ECONOMIC EXPRESS

AUGUST 2021

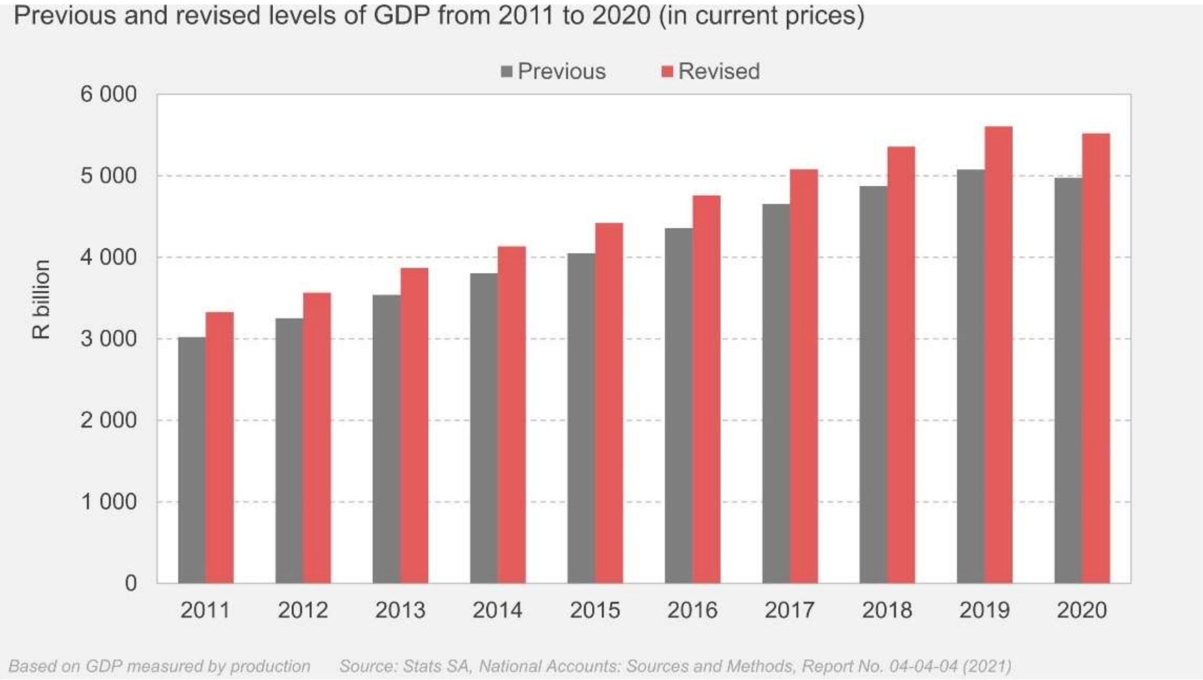
August started off with a very strong US labour market report for July, coming in ahead of estimates and so further building up expectations for a tapering announcement at the Jackson Hole monetary policy conference that was held at the end of the month. US employment, one of the US Federal Reserve's mandates, needs to reflect an adequate recovery in order for the Fed to start reducing its bond buying program (tapering). The strong improvement reinforced market expectations which weighed on risk sentiment over the first half of the month.

Locally, following on from the social unrest in July, President Ramaphosa, announced a new cabinet at the start of the month. There were a number of changes, which included the noteworthy replacement of Tito Mboweni as Finance Minister with Enoch Godongwana. The new Finance Minister's comments gave reassurance to the market that National Treasury's fiscal restraint policy remains in place and that there will be continuity.

On local macro developments, South Africa's annual rate of inflation slowed for the second month, with July's inflation coming in below expectation at 4.6% from 4.9%. The dramatic decline in fuel inflation was somewhat offset by the electricity prices increasing 13.6% on the year. Core inflation remained contained at 3%, which should reduce the SARB's (South African Reserve Bank) urgency to return the repo rate back to pre-COVID levels.

In the last week of the month Stats SA finalised the rebasement of its GDP estimate, an exercise it completes every five years to ensure that all parts of the economy are accounted for accurately when measuring its GDP. This is a well-accepted procedure and adds to the accuracy of GDP estimates in an ever-changing economy. The revised GDP showed that the economy in 2020 was 11% larger than estimated. A significant implication of this is that South Africa's Debt to GDP ratio has reduced dramatically from 80% to 71%, which will help reduce the risk of future rating downgrades.

