

Weekly Monitor

ECONOMICS | SOUTH AFRICA

Review of 3 to 7 July and preview of 10 to 14 July 2023

- It was another week of volatility for the **rand** as it dipped to below R19/USD before ending close to where it started.
- SA manufacturing conditions worsened further, although supplier delivery times and business expectations improved.
- **Inflation expectations** in SA increased further in the second quarter, supporting the case for another SARB interest rate hike.
- **Vehicle sales growth** rebounded further from the weak trend in the first four months of 2023.
- **US nonfarm jobs** increased at the slowest rate in 30 months, while gains for April and May were revised significantly lower.
- **Global manufacturing** was still under pressure in June, while **services activity** has started to slow down.

Domestic: Market Indicators

It was another week of volatility for the local currency. The **rand** slipped below R19 on Thursday before weaker-than-expected US labour market figures sent the US dollar lower on Friday, pushing the rand to around R18.81.

Table 1: Key domestic market indicators

| | 2023/07/07 | 2023/06/30 | Past week | Past 4 weeks | YTD |
|---|------------|------------|-----------|--------------|--------|
| | Actual | Actual | %Δ | %Δ | %Δ |
| Currencies | | | | | |
| ZARUSD | 18.81 | 18.83 | 0.10 | -0.47 | -9.58 |
| ZAREUR | 20.68 | 20.50 | -0.85 | -2.81 | -12.11 |
| ZARGBP | 24.14 | 23.91 | -0.95 | -2.30 | -15.07 |
| Money market rates (change in percentage points) | | | | | |
| 3m JIBAR | 8.50 | 8.50 | 0.00 | 0.02 | 1.24 |
| 6m JIBAR | 9.05 | 9.05 | 0.00 | -0.13 | 1.12 |
| 9m JIBAR | 9.36 | 9.33 | 0.03 | -0.18 | 1.05 |
| 12m JIBAR | 9.68 | 9.60 | 0.08 | -0.17 | 0.99 |
| Bond yields (change in percentage points) | | | | | |
| R186 (2025) | 9.41 | 9.19 | 0.22 | -0.10 | 0.64 |
| 3yr BESA | 7.58 | 7.58 | 0.00 | 0.00 | 0.18 |
| 5yr BESA | 9.41 | 9.19 | 0.22 | -0.10 | 0.64 |
| 10 yr BESA | 10.77 | 10.51 | 0.26 | -0.05 | 0.58 |
| Equities (JSE) | | | | | |
| ALSI | 74823.02 | 76027.83 | -1.6 | -2.7 | 2.4 |
| Industrials | 109981.14 | 112882.06 | -2.6 | 0.5 | 13.5 |
| Financials | 40639.60 | 40638.04 | 0.0 | 1.2 | 3.5 |
| Basic Materials | 44135.68 | 44870.99 | -1.6 | -10.5 | -13.2 |

Source: Refinitiv

Money market rates continued to fluctuate within a narrow range ahead of the release of local inflation data and the SARB's interest rate decision later this month. **Bond yields** increased as the rand came under renewed pressure earlier in the week. Local equities fell in line with softer global markets. The **JSE all-share index** lost 1.6%, dragged lower by industrials and basic materials, while financials were flat.

Domestic: Last week's key economic releases and events

The **ABSA purchasing managers index (PMI)** fell to a seasonally adjusted 47.6 in June, its lowest level since mid-2021. All five key sub-indices of the PMI dropped into contraction territory for the first time since 2018. The **new sales orders** subindex fell to 45.6 from 47.5. **Business activity** improved to 48.9 from 47.7, but remained in contraction territory for the fifth consecutive month. The **supplier deliveries** subindex dropped to 47.4 from 53.9, slipping into contraction territory for the first time since mid-2018 as supply chain pressures eased significantly (the subindex is inverted, with a lower figure reflecting shorter delivery times). The **employment** subindex increased slightly to 47.9 from 45.6, still reflecting limited plans by businesses to boost staff numbers. The **purchasing price** index eased to 71.3 from 77, still reflecting elevated production cost pressures. The **business expectations** subindex, which surveys expected business conditions in six months, increased from a low 43.7 to 52.4, suggesting that easing inflation and less intense load-shedding have lifted business sentiment.

