



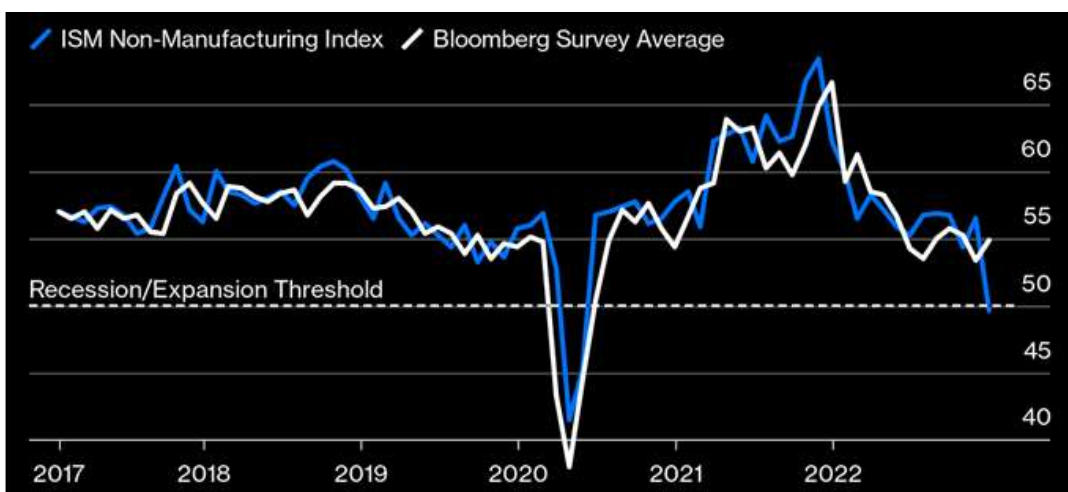
ECONOMIC EXPRESS

JANUARY 2023

Global financial markets enjoyed a very positive start to the year driven by a number of developments. The year kicked off with increasing expectations that the US Federal Reserve (Fed) is winning the fight to lower inflation back to its 2% goal and therefore less aggressive tightening will be required. The reopening of the Chinese economy was also positive for markets especially given it was at a much faster pace than anticipated. This is expected to support global demand and offset the growth weakness in developing nations such as the US and Europe.

There were two US economic releases in the first week of the year that triggered January's rally in risk assets. The first being the release of the US unemployment data which showed that average hourly earnings fell to 4.6% while the unemployment rate returned to its decade low level of 3.5%. The market took this to mean reduced upward pressure on inflation from wage growth while also reducing the risks of a deep recession as the labour market remained robust. The second was the ISM services PMI (purchasing managers index) which surveys supply managers across the different services sectors. The survey declined sharply and by a much larger margin than was expected. It reflected activity contraction within the services sector for the first time in two and a half years, driven by declines in new orders and business activity. The survey suggested a sharp deceleration in services activity, reducing inflation pressure from this sector, and so reducing future rate hike expectations even further.

Figure 1: US ISM Services PMI



Source: Bloomberg



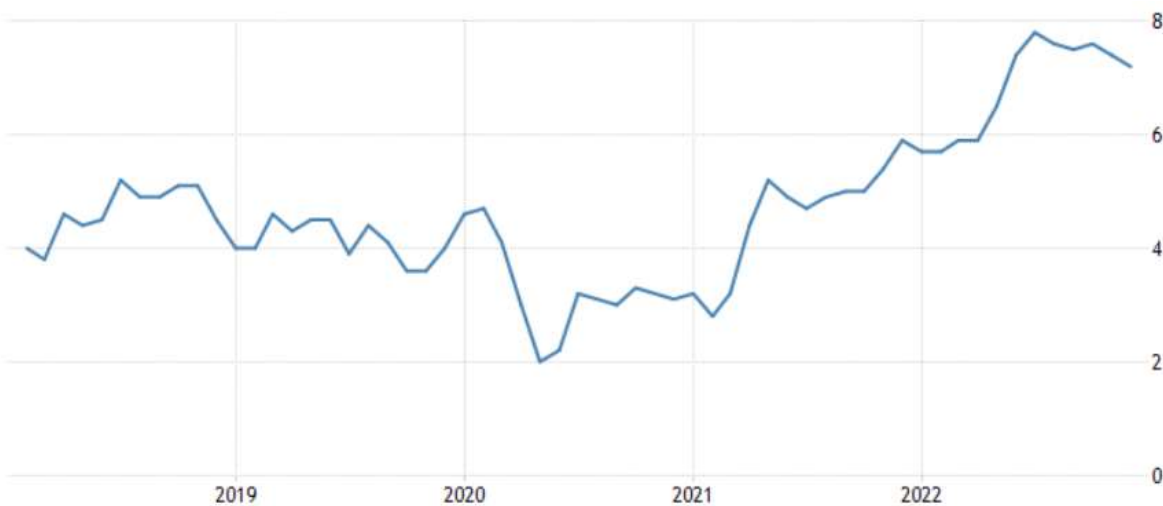
Staying with US economic releases over the month, a lower US inflation that came out in the second week further reinforced the view that less monetary policy tightening will be required from the Fed. Annual US headline inflation fell to 6.5% from 7.1%, the eighth consecutive decline to bring inflation down to the lowest level since October 2021. Falling

gasoline prices were the main contributor to the fall in headline inflation. Core inflation, which excludes food and energy, reflected a 5.7% increase from a year earlier.

Risk sentiment was further supported by the surprising turnaround in several restrictive policies in China. The dismantling speed of the zero-COVID policies together with a less tough stance on technology company regulation and the relaxation of property company restrictions were very unexpected and positive developments over January. These changes can be seen as an effort by the Chinese government to support the Chinese economy which has been struggling under the restrictions.

Locally inflation data surprised to the downside as headline inflation slowed to 7.2% from 7.4% in November. It was the lowest reading since May last year and 0.6% lower than the peak of 7.8% in July 2021. Overall, the decline can be attributed to lower energy prices which fed through to lower transportation price increases. The decline in core inflation from 5% to 4.9% was also notable as the expectation was for it to increase to 5.1%. The decline was mainly driven by rental inflation coming in lower than expectations. This was the first decline in core inflation since July last year.

Figure 2: South African Headline Inflation



Source: Statistics South Africa, tradingeconomics.com



Towards the end of the month, the SARB (South African Reserve Bank) hiked the repo rate for the eight consecutive meeting since it started in November 2021. The hike of 0.25% was smaller than the 0.5% expected by the market and could be attributed to the SARB's growth forecasts being revised lower at the meeting. 2023's growth expectation was reduced to 0.3% from 1.1% and 2024 was revised to 0.7% from 1.4%. The key driver behind the growth deterioration is the increased intensity of the projected loadshedding, which is estimated to reduce growth by 2% in 2023 as a whole.

Index	Asset Class	JANUARY 2023
STEFI Composite Index	Local Cash	0.58%
FTSE/JSE All Bond (Total Return)	Local Bonds	2.94%
FTSE/JSE SA Listed Property (Total Return)	Local Property	-1.00%
FTSE/JSE Africa All Share (Total Return)	Local Equities	8.89%
JP Morgan World Govt Bond index (USD)	Global Bonds	2.77%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	9.33%
MSCI AC World (USD)	Global Equities	7.19%

Source: Morningstar