

Economies at a glance

June 2021

Forecast 2021:

GDP: 7.2%

Core PCE Inflation: 3.6%

Forecast 2022:

GDP: 4.7%

Core PCE Inflation: 2.4%

EUROZONE

Vaccinations are occurring at a faster rate, with about 30% of the adult population fully vaccinated and almost 50% having received at least one dose. This contributed to reduced economic restrictions and consumers allocating more funds towards spending on services, which is now complementing the recovery in manufacturing and goods exports. Households' accumulated savings during lockdown periods should enable consumption spending to become a strong driver of economic growth, which should make the recovery broad based. This should provide impetus to employment and investments in infrastructure. However, as is the case in almost all countries, consumer price inflation (CPI) is increasing, driven by a low base and high fuel prices. Although the European Central Bank also views inflation as temporary, it may start talking about reducing the pace of quantitative easing by the end of the year.

Forecast 2021:

GDP: 6.8%

Inflation: 1.7%

Forecast 2022:

GDP: 5.6%

Inflation: 1.8%

JAPAN

Japan's first quarter economic contraction of 3.9% was less than the 5.1% of the fourth quarter of 2020, suggesting an economic recovery. In addition, April's household real wages increased at the fastest pace in a decade. However, a bout of new infections forced government to impose economic restrictions in several areas in the second quarter, which would have dented the recovery. The Cabinet Office therefore retained its view that some sectors of the Japanese economy are still experiencing increased weakness. However, in its monthly report for June, the Cabinet Office indicated a more optimistic economic outlook as the pace of vaccinations is increasing. Meanwhile, the Bank of Japan kept monetary policy unchanged, also providing a more upbeat economic outlook, expecting the recovery to be led by exports and household spending.

UNITED STATES

The Federal Reserve (Fed) turned positive and hawkish in June. Economic growth for 2021 was estimated at 7.0% (6.5% in March), core PCE inflation at 3.4% (2.4% in March), and the first interest rate increase was projected to occur in 2023 (2024 in March). The Fed added that interest rate increases will occur once broad full employment is achieved, and wage pressures exert pressure on inflation. Although some wage increases are already occurring, the Fed views most as transitory due to labour supply constraints. Some companies are raising salaries to attract workers, who are fearful of contracting COVID-19, while many parents stay at home to care for children, as many schools are not yet open. Meanwhile, President Biden brokered a US\$ 579 billion infrastructure agreement, while total federal investment in infrastructure over five years may amount to nearly US\$1 trillion.

Forecast 2021:

GDP: 4.4%

HICP Inflation: 1.8%

Forecast 2022:

GDP: 4.8%

HICP Inflation: 1.2%

UNITED KINGDOM

The minutes of the Bank of England's (BoE) Monetary Policy Committee can be interpreted as 'good news hawkish' as almost all the projections were higher than expected. Economic growth for 2021 was adjusted upward, CPI is expected to peak at above 3.0% (the inflation target is 2%), while the average CPI for the year was also raised, employment is higher than expected as workers are returning from furlough faster than expected and wage growth appears to be close to pre-COVID-19 levels. However, as in other countries, the BoE views the increase in both GDP and CPI as transitory as it is caused by a low base as well as high commodity prices emanating from strong demand and supply disruptions. The BoE projects interest rate increases to start in 2023.

Forecast 2021:

GDP: 1.9%

Inflation: 0.0%

Forecast 2022:

GDP: 2.1%

Inflation: 0.6%

CHINA

Forecast 2021:

GDP: 8.3%

Inflation: 1.6%

Forecast 2022:

GDP: 6.6%

Inflation: 2.1%

An outbreak of COVID-19 in Yantian, the busiest port in China, caused renewed supply disruptions as ships had to pass the harbour, affecting imports to China and exports to the rest of the world, which in turn, added pressure on commodity prices to increase. This follows a year-on-year (y/y) increase of 9.0% in May's producer price inflation (PPI), which is the fastest increase since 2008, reflecting the effect of high commodity prices on production costs. However, CPI for May was up just 1.3% in May, suggesting no strong pass-through from producer prices to consumer prices, yet. Some indicators point to strong economic growth, albeit less than analysts' expectations. Real retail sales were 12.4% higher y/y in May and industrial production surged 8.8% y/y. However, both increases were the slowest in the past five months.

EMERGING MARKETS

Several emerging market economies experienced setbacks in the second quarter of 2021, following strong economic growth rates in the first quarter. A new wave of COVID-19 infections contributed to renewed restrictions in a number of countries. In an attempt to counter increasing CPI, several central banks increased interest rates during the year. This trend continued in June, as Brazil's benchmark interest rate was increased by another 75 basis points (bp), bringing the total increase for the year to 200 bp. The Russian Central Bank increased rates by another 50 bp (125 bp for the year), while rates in Mexico (25 bp), Hungary (30 bp) and Czech Republic (25 bp) were also increased in June. Economic restrictions and higher interest rates are set to trim demand, which contributed to the oil price declining from the highest levels since 2018.