Vehicle sales rose to 48 810 units in June, increasing by 14% yoy from 10.5% in May, marking the second consecutive month of moderate growth after the sales slump recorded between January and April. The figures partly reflected the low base established in mid-2022 when the damage of the Kwazulu Natal floods disrupted supply. The boost came from commercial vehicles, up by 47.9% yoy from 33.7% in May, as light commercials surged by 57.1% from 38.6%. Passenger cars rose by 0.8% yoy from 0.6%. In the second quarter, local sales of new vehicles increased by 8.3% yoy from 2.1% in the first quarter, with passenger cars down by 1.4% and commercials up by 31.5%. For the year to date, local sales were 4.8% yoy higher, as commercial vehicles rose by 20.3% while passenger cars declined by 1.3%. Exports were down by 12.6% yoy to 27 296 units, as passenger cars fell by 15.4% while commercials were 3.6% lower. For the year to date, exported units increased by 4.7% yoy. Vehicle sales will remain subdued in the second half of this year as the impact of high inflation and interest rates dampens the boost from the attractive sales incentives offered by dealers. Exports will continue fluctuating depending on sales contracts and demand in the key markets, primarily Europe and the US.

The **BER Inflation Expectations Survey** for the second quarter showed that economic agents expect average inflation to be slightly higher than in the first quarter survey, with expected inflation still above 6% in 2023 and remaining within, but close to the upper band, of the 3% to 6% target range for 2024 and 2025. Inflation is expected to average 6.5% (from 6.3%) in 2023, 5.9% (from 5.8%) in 2024, and 5.6% (from 5.5%) in 2025. Analysts still expect CPI below 6% over the three years, at 5.9% (from 5.6%), 5.1% (from 4.9%) and 4.7% (from 4.6%), respectively. Businesses remained the most hawkish, expecting 6.9% (from 6.8%), 6.6% (unchanged) and 6.3% (from 6.2%). Labour unions forecast 6.6% (from 6.5%), 6.2% (from 6.1%) and 5.9% (from 5.8%). Five-year average inflation expectations eased marginally to 5.2% from 5.5%. Households' one-year ahead average inflation expectations jumped to 8.1% from 7%, while the five-year forecast increased to 10.7% from 9.9%.

Domestic: This week's key economic releases and events

This week's focus will be on the production side of the economy, with **manufacturing** and **mining output** figures for May out on Tuesday and Thursday, respectively. Power outages, slower domestic and global demand and lower commodity prices probably continued to weigh on output. However, manufacturing production is expected rise moderately off last year's low base. We expect manufacturing production to grow by 2.5% yoy from 3.4% in April, while mining will show the persistence of the weak trend visible over the past 18 months.

International: Market Indicators

Global equities ended the week broadly lower. US markets closed on Tuesday for the Independence Day holiday and surrendered most of their gains from the previous week. European equities were the worst performers last week, each shedding more than 3% as growth jitters persisted after the release of weaker-than-expected services activity data.

The **US dollar** came under pressure on Friday following the release of weaker-than-expected payrolls data, which revived hopes of a Fed pause. It ended the week at \$1.097 against the euro, its lowest level since the second week of May, while the British pound firmed to its highest level since mid-June. The Japanese yen traded weaker than ¥144 throughout the week before firming slightly to ¥142 on Friday. In **commodity markets**, the Brent crude oil price climbed to above \$78 per barrel for the first time since the final week of May after Saudi Arabia stressed that it was committed to the OPEC output quotas. **Precious metal prices** were slightly higher after three consecutive weeks of losses.