Figure 1: South African GDP revisions:



An important event in August, was the keenly awaited annual Jackson Hole Economic Policy conference that was held in the last week of the month. Investors had penciled in this the event where the US Federal Reserve would make the announcement of slowing its bond buying program. There was no direct mention of when tapering would start, rather the message from the Federal Reserve Chairman, Jerome Powell, was that clear progress had been made towards its employment goals alongside inflation, which could be viewed as indication of a tapering announcement before year end. He also mentioned that the start of tapering should not be seen as an immediate precursor for rate hikes and that more stringent targets for both inflation and employment will have to be met. The higher hurdle for interest rate hikes surprised the market and supported most risk assets into month end.

South African equities (FTSE/JSE ALSI -1.7%) lagged global counterparts as resources (-4.8%) and industrials (-4.4%) weighed on performance while strong performance from the financial (+12.3%) sector helped to offset the weakness. Global equities had a positive month, with the MSCI World Index returning 2.5% and the MSCI Emerging Markets Index returning 2.6% in US dollar terms.

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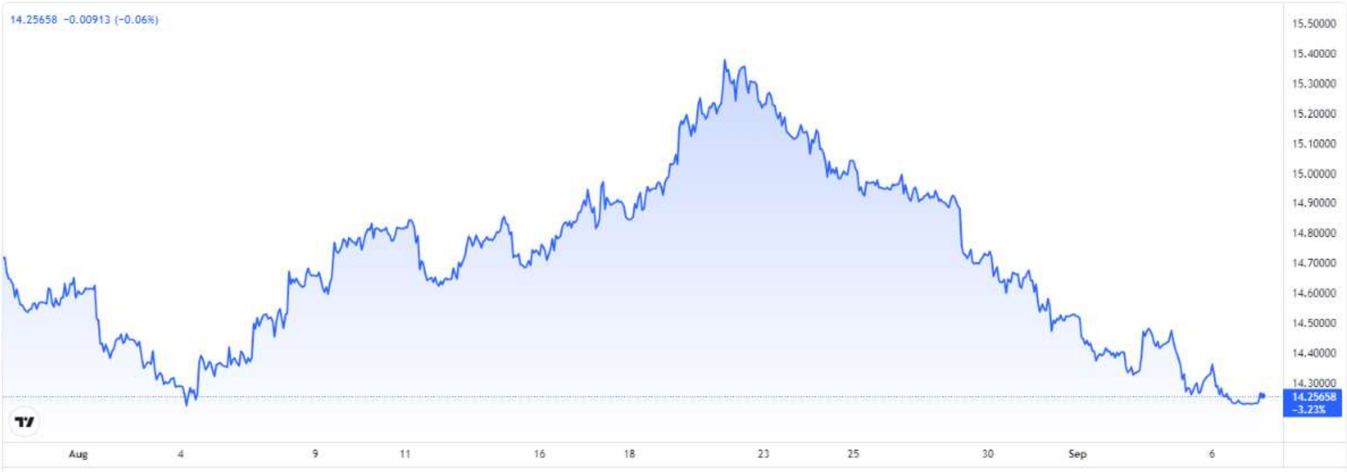
The rand had a volatile month, depreciating almost 5% intra-month, only to reverse all of the weakness into month end. The recovery was driven by the supportive GDP rebasement and a less hawkish than expected message from Chairman Powell at the Jackson Hole conference.

Figure 2: US dollar relative to the South African rand:



Local bonds followed a similar path, as yields rose over the first part of the month as concerns mounted over the looming Jackson Hole conference outcome, only for yields to retrace again into month end. Local listed property was the best performing local asset class returning 7.5% on the month. The lifting of the level 4 lockdown restrictions at the end of July, together with a clearer understanding as to the economic impact of July's social unrest, helped the sector's performance.

Index	Asset Class	AUGUST 2021
STEFI Composite Index	Local Cash	0.32%
FTSE/JSE All Bond (Total Return)	Local Bonds	1.70%
FTSE/JSE SA Listed Property (Total Return)	Local Property	7.46%
FTSE/JSE Africa All Share (Total Return)	Local Equities	-1.74%
JP Morgan World Govt Bond index (USD)	Global Bonds	-0.52%
FTSE EPRA Nareit Global Index (USD)	Global Property	1.62%
MSCI AC World (USD)	Global Equities	2.53%