ECONOMIC EXPRESS

OCTOBER 2024

Financial markets experienced weakness over the month of October as forecasted interest rate cuts were pared back as strong US economic data releases reduced the urgency of significant monetary easing.

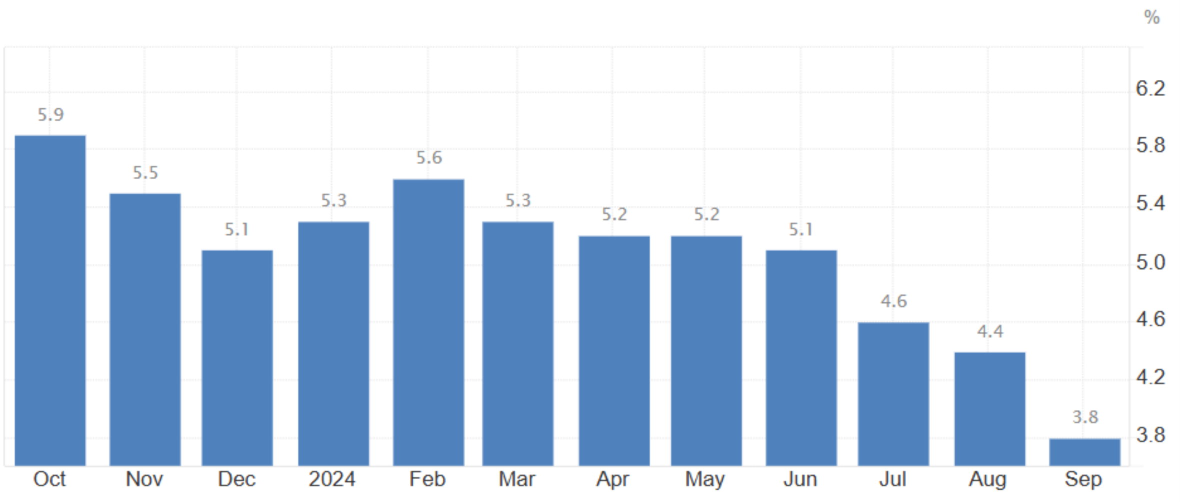
The US unemployment data came out much better than expected with the unemployment rate falling back down to 4.1% from 4.2%. This reduced concerns that the US economy was significantly deteriorating and so reduced the pace of the interest rate cuts which the market was pricing in. US inflation slowed further to 2.4% from 2.5%, while the market was expecting inflation to decline to 2.3%. The majority of the decline came from the annual shelter inflation slowing from 5.2% to 4.9%, however the decline was somewhat offset by higher food, insurance and medical services prices. As a result, core inflation increased to 3.3% from 3.2% and further reduced future rate cut expectations.

US GDP growth for the third quarter was released at the end of the month, which showed the economy expanding on an annualised basis by 2.8% from the previous quarter. Despite it coming in below the 3% forecast, it still reflects a robust expansion. Consumer spending, which makes up the largest share of economic activity, increased by 3.7%, the most since 2023.

The announcement of Chinese interest rate reductions at the end of September supported the Chinese market into the first week of the month. Alongside the monetary stimulus, the market was waiting on the announcement of fiscal support from the Chinese government. Fiscal spending is seen as crucial to achieve the annual Chinese economic growth target of 5% going forward. Chinese demand for South African resources is material and therefore stronger growth is also important for South Africa. The fiscal stimulus measures were announced mid- October however the much anticipated announcement provided little detail in terms of the size and timing of the stimulus, which left the market disappointed.

South African inflation fell more than expected to 3.8% from 4.4% to the lowest level in more than three years. The main driver behind the decline was the transport inflation falling -1.1% as a result of lower fuel prices. Core inflation stabilised at 4.1%. The slowing price pressures should be encouraging to the SARB (South African Reserve Bank) to cut the repo rate by 0.25% at its next meeting in November.