Table 2: Key international market indicators

| | 2023/07/07 | 2023/06/30 | Past week | Past 4 weeks | YTD |
|-------------------------|------------|------------|-----------|--------------|--------|
| | Actual | Actual | \$ % Δ | \$ % Δ | \$ % Δ |
| Currencies | | | | | |
| USDEUR | 1.10 | 1.09 | -0.5 | -2.0 | -2.4 |
| USDGBP | 1.28 | 1.27 | -1.0 | -2.1 | -5.8 |
| JPYUSD | 142.07 | 144.32 | -1.6 | 2.0 | 8.4 |
| Equities | | | | | |
| S&P500 | 4398.95 | 4450.38 | -1.2 | 2.3 | 14.6 |
| NASDAQ | 13660.72 | 13787.92 | -0.9 | 3.0 | 30.5 |
| Dow Jones Industrial | 33734.88 | 34407.60 | -2.0 | -0.4 | 1.8 |
| FTSE 100 | 7256.94 | 7531.53 | -3.6 | -4.0 | -2.6 |
| German Dax | 15603.40 | 16147.90 | -3.4 | -2.2 | 12.1 |
| French CAC | 7111.88 | 7400.06 | -3.9 | -1.4 | 9.9 |
| Japanese Nikkei | 32388.42 | 33189.04 | -2.4 | 0.4 | 24.1 |
| Commodities | | | | | |
| Brent crude (\$/barrel) | 78.00 | 74.67 | 4.5 | 2.2 | -6.4 |
| Gold (\$/ounce) | 1924.28 | 1919.57 | 0.2 | -1.9 | 5.5 |
| Platinum (\$/ounce) | 908.24 | 901.25 | 0.8 | -9.9 | -15.1 |

Source: Refinitiv

International: Last week's key economic releases and events

The **US labour market report** pointed towards slightly softer underlying conditions, as payroll increases slowed to the lowest level in two and a half years. **Non-farm payrolls** increased by 209 000 in June from a revised 306 000 (previously 339 000) in May. The market consensus in a Refinitiv survey was 225 000, while the Bloomberg survey expected 230 000. Payroll gains for April and May were revised lower by a combined 110 000, pointing to job creation being lower than initially reported. Job increases averaged 244 000 in the second quarter, the lowest level since the fourth quarter of 2020 when the economy was still subject to Covid containment measures. **Government employment** rose 60 000 as state and local government payrolls increased, with public sector employment rising by an average of 63 000 per month in 2023. However, public sector employment remains 161 000 below its pre-Covid level. **Private payrolls** were boosted by hiring in the services sector, which rose by 120 000. The **unemployment rate** fell slightly to 3.6% from 3.7%, while the **labour force participation rate** remained unchanged at 62.6%. **Average hourly earnings** rose by 0.4% mom, slightly above the market consensus of a 0.3% increase. Earnings have grown by 4.4% yoy. **Initial jobless claims** increased to 248 000 for the week ending 1 July from 236 000 in the previous week, above the market forecast of 245 000. The **four-week moving average** fell to 253 250 from 256 750 for the same period, continuing to show a slow decline in unemployment claims.

Other releases showed that the **US trade deficit** narrowed to \$69 billion in May from \$74.4 billion, in line with market expectations. **Exports** fell by 0.8% due to a decline in soybeans, crude oil, and natural gas shipments. In comparison, **imports** dropped by 2.3%, the lowest since December 2021, implying that high inflation and high borrowing costs are starting to impact local demand. The **ISM manufacturing PMI**, which measures the confidence of business executives in the manufacturing sector, contracted to 46 in June from 46.9 in May, below the market forecast of 47. This is the steepest fall since May 2020 as demand weakened. Significant declines occurred in production (46.7 from 51.1), employment (48.1 from 51.4), and inventories (44 from 45.8). In contrast, business in the service sector remains stable, with the **ISM services PMI** rising to 53.9 from 50.3. The upsurge was led by increased production (59.2 from 51.5) and new orders (55.5 from 52.9).

Overall business activities further deteriorated as the **S&P Global manufacturing PMI** fell to 48.8 in June from 49.6 in May. The downturn in factory activities was driven by shrinking output due to fewer new orders and exports, with only ten countries registering a PMI above 50. The **Caixin China manufacturing PMI** slowed to 50.5 from 50.9. The rest remained in contractionary territory. The US was among the countries with the most significant declines, with a PMI of 46.3 from 48.4, the Eurozone at 43.4 from 44.8, and the UK at 46.5 from 47.1. The **au Jibun Bank Japan manufacturing PMI** also fell to 49.8 in June from 50.6 in May.

The services sector continued to drive economic activities, with most countries reporting PMIs above 50. **Germany's HCOB services PMI** eased to 54.1 in June from 57.2 in May. Similarly, **S&P Global/CIPS UK services PMI** moderated to 53.7 from 55.2 in May.

