ECONOMIC EXPRESS

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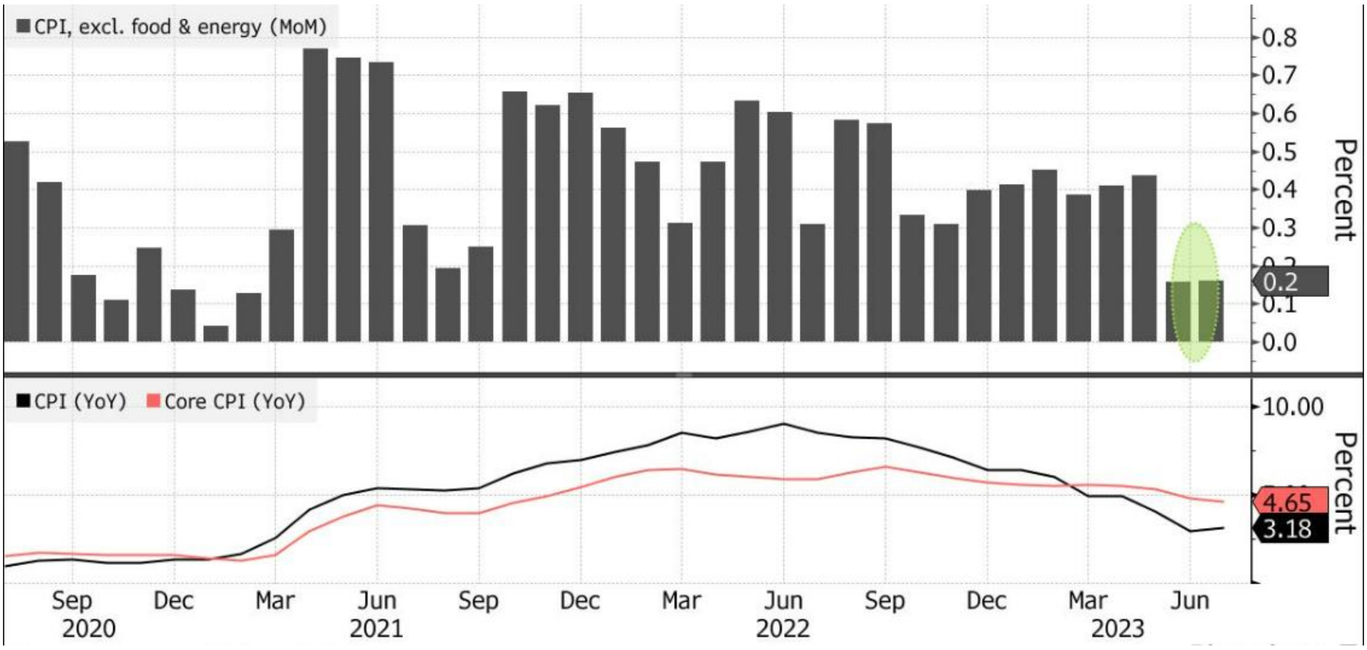
August saw financial markets coming under pressure as market participants started to price in higher interest rate levels for a longer period given the unexpected resilience of US economic growth, while global inflation remains above target levels. While there were indeed signs of moderating growth, the market does not see global central banks needing to cut rates because of a significantly slowing economic growth in the near term. Central banks remain committed in the fight against inflation even if this translates into growth weakness over the shorter term. In addition, the deterioration of the Chinese economy also weighed on market sentiment as the post COVID recovery has failed to materialise given the weakness in the Chinese property market.

At the start of the month the US sovereign credit rating was downgraded one notch by the ratings agency Fitch from AAA to AA+. This rating is now in line with S&P, while Moody's is the only rating agency to still have a Aaa rating. Fitch cited their expected fiscal deterioration over the next three years alongside the ongoing debt limit stalemate between political parties.

US inflation came in below expectations at 3.2% from 3% as the positive base effects from the previous 12 months have now worked itself out of the annual inflation rate which started declining in July 2022. The core inflation's monthly increase was a modest 0.2% for the second consecutive month, which supported expectations from the market that the US Fed (Federal Reserve) will keep interest rates unchanged at their meeting in September.

Figure 1: US core inflation rate (% monthly and annual changes)



Source: US Bureau of Labor Statistics, Bloomberg (

In the absence of a FOMC (Federal Open Market Committee) meeting held in August, the US Fed held their annual symposium at Jackson Hole. The hawkish message was as expected with the Chairman of the Fed, Jerome Powell, commenting that they still see inflation as too high and that they will continue to keep interest rates restrictive until they see inflation reaching their 2% target. He also highlighted the tightness of US labour market and the risk that they might have to increase interest rates as a result.

July's local inflation which declined to 4.7%, positively surprised the market, which was expecting 4.9%. It declined from 5.4% in June, driven mostly by declining fuel prices and food price pressures slowing further. The diminishing price pressures supported the view of no further rate hikes from the SARB for this cycle. The SARB did not hold any interest rate policy meetings in August and will meet again in September.

At the start of 2023 the recovery of the Chinese economy, following the severe COVID lockdowns, was seen as one of the positive drivers for global growth. The expectation was for the Chinese consumer to go out and spend their pent-up savings from the previous years, much like what had happened across other economies. The negative effect of the weak property market was however underestimated as majority of Chinese household wealth is held within property. There was also an expectation for government to step in with significant stimulus packages as they have done in the past, however given the country's elevated debt levels they have limited headroom and so this has also been disappointing. This economic weakness has fed into poor economic growth for Europe, an important trading partner, but also South Africa, that depends on Chinese resources demand.

Index	Asset Class	AUGUST 2023
STEFI Composite Index	Local Cash	0.69%
FTSE/JSE All Bond (Total Return)	Local Bonds	-0.23%
FTSE/JSE SA Listed Property (Total Return)	Local Property	0.92%
FTSE/JSE Africa All Share (Total Return)	Local Equities	-4.77%
JP Morgan World Govt Bond index (USD)	Global Bonds	-1.34%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	-3.35%
MSCI AC World (USD)	Global Equities	-2.35%

Source: Morningstar