	8.46%
FTSE/JSE All Bond Index 1-3 years (Albi)	0.94%	0.86%	4.61%	8.78%	8.44%	8.55%	8.43%	8.15%	7.70%
FTSE/JSE Inflation-linked Index (Ili)	0.47%	2.27%	16.71%	5.01%	4.18%	3.27%	3.82%	4.32%	6.37%
Short-term Fixed Interest Composite Index (Stefi)	0.32%	0.94%	3.90%	5.95%	6.29%	6.57%	6.63%	6.58%	6.25%
Commodities									
NewGold Exchange-Traded Fund	6.03%	4.08%	-20.74%	18.12%	11.95%	6.96%	11.17%	9.46%	8.95%
Gold price (in rands)	5.96%	5.05%	-19.53%	18.42%	12.53%	7.29%	11.48%	9.96%	9.34%
Platinum Exchange-Traded Fund	0.86%	-13.29%	-1.29%	11.32%	5.05%	-1.26%	3.09%	-0.79%	
Platinum price (in rands)	1.73%	-10.59%	0.45%	12.44%	5.89%	-0.45%	3.80%	-0.05%	-1.77%
Currency movements									
Rand/euro movements	2.48%	-0.68%	-13.82%	4.20%	2.75%	2.27%	3.71%	2.76%	6.05%
Rand/dollar movements	2.49%	0.83%	-14.07%	3.74%	2.60%	1.08%	2.53%	4.55%	8.14%
Inflation index									
Consumer Price Index (CPI)			4.87%	3.85%	4.03%	4.24%	4.57%	4.60%	4.98%

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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