Eurozone producer inflation rose to 1.5% yoy in May from a 0.9% increase in April, surpassing the market forecast of a 1.3% decline. The fall was driven by a drop in energy and intermediate goods prices to 13.3% and 1.5%, respectively. Over the month, prices eased by 1.9% from -3.4% in April. **Retail sales** remained unchanged in May, surprising the market, which expected an increase of 0.2% mom, pointing to household income pressures due to sticky inflation and high borrowing costs. Annual retail sales were down by 2.9%, unchanged from April.

The **trade surplus** in **Germany** narrowed to €14.4 billion in May from €16.5 billion in April, below the market expectations of €17.5 billion. This was the smallest surplus since December 2022, as **exports** dropped by 0.1% mom due to a decline in sales to the EU (-1.5%), China (-1.6%), and the UK (-5.8%). At the same time, **imports** rose by 1.7% mom from a 0.1% decrease in the previous month. **Industrial production** fell by 0.2% mom in May from a 0.3% increase in April due to lower production of basic pharmaceutical products (-13.1%) and energy (-7%). On the upside output of motor vehicles and trailers rose by 4.9%. Over the year, growth in **industrial output** slowed to 0.7% in May from 1.7% in April.

The **UK's** high inflation and tight monetary policy continue to weigh on household finances, causing demand for housing to weaken. This is reflected in the **Halifax house price index**, which declined by 2.6% yoy in June from -0.1% in May. Over the month, house prices fell by 0.1%.

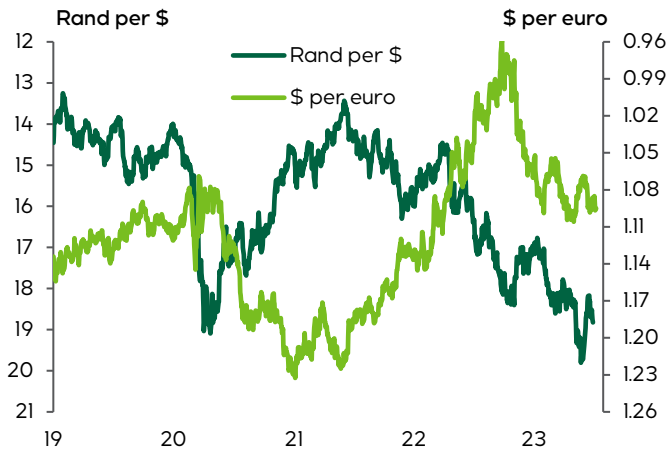
Business confidence in **Japan** rebounded for the first time in two years in June. The **Bank of Japan's Tankan index**, which measures big manufacturers' mood, increased to 5 from 1 in May, better than the market expectations of 3. The anticipation of lower costs of raw materials and fewer supply chain disruptions drove the improved sentiment by manufacturers.

International: This week's major economic releases and events

This week's major release will be **US CPI** on Wednesday. The market consensus is for headline CPI to remain unchanged at 4%, while core inflation is projected at 5.3%. Other key releases include the UK labour market report on Tuesday and German CPI on Tuesday. Chinese CPI is due on Monday, and trade data will be released on Thursday, which will point to the strength of the rebound in the world's second-largest economy. The Bank of Canada announces its interest rate decision on Wednesday.

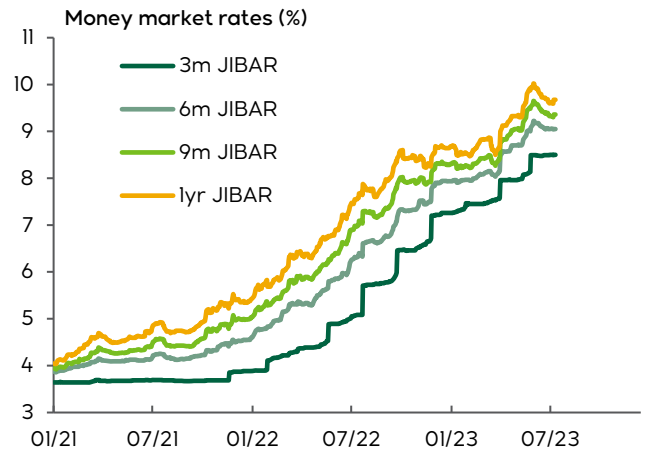
Selected charts: Review of 3 to 7 June 2023

