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ECONOMIES AT A GLANCE

THE HISTORY OF THE US DOLLAR

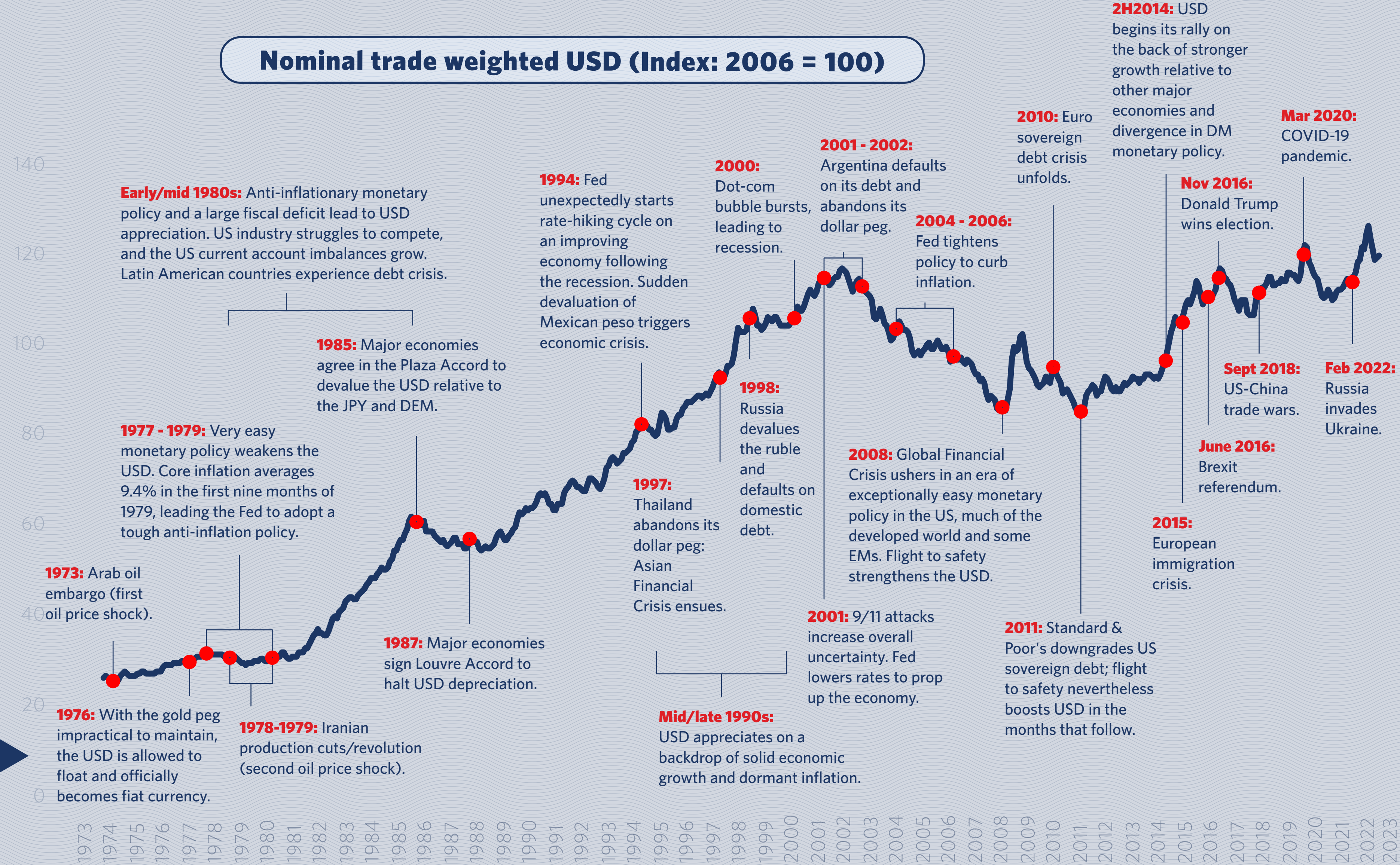
Nominal trade weighted USD (Index: 2006 = 100)

1792-1934: US uses gold or bimetallic standard (except during a temporary period of fiat money during the Civil War).

1929-1939: Several countries break from the gold standard, substantially devaluing their currencies in so-called 'beggar-thy-neighbour' policies.

1934-1944: USD remains pegged to gold, but without domestic convertibility.

1944: Bretton Woods system further limits the role of gold. The USD stays pegged to gold with other currencies pegged to the USD at an adjustable rate.



