



FG ASSET MANAGEMENT

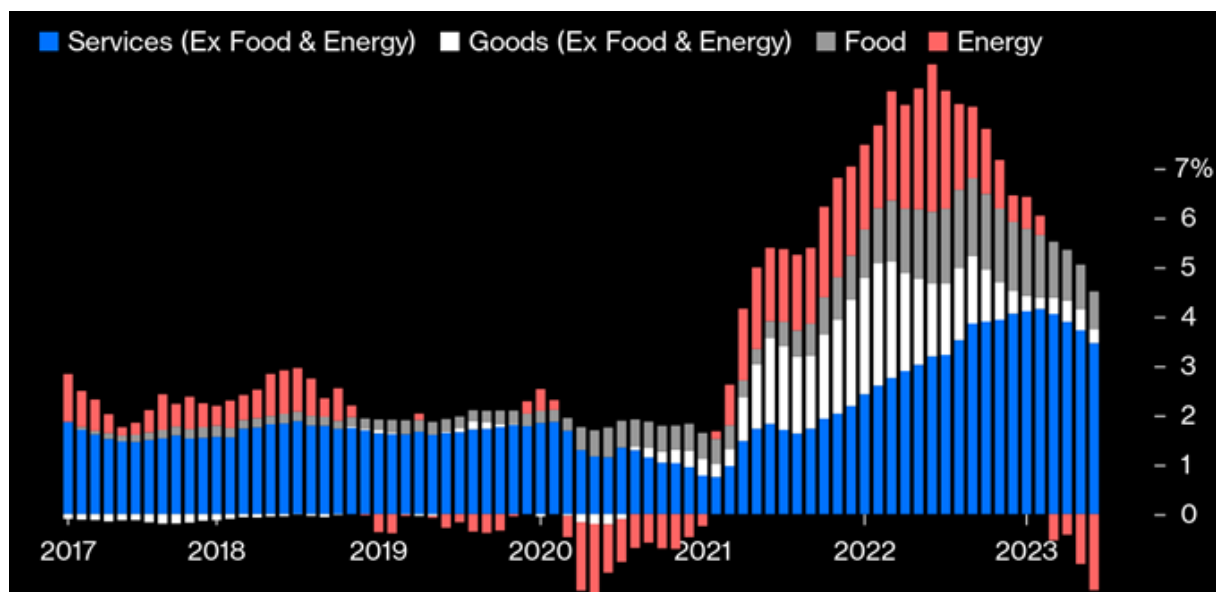
# ECONOMIC EXPRESS

JULY 2023

The US economic data released over the month of July was well received by the markets as growth and employment remained resilient and inflation continued its trend downwards. This supported the view that interest rates will remain higher for longer but also that the US economy is resilient and that a deep economic recession is less likely.

US inflation declined to the lowest level since March 2020 with the breakdown showing the continued negative contribution from energy prices and encouragingly core services price pressures are also slowing.

**Figure1: US headline inflation breakdown (YoY%)**



Source: Bloomberg (2017 to 2023)

US employment data released at the start of July remained resilient as reflected by the unemployment rate hovering around the low level of 3.6%. There were however signs that payroll growth is slowing with the non-farm jobs gains for June coming in at the lowest level since the end of 2020, together with the prior two months of non-farm job gains being revised meaningfully lower. Hiring is also becoming more concentrated in a number of service sectors, while manufacturing jobs remain constrained. The weakness however remains modest and did not change the markets expectation for another Fed rate hike in the second half of the month.



US growth data came in better than expected, with the second quarter's GDP growth surprising to the upside at 2.4% (QoQ) relative to expectations of 1.8%. The surprise growth acceleration was driven by stronger consumer spending and business investment. The strong GDP growth report further supported the view that the Fed would be able to tame elevated inflation without pushing the US economy into a recession, while also maintaining the pressure on the US Fed to maintain a tighter monetary policy in the event that the resilient growth becomes inflationary.

As expected, the US Fed (Federal Reserve) hiked rates by 0.25% from 5.25% to 5.5%. This brought the federal funds rate to the highest level since 2001 and was the 11<sup>th</sup> hike since the Fed started in early 2022. The Fed resumed their tightening after keeping rates unchanged at their June meeting. The central bank reiterated their commitment to raise rates further if future data warrants it. The central bank only meets again in September, which allows for two months' worth of data to make its next policy rate decision.

Local inflation positively surprised the market, as the annual headline print declined from 6.3% to 5.4%, relative to the expected 5.6%. This is the lowest level in nineteen months, driven by declines in fuel and food inflation. It is also the first time in thirteen months that the inflation rate is inside the SARB (The South African Reserve Bank)'s 3%-6% target range. This was seen as reducing pressure on the SARB to increase the repo rate further.

**Figure 2: South African inflation rate**



Source: Stats SA, [www.tradingeconomics.com](http://www.tradingeconomics.com) (2018 to 2023)



Two days later the SARB kept interest rates unchanged at 8.25%. The vote from the five-member committee was split with two members voting for a 0.25% rate increase. This was the first pause since the SARB started hiking interest rates in November 2021. Kganyago, the Governor of the SARB, did however comment that the pause does not signal the end of the hiking cycle and that future repo rate changes will depend on the changes in inflation going forward. The SARB now expects inflation to return to its 4.5% mid-point target by the third quarter of 2025.

Local sentiment improved over the month as the significant load shedding that was expected over the winter months had not yet materialised. Inflation came in better than expected, with the SARB holding off on raising interest rates further. There was also the welcome announcement that the Russian President, Putin, would not be traveling to South Africa for the BRICS summit in August.

Index	Asset Class	JULY 2023
STEFI Composite Index	Local Cash	0.68%
FTSE/JSE All Bond (Total Return)	Local Bonds	2.29%
FTSE/JSE SA Listed Property (Total Return)	Local Property	2.30%
FTSE/JSE Africa All Share (Total Return)	Local Equities	4.01%
JP Morgan World Govt Bond index (USD)	Global Bonds	0.16%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	3.37%
MSCI AC World (USD)	Global Equities	3.69%

Source: Morningstar