Chart 1: The currency markets



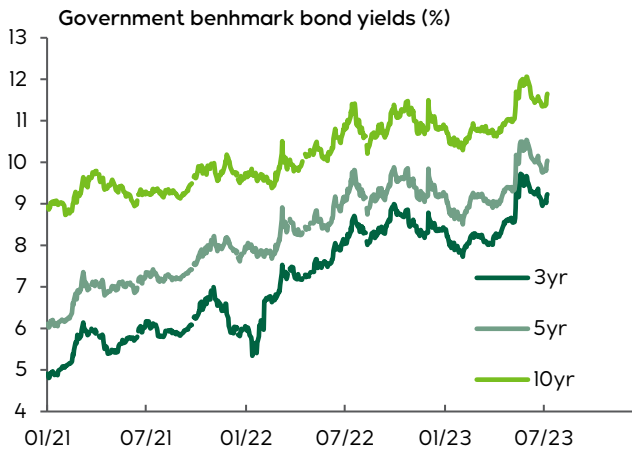
Source: Refinitiv

Chart 2: SA money market rates



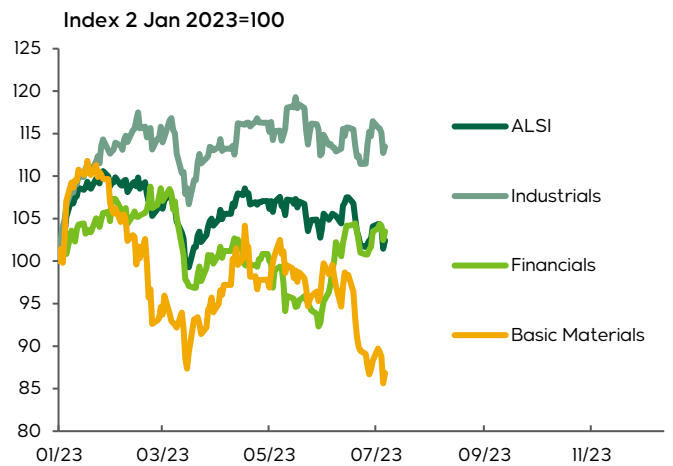
Source: Refinitiv

Chart 3: Domestic bond yields



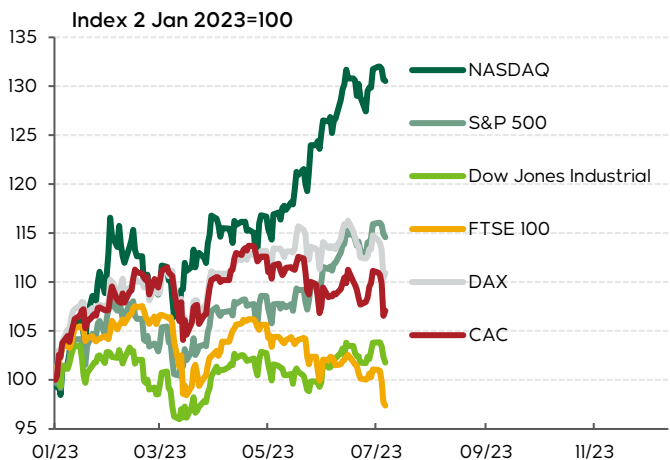
Source: Refinitiv

Chart 4: Trends on the JSE



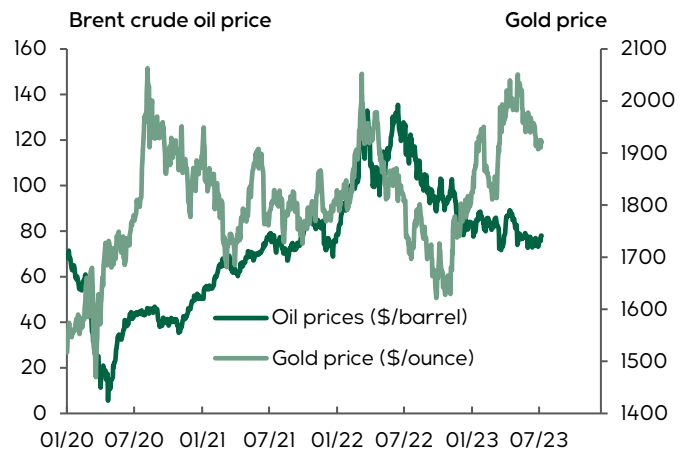
Source: Refinitiv

Chart 5: Global equity markets



Source: Refinitiv

Chart 6: International commodity prices



Source: Refinitiv

Table 3: Release calendar

| Date | Country/Region | Indicator Name | Period | Reuters Poll | Prior | Unit | |
|---------------|------------------|-----------------------------|-------------------------|--------------|-------|-------|---------|
| 10 Jul 2023 | China (Mainland) | PPI (yoy) | Jun | | -4.6 | % | |
| | China (Mainland) | CPI (yoy) | Jun | | 0.2 | % | |
| | China (Mainland) | CPI (mom) | Jun | | -0.2 | % | |
| 11 Jul 2023 | Germany | CPI Final (mom) | Jun | | 0.3 | % | |
| | Germany | CPI Final (yoy) | Jun | | 6.4 | % | |
| | United Kingdom | Claimant Count Unem Chng | Jun | | -13.6 | 000 | |
| | United Kingdom | ILO Unemployment Rate | May | | 3.8 | % | |
| | United Kingdom | Employment Change | May | | 250.0 | 000 | |
| | United Kingdom | Avg Wk Earnings 3M (yoy) | May | | 6.5 | % | |
| | United Kingdom | Avg Earnings (Ex-Bonus) | May | | 7.2 | % | |
| | Euro Zone | ZEW Survey Expectations | Jul | | -10.0 | Index | |
| | Germany | ZEW Economic Sentiment | Jul | | -8.5 | Index | |
| | Germany | ZEW Current Conditions | Jul | | -56.5 | Index | |
| | South Africa | Manuf Production (mom) | May | | 0.5 | % | |
| | South Africa | Manuf Production (yoy) | May | | 3.4 | % | |
| | 12 Jul 2023 | Japan | Machinery Orders (mom) | May | | 5.5 | % |
| | | Japan | Machinery Orders (yoy) | May | | -5.9 | % |