Source: Bank for International Settlements, International Monetary Fund, Fisher Investments, FXC Intel, Scoopnest, Momentum Investments

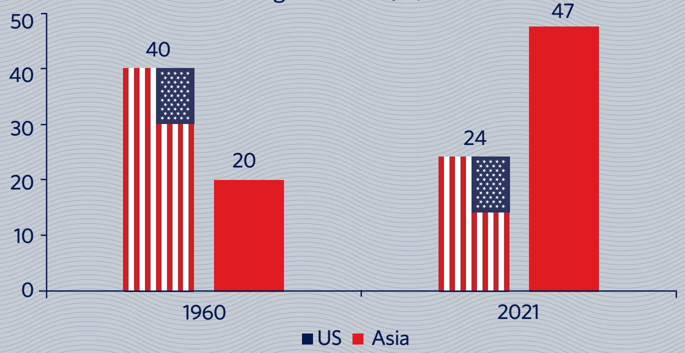
DE-DOLLARISATION

THE FUTURE OF THE DOLLAR'S RESERVE CURRENCY STATUS

What has renewed speculation that the international role of the USD may be challenged?

- Multipolar global economic structure evolving

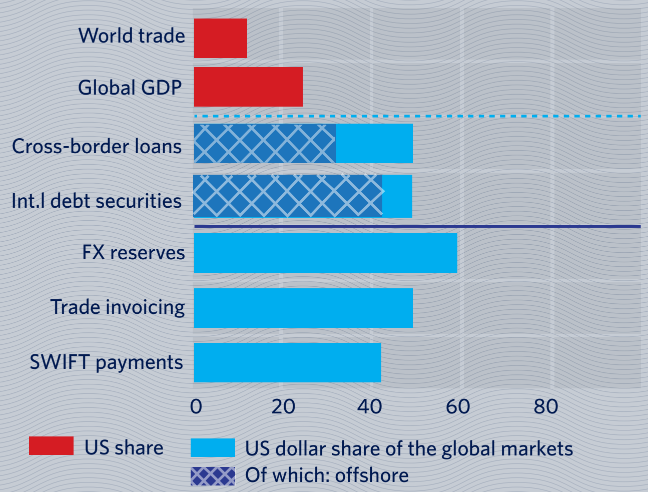
Share of global GDP (%)



- China and Saudi Arabia trading hydrocarbons in non-dollars
- Developments in technology
- Cryptocurrencies
- Sanctions avoidance have spurred binational agreements and trade in national currencies
- Credibility of the USD under scrutiny after quantitative easing flooded the liquidity of the USD
- Dispersed global industrial chain (localising/regionalisation of production)

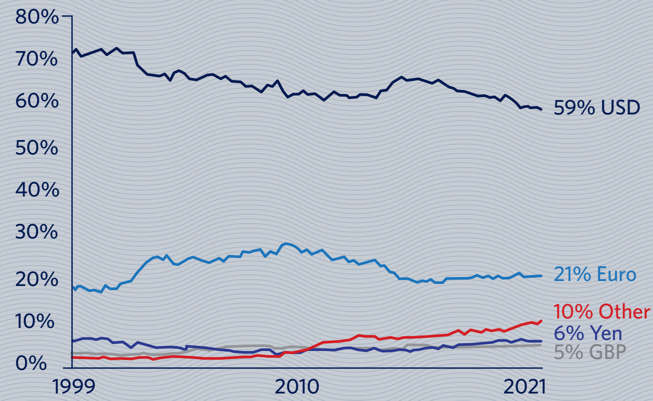
Despite speculation of de-dollarisation, the USD remains popular in international trade and global payments

The dominance of the USD



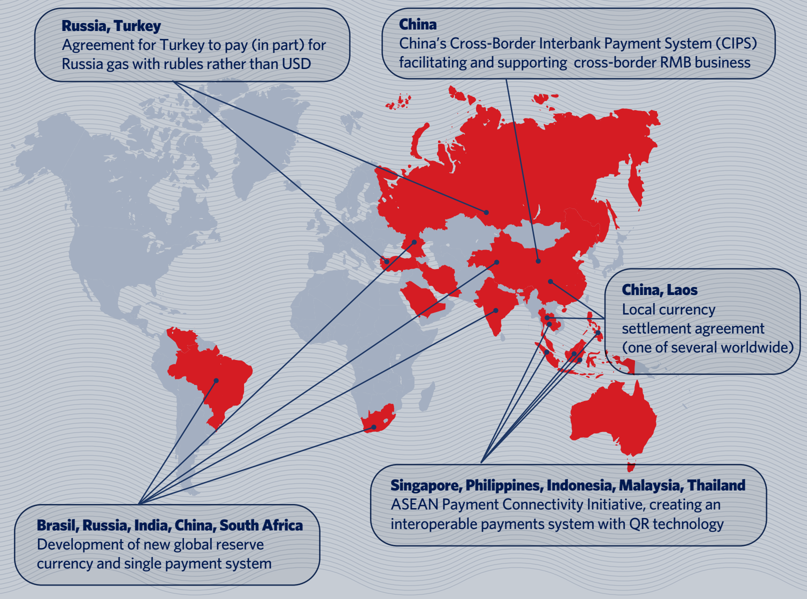
Shrinking share, but USD is still the foremost reserve currency