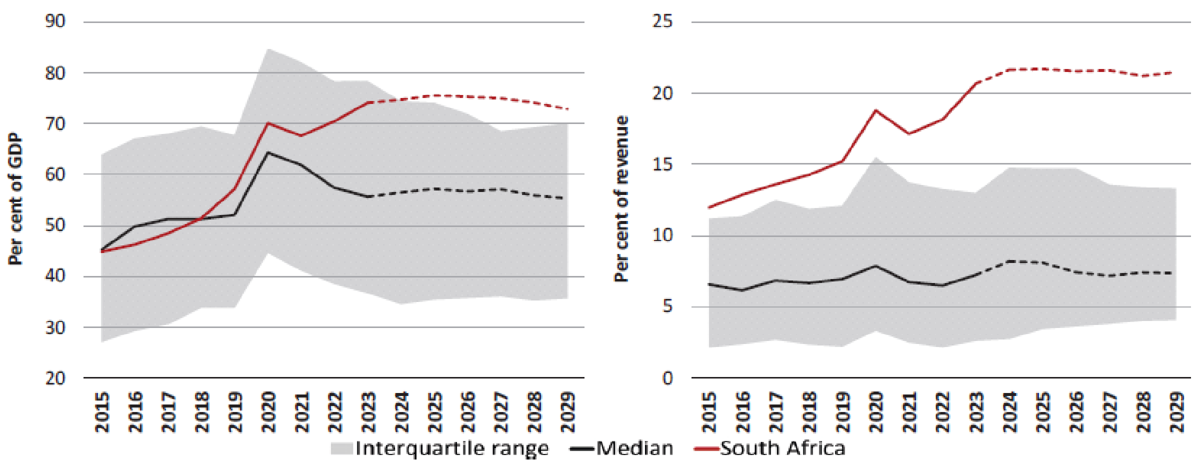
Figure1: South African Inflation Rate



Source: Stats SA, www.tradingeconomic.com

Locally the Medium Term Budget Policy Statement forecasted the budget deficit to narrow from 5% of GDP to 3.2% in 2027/28. This will allow debt to stabilise at 75.5% of GDP in 2025/26. Debt servicing costs are forecast to peak in 2025/26 at 21.7% as a proportion of revenue.

Figure 2: South Africa's debt trajectory relative to peers (LHS) and South Africa's debt-service costs relative to peers (RHS)



**Consists of 94 emerging market economies*

Source: National Treasury and IMF Economic Outlook, Oct 2024

It was surprising that there were no upward adjustments to their growth expectations, despite the positive sentiment post the formation of the GNU. National Treasury forecast the economy to grow 1.1% this year and 1.8% per annum for the next three years. These growth projections are conservative, however if policy reforms can be successfully implemented, growth has the potential to increase towards 3%. Higher growth trajectory would support higher employment, higher tax revenues and so support the National Treasury's goal of reducing the budget deficits and therefore the overall debt levels too.

Towards the end of the month the polls were showing an increased likelihood of a Republican victory at the US election that was due to be held in the first week of November. Although there are high levels of uncertainty with regards to Republican policies, the majority of them are expected to be inflationary (specifically higher trade tariffs and lower immigration). This, as a result, contributed to the higher global bond yields over the month.

Index	Asset Class	OCTOBER 2024
STEFI Composite Index	Local Cash	0.68%
FTSE/JSE All Bond (Total Return)	Local Bonds	-2.20%
FTSE/JSE SA Listed Property (Total Return)	Local Property	-2.84%
FTSE/JSE Africa All Share (Total Return)	Local Equities	-0.92%
Bloomberg Global Aggregate (USD)	Global Bonds	-3.35%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	-4.53%
MSCI AC World (USD)	Global Equities	-1.96%

Source: Morningstar

www.fgam.co.za **E: direct@fgam.co.za** **T: +27 12 460 5007**