| | | United States | Core CPI (mom), SA | Jun | 0.3 | 0.4 | % |
| United States | | Core CPI (yoy), NSA | Jun | | 5.3 | % | |
| United States | | CPI (mom), SA | Jun | 0.3 | 0.1 | % | |
| United States | | CPI (yoy), NSA | Jun | | 4.0 | % | |
| Canada | | BoC Rate Decision | 12 Jul | 5.0 | 4.8 | % | |
| 13 Jul 2023 | | China (Mainland) | Exports (yoy) | Jun | | -7.5 | % |
| | | China (Mainland) | Imports (yoy) | Jun | | -4.5 | % |
| | | China (Mainland) | Trade Balance USD | Jun | | 65.8 | Billion |
| | United Kingdom | Industrial Output (mom) | May | | -0.3 | % | |
| | United Kingdom | Industrial Output (yoy) | May | | -1.9 | % | |
| | United Kingdom | Manufacturing Output (mom) | May | | -0.3 | % | |
| | United Kingdom | Manufacturing Output (yoy) | May | | -0.9 | % | |
| | France | CPI (yoy) NSA | Jun | | 4.5 | % | |
| | France | CPI (mom) NSA | Jun | | 0.2 | % | |
| | Euro Zone | Industrial Production (mom) | May | | 1.0 | % | |
| | Euro Zone | Industrial Production (yoy) | May | | 0.2 | % | |
| | South Africa | Gold Production (yoy) | May | | 27.4 | % | |
| | South Africa | Mining Production (yoy) | May | | 2.3 | % | |
| | United States | Initial Jobless Claims | 3 Jul, w/e | | | 000 | |
| | United States | Jobless Claims 4Wk Avg | 3 Jul, w/e | | | 000 | |
| | United States | Continuing Jobless Claims | 26 Jun, w/e | | | 000 | |
| | 14 Jul 2023 | Euro Zone | Total Trade Balance SA | May | | -7.1 | Billion |
| | | United States | U Mich Sentiment Prelim | Jul | 65 | 64.4 | Index |
| United States | | U Mich Conditions Prelim | Jul | | 69.0 | Index | |
| United States | | U Mich Expectations Prelim | Jul | | 61.5 | Index | |
| United States | | U Mich 1Yr Inf Prelim | Jul | | 3.3 | % | |
| United States | | U Mich 5-Yr Inf Prelim | Jul | | 3.00 | % | |

Source: Refinitiv

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