Non-traditional currencies have played a larger role in global FX reserves in recent years



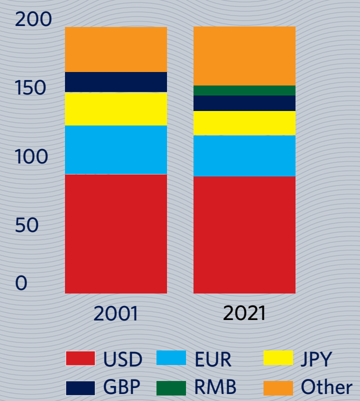
(Currency composition of global foreign exchange reserves, percent)

A number of countries are promoting de-dollarisation



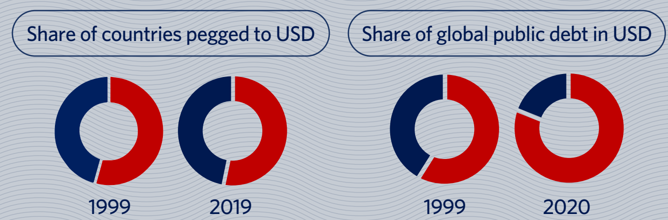
The USD is the single most traded currency

FX turnover by currency (two currencies involved in each transaction, therefore out of 200%)



- The second most traded currency, the euro, has a share of 31%
- Emerging market currencies are increasing as a share of FX turnover
- Non-USD currency pairs often exchanged via the USD

Although fewer countries are pegged to the USD than previously, a greater share of global public external debt is denominated in USD



The future of the USD

- Although we acknowledge the progress and improvement in the world monetary system, the global reserve currency is unlikely to be overhauled overnight.
- Proportion of local currency settlements will increase and we can expect more regional settlement arrangements to be formed.
- USD dominance is still likely given potential rival currencies (e.g. yuan) are not freely convertible. Further, countries like Saudi Arabia need to make a return on their currency holdings, which is more attractive in liquid and higher-yielding US treasuries.

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April 2023

UNITED STATES

The Financial Stability Oversight Council (FSOC) is a regulatory body responsible for identifying and monitoring risks to the country's financial stability. In recent years, the FSOC has been paying increasing attention to non-bank financial institutions that have become significant players in the financial industry. Regulators are proposing a change in the way non-bank firms are designated. The FSOC will initiate the process by carrying out a preliminary examination of both publicly available and regulatory data in the first stage. The second stage involves a comprehensive evaluation that incorporates information from the non-bank institution under investigation. This is followed by a vote on the final designation from the FSOC. Annual reassessments will be performed during which the company can advocate its position and elucidate the modifications it has made to address identified risks.

Forecast 2023:
GDP: 1.1%
Core PCE Inflation: 3.8%
Forecast 2024:
GDP: 0.3%
Core PCE Inflation: 2.3%

EUROZONE

In a speech at the Council of Foreign Relations, European Central Bank President, Christine Lagarde, recently opined on the fragmentation of the global economy into competing blocs and noted the implications for trade, payments, international reserves and policymaking. She noted two areas of concern, including more instability driven by waning global supply elasticity and more multipolarity as geopolitical tensions continue to mount. According to Lagarde, despite the fragmented state of the global economy, sustainable prices can still be achieved if cooperative policies are implemented to replenish supply capacity and if authorities work together on common areas of action like industrial policy, green technology, defense and digital innovation. She also emphasised the significance of completing the European capital markets union to support the euro's position as one of the world's leading currencies.