Forecast 2021:

GDP: 6.0%

Inflation: 5.6%

Forecast 2022:

GDP: 5.1%

Inflation: 5.2%

SOUTH AFRICA

Economic growth for the third quarter is set for a mild hiccup, following an 'initial' two-week introduction of adjusted level 4 restrictions. The restrictions follow a sudden steep increase in the number of COVID-19 cases. Five out of every 100 people tested positive in early May, which increased to 28 by the end of June. Meanwhile, future economic growth potential received a boost from some economic reforms announced by government. For instance, the licensing cap for private companies to self-generate power was lifted from 1MW to 100MW, which should attract investments in the electricity sector. Households experienced higher CPI in May (up to 5.2% y/y from 4.4% in April), but income is on the mend for those lucky enough to be employed. Households' real disposable income increased by 5.4% in the first quarter from 3.8% in the fourth quarter of 2021.

Forecast 2021:

GDP: 4.4%

Inflation: 4.2%

Forecast 2022:

GDP: 2.1%

Inflation: 4.5%

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 June 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)	-2.43%	0.05%	25.07%	8.09%	9.78%	8.11%	7.39%	7.01%	10.92%
FTSE/JSE Shareholder Weighted Index (Swix)	-2.79%	-1.83%	21.82%	5.00%	6.63%	5.33%	5.13%	5.84%	10.38%
FTSE/JSE Capped Swix All Share index	-3.02%	0.63%	27.60%	4.80%	5.63%	4.32%	4.21%	5.01%	9.78%
FTSE/JSE All Share Top 40 Index	-2.56%	-0.84%	22.98%	8.55%	10.54%	8.68%	7.65%	7.03%	10.99%
FTSE/JSE Mid Cap Index	-2.58%	5.92%	33.45%	4.97%	4.64%	3.10%	4.39%	5.40%	9.24%
FTSE/JSE Small Cap Index	-1.00%	8.01%	65.15%	4.29%	3.36%	3.16%	3.40%	4.81%	10.11%
FTSE/JSE Resources Index	-6.44%	-4.96%	29.57%	20.85%	25.85%	20.65%	13.45%	6.14%	5.70%
FTSE/JSE Financials Index	-3.03%	7.53%	31.28%	-3.15%	0.10%	0.60%	0.03%	2.77%	9.14%
FTSE/JSE Industrials Index	0.38%	0.77%	19.42%	6.17%	6.50%	5.53%	5.86%	6.99%	13.47%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	-2.06%	4.20%	32.45%	6.89%	9.86%	8.68%	7.46%	6.18%	9.75%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	-2.21%	4.35%	33.81%	6.83%	9.57%	8.54%	7.18%	6.05%	9.40%
FTSE/JSE SA Listed Property Index (Sapy)	3.37%	12.12%	25.17%	-8.86%	-9.13%	-6.85%	-4.09%	-0.16%	5.08%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	1.09%	6.86%	13.67%	9.24%	9.48%	9.16%	8.50%	8.46%	8.53%
FTSE/JSE All Bond Index 1-3 years (Albi)	-0.01%	1.40%	4.94%	8.77%	8.52%	8.52%	8.35%	8.09%	7.72%
FTSE/JSE Inflation-linked Index (Ili)	-1.57%	2.95%	14.79%	4.93%	4.09%	3.20%	4.09%	4.24%	6.42%
Short-term Fixed Interest Composite Index (Stefi)	0.31%	0.92%	4.01%	6.06%	6.37%	6.63%	6.67%	6.61%	6.26%
Commodities									
NewGold Exchange-Traded Fund	-3.96%	0.15%	-18.89%	13.12%	11.03%	5.01%	9.56%	8.28%	8.99%
Gold price (in rands)	-3.84%	0.38%	-17.72%	13.23%	11.66%	5.25%	9.94%	8.83%	9.48%
Platinum Exchange-Traded Fund	-7.03%	-14.02%	5.10%	8.48%	5.42%	0.11%	2.02%	-1.04%	
Platinum price (in rands)	-5.80%	-10.57%	8.62%	9.45%	6.04%	0.35%	2.60%	-0.46%	-1.58%
Currency movements									
Rand/euro movements	0.89%	-2.43%	-13.22%	1.87%	3.16%	0.80%	3.79%	2.17%	5.59%
Rand/dollar movements	4.02%	-3.31%	-17.79%	1.34%	2.16%	-0.50%	2.74%	4.30%	7.73%
Inflation index									
Consumer Price Index (CPI)			5.16%	3.89%	4.01%	4.31%	4.61%	4.60%	5.00%

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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