



FG ASSET MANAGEMENT

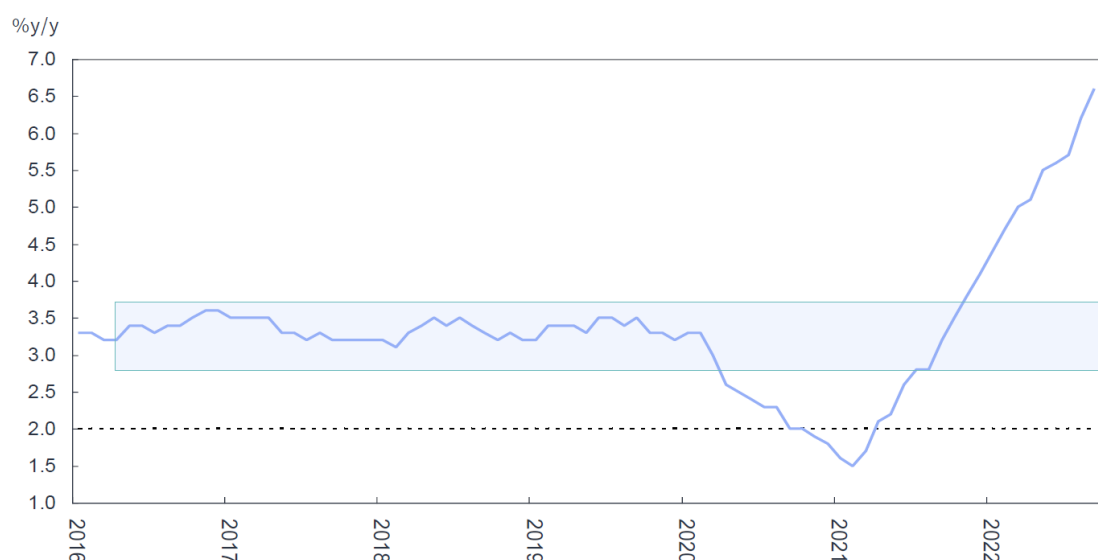
# ECONOMIC EXPRESS

OCTOBER 2022

Financial markets experienced some relief following September's weakness, however there was no clear catalyst as to what drove the improvement in sentiment. The key uncertainties such as elevated global inflation, global central bank monetary policy response and subsequent growth implications all remained broadly unchanged.

Inflation continued to be closely watched especially in the US, given the global implications of the US Federal Reserve's (Fed) monetary policy. The overall annual headline inflation did fall from 8.3% to 8.2%, the decline was however less than the 8.1% expected. It was the third consecutive decline since inflation reached the 9.1% high level in June, driven mainly by the deceleration in fuel prices. In contrast however these declines have been somewhat offset by increases in shelter inflation (+6.6%), which makes up a third of the inflation basket in the US.

**Figure 1: US shelter inflation**



Source: US Bureau of Labor Statistics, STANLIB (2016 – 2022)



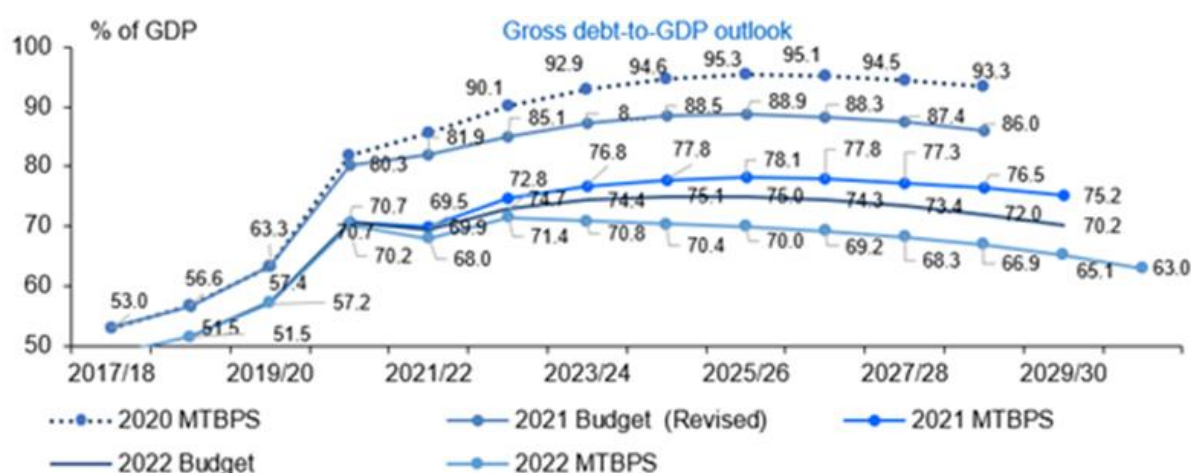
Going forward, getting shelter inflation under control will be key to the Fed's success in the management of elevated prices. Overall, the inflation print cemented the market's 0.75% rate hike expectations for the US Federal Reserve's November meeting. There was no FOMC meeting held in October, however the minutes for the September meeting was released which reaffirmed the Fed's willingness with slow economic growth through restrictive monetary policy to reduce demand and so inflation.

A noteworthy development was the 20th Chinese Communist Party congress that was held over the month where President Xi Jinping secured his third term as head of the party. A new Politburo Standing Committee was also announced, all of which are close Xi supporters. The market took this consolidation of power as an indication of a continuation of recent policies, many of which has not been supportive for the market.

In South Africa, headline inflation eased for a second consecutive month to 7.5% from 7.6%, coming in slightly lower than expectations. Economists were forecasting inflation to remain unchanged, with lower fuel prices driving most of the decline. In contrast food inflation continued its upward trajectory, increasing 0.6% on the month to 12.3% on an annual basis. Core inflation which excludes fuel and food also increased to 4.7% from 4.4%. Expectations are for South African inflation to continue slowing from here on out to reach the SARB's (South African Reserve Bank) target range of 3% to 6% next year.

Much focus was given to the Medium-Term Budget Policy Statement (MTBPS) which was released towards the end of the month. The statement reflected a further improvement of South Africa's fiscal position as revenue overruns were partially used to reduce debt. This consolidation has helped to reduce the debt to GDP, which is now expected to peak earlier in 2022/23 at 71.4%. The revenue overrun was again coming from higher commodity prices driving higher profits at mining corporates.

**Figure 2: South Africa gross debt-to-GDP forecast**



Source: 2022 MTBPS, Investec (2017 to 2030)



It is however important to note that National Treasury expect these mining revenue overruns to continue for the next three years. In addition, they only expect a 3% increase in public sector wages. Both assumptions might prove to be ambitious given that the global economy is heading for a slowdown and inflation remains elevated. The debt outlook however reflects National Treasury's commitment to contain government expenditure going forward.

Index	Asset Class	OCTOBER 2022
STEFI Composite Index	Local Cash	0.51%
FTSE/JSE All Bond (Total Return)	Local Bonds	1.07%
FTSE/JSE SA Listed Property (Total Return)	Local Property	10.97%
FTSE/JSE Africa All Share (Total Return)	Local Equities	4.89%
JP Morgan World Govt Bond index (USD)	Global Bonds	-0.60%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	3.90%
MSCI AC World (USD)	Global Equities	6.06%

Source: Morningstar