Forecast 2023:
GDP: 0.5%
HICP Inflation: 5.3%
Forecast 2024:
GDP: 1.1%
HICP Inflation: 2.2%

UNITED KINGDOM

On 4 May, local elections will be held in England, spanning over 230 councils. This election marks a significant moment for Rishi Sunak, who became the Prime Minister and Conservative Party leader in October 2022. The Conservatives currently control 83 of the councils being contested, while Labour and the Liberal Democrats lead 49 and 17 councils, respectively. The Conservatives face the most significant risk of losing at this election, with nearly 5 000 of their councillors defending their seats. Given the poor turnout in recent polls, they are vulnerable to losing many seats. The results of this election will give us a good idea of the lay of the political land. It should become more apparent whether or not Labour is gaining sufficient support to win the next general election and if the Conservatives will be able to win over voters in time for the next general election, which is likely to be held in January 2025.

Forecast 2023:
GDP: -0.6%
Inflation: 6.5%
Forecast 2024:
GDP: 0.7%
Inflation: 2.2%

JAPAN

As markets anticipated, the April interest-rate setting meeting did not bring any changes. However, it is expected that the bond yield curve control policy, which sets a level of between negative 0.1% and 0.5% on the 10-year government bond yield, may be modified later this year. The Bank of Japan (BoJ) is cautious about making any moves that could be seen as a premature withdrawal of monetary support, as past rate hikes in 2000 and 2006 were criticised as inducing a recession. Despite this, there is speculation that inflation could sustainably reach 2% in the coming years due to major companies offering significant pay hikes during annual wage talks. Breaking out of the past cycle remains a challenge, nevertheless, especially since the 'shunto' negotiations only involve the largest corporations. Small and medium-sized enterprises, that employ 70% of Japanese workers, still face significant obstacles in increasing salaries.

Forecast 2023:
GDP: 1.1%
Inflation: 2.3%
Forecast 2024:
GDP: 1%
Inflation: 1.4%

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CHINA

In January, China's holdings of US treasuries dropped to their lowest level since May 2009, declining for the sixth consecutive month to US$859.4 billion from US$867.1 billion in December. This decrease occurred as US treasury yields continued to decline, following the Federal Reserve's interest rate increases last year. While it is possible that China reduced its US dollar allocation in response to US sanctions on Russia, this interpretation may be overstated given that Chinese investors increased their US dollar assets, including US agency and corporate bonds, by US$108.7 billion in 2022. While the yuan's influence is expected to expand, China's exchange rate is carefully managed and its capital markets and financing of Belt-and-Road-Initiative loans still rely heavily on US dollars, indicating that the country has not abandoned the dollar entirely.

Forecast 2023:
GDP: 5.5%
Inflation: 2.1%
Forecast 2024:
GDP: 5%
Inflation: 2.3%

EMERGING MARKETS

A BRICS currency union could potentially offer a wider range of goods than any existing monetary union given that the countries do not share territorial borders. Moreover, the plan is to back the new currency with metals offering intrinsic value, which would deliver value to investors who want both the interest-bearing property of bonds and the diversifying properties of gold. While there is a growing clamour to challenge the dollar's hegemony, the economies within the BRICS bloc differ significantly in terms of trade, growth and financial openness. Moreover, they would need to create a supranational central bank to manage the new currency. China's trade dominance and misaligned strategic interests are also highlighted as concerns. In our view, even if the BRICS nations de-dollarised, much of the world would still use dollars, leaving the global monetary order as multipolar rather than unipolar. The increasing use of bilateral payments could gradually chip away at the dollar's dominance, but its reign is unlikely to end abruptly.

Forecast 2023:
GDP: 4.2%
Inflation: 6.3%
Forecast 2024:
GDP: 4.3%
Inflation: 4.8%

SOUTH AFRICA

South African (SA) Electricity Minister Kgosientsho Ramokgopa has proposed a plan to prevent more severe power cuts by adding 4 000MW of electricity to the grid. His proposal involves using more diesel turbines and increasing fuel storage capacity. Despite having the capacity to generate around 48 000MW, Eskom can currently only produce a reliable 27 000MW, which sometimes falls to between 23 000 and 25 000MW, according to *BusinessTech*. With summer demand at 32 000MW and winter demand potentially reaching 37 000MW, the risk of higher stages of loadshedding is high, which could further harm already-lowered growth rates. According to the Reuters consensus, SA is expected to grow at 0.4% this year, while the SA Reserve Bank forecasts 0.2% and the International Monetary Fund estimates a paltry 0.1%. Despite a weak growth pulse, the forward-rate agreement market anticipates a 25-basis point increase at the upcoming interest rate-setting meeting in May to combat above-target inflation and to rein in expectations which have inched higher from the midpoint of the target band. That said, we believe we are close to the end of the interest rate hiking cycle given that real interest rates on a prospective basis are firmly in restrictive territory. As such, significant interest rate hikes from this level could prove more harmful to growth and be less effective in bringing down cost-push related inflationary pressures.

Forecast 2023:
GDP: 0.3%
Inflation: 5.8%
Forecast 2024:
GDP: 1.3%
Inflation: 4.7%

The macro research desk

Herman van Papendorp is the head of the Momentum Investments research and insights team and takes ultimate responsibility for macro research and asset allocation. Economist, Sanisha Packirisamy, is responsible for providing a macro framework to inform investment opportunities and strategies.

Indices summary for April 2023

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
Equity indices									
FTSE/JSE All-Share Index (Alsi)	3.38%	-0.16%	12.56%	20.22%	11.58%	10.00%	10.24%	9.40%	10.87%
FTSE/JSE Shareholder Weighted Index (Swix)	3.35%	-0.98%	8.35%	16.01%	7.45%	6.29%	6.85%	6.49%	9.18%
FTSE/JSE Capped Swix All Share index	3.43%	-0.94%	7.93%	19.03%	8.47%	6.36%	6.73%	6.16%	8.97%
FTSE/JSE All Share Top 40 Index	3.50%	0.23%	15.17%	20.40%	12.53%	10.97%	11.20%	10.15%	11.36%
FTSE/JSE Mid Cap Index	3.85%	-0.93%	0.24%	18.16%	6.03%	3.82%	4.31%	4.04%	7.18%
FTSE/JSE Small Cap Index	2.03%	0.50%	3.97%	33.73%	13.54%	7.53%	6.42%	6.12%	9.11%
FTSE/JSE Resources Index	3.98%	-6.77%	-5.01%	23.37%	17.74%	19.65%	19.71%	17.14%	9.95%
FTSE/JSE Financials Index	3.40%	-0.78%	0.01%	19.30%	2.20%	1.18%	3.69%	3.45%	7.04%
FTSE/JSE Industrials Index	3.06%	3.81%	32.02%	16.76%	11.01%	8.17%	7.76%	7.53%	10.90%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	3.74%	-1.31%	10.22%	26.50%	12.70%	11.11%	11.89%	10.91%	11.23%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	3.32%	-2.28%	8.19%	25.66%	11.86%	10.29%	11.11%	10.28%	10.61%
FTSE/JSE SA Listed Property Index (Sapy)	5.36%	1.05%	3.28%	17.58%	-3.20%	-4.52%	-3.85%	-3.31%	1.16%
FTSE/JSE All Property Index (ALPI)	5.75%	1.47%	1.84%	17.16%	-3.95%	-5.58%	-4.94%	-4.76%	0.54%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	-1.11%	-0.67%	6.44%	9.80%	7.28%	6.81%	7.94%	8.31%	6.76%
FTSE/JSE All Bond Index 1-3 years (Albi)	-0.22%	0.85%	6.22%	5.99%	7.05%	7.48%	7.66%	7.91%	7.24%
FTSE/JSE Inflation-linked Index (Ili)	0.38%	2.33%	3.29%	9.22%	5.75%	5.12%	4.82%	4.31%	4.66%
Short-term Fixed Interest Composite Index (Stefi)	0.61%	1.78%	6.22%	4.85%	5.42%	5.79%	6.06%	6.28%	6.21%
Commodities									
NewGold Exchange-Traded Fund	4.00%	8.78%	20.31%	4.99%	18.34%	16.99%	13.20%	9.93%	10.27%
Gold price (in rands)	3.48%	8.43%	19.79%	5.23%	18.60%	17.30%	13.67%	10.34%	10.65%
Platinum Exchange-Traded Fund	11.72%	12.46%	31.82%	11.25%	11.12%	11.28%	7.22%	3.41%	2.77%
Platinum price (in rands)	11.36%	11.56%	28.30%	9.77%	10.36%	11.03%	7.12%	3.14%	2.48%
Currency movements									
Rand/euro movements	4.69%	6.80%	20.87%	0.06%	5.86%	6.00%	5.57%	3.15%	5.47%
Rand/dollar movements	3.02%	4.98%	15.50%	-0.16%	6.26%	7.92%	5.33%	3.69%	7.36%
Inflation index									
Consumer Price Index (CPI)			7.07%	5.40%	5.08%	4.97%	4.77%	4.97%	5.11%

Important notes

1. Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
2. Returns for periods exceeding one year are annualised.
3. The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
4. The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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