

Redistributive budget

Notwithstanding slower forecasted growth in expenditure, the budget still placed redistribution in the spotlight with **60.2%** of total expenditure allocated to health, education and other social services over the medium-term framework.

Social wage breakdown for FY23/24 (R billion)



Balancing the wage bill with service delivery

A large portion of the education, health and policing budgets is related to compensation



Eskom debt relief plan eases financial constraints



R263.4 billion in bailout funding allocated to Eskom since FY08/09



The package will be split into
FY23/24: R78 billion
FY24/25: R66 billion
FY25/26: R40 billion plus an absorption of R70 billion of Eskom's loan portfolio



The R350 billion guarantee framework is set to expire on 31 March 2023



The debt relief package of R254 billion over the next three years accounts for 60% of Eskom's current debt



The advance of funds will be done as interest-free subordinated loans



A phased approach and conditions of operational performance are positive for investor confidence

Municipalities face financial distress

R15 billion

Owed to SA's water boards

R40 billion

Owed to Eskom

R182 billion

Owed to municipalities by households

169

Out of 257 municipalities declared to be in financial distress in FY21/22

Debt-service costs are crowding out other expenditure

Equivalent for every R100 spent on debt-service costs



February 2023

Forecast 2023:

GDP: **0.4%**

Core PCE Inflation: **3.6%**

Forecast 2024:

GDP: **1%**

Core PCE Inflation: **2.3%**

EUROZONE

The near-term outlook has improved despite earlier concerns over winter weather, high oil prices, fuel rationing and potential blackouts. Current gas storage reserves are at 65% of annual consumption across the European Union, prices have fallen back to below levels observed before Russia's invasion of Ukraine, oil prices have steadied and governments are no longer threatening imminent energy demand rationing. Nevertheless, with restrictions now lifted, China's economy is bouncing back, which could lead to a resumption of energy imports. Despite a number of European countries adding additional fuel terminals, colder temperatures next winter may mean that Europe is not quite out of the woods just yet. Worryingly, median consumer inflation expectations, as surveyed by the European Central Bank, drifted higher to 3% in December despite past interest rate tightening and falling energy prices.

Forecast 2023:

GDP: **-0.8%**

Inflation: **6.7%**

Forecast 2024:

GDP: **0.7%**

Inflation: **2.2%**

JAPAN

Japan's core inflation (excluding volatile food prices) rate soared to a 41-year high of 4.2% in January and has exceeded the Bank of Japan's (BoJ) target for nine consecutive months. The BoJ's next expected governor, Kazuo Ueda, surmised that the joint statement between government and the central bank, issued in 2013, stating that the BoJ should achieve 2% inflation at the earliest possible time, need not be revised immediately. He also indicated that he was in no rush to alter Japan's ultra-accommodative monetary policy stance, noting that monetary policy decisions would depend on the inflation trajectory. He acknowledged that tighter monetary policy at this stage could further slow the economy. Ueda is expected to take the helm at the BoJ on 9 April 2023.

UNITED STATES

Retail sales jumped 3% in January relative to the previous month, smashing expectations as consumers spent more on vehicles, furniture, clothing and restaurants. Another element of economic growth, namely hiring trends, further reflects surprising strength in activity. Markets have extrapolated this strength and are now pricing in a rise in the benchmark federal funds rate to between 5.25% and 5.5% by July 2023. This is an upward adjustment of nearly 50 basis points since the start of February 2023. Meanwhile, red flags are emerging in pockets of the economy. Concerns are mounting over consumer credit after the Federal Reserve Bank of New York's Centre for Microeconomic Data posted the biggest increase in consumer credit card balances since 1999 for the fourth quarter of last year, with eight out of every 10 consumers citing inflation as one of their top three financial concerns.

Forecast 2023:

GDP: **0.2%**

HICP Inflation: **5.2%**

Forecast 2024:

GDP: **1.1%**

HICP Inflation: **2.2%**

UNITED KINGDOM

The negotiation of a new Northern Ireland protocol, involving issues surrounding customs controls and European Union (EU) laws, was the most contested part of the Brexit deal. A resolution should reduce bureaucracy that has doused trade between Great Britain and Northern Ireland, which remains within the EU's single market for goods. Moreover, a final deal can boost the popularity of the Conservative Party, which is trailing the Labour opposition party by 20 points in the polls. Although politicians in the Democratic Unionist Party and hardline Brexit supporters have been opposed to fixing the Northern Ireland protocol they should support this deal given no serious alternative and the prospect of better relations with the EU. Moreover, a deal could diminish Brexit uncertainty, unleash much-needed business investment for the United Kingdom and scale up growth and government revenue prospects.

Forecast 2023:

GDP: **1.1%**

Inflation: **2%**

Forecast 2024:

GDP: **1%**

Inflation: **1.4%**

CHINA

Forecast 2023:
GDP: **5.2%**
Inflation: **2.4%**
Forecast 2024:
GDP: **5%**
Inflation: **2.3%**

China's National Bureau of Statistics reported a 26.7% drop in property sales in 2022 and a 10% decline in property sector investment. The *Global Times* notes the importance of China's urban property sector, citing that it accounts for 40% of Chinese bank lending and 50% of local government revenues. Nevertheless, steady policy support from China's central government (including a 21-point plan to improve high-quality property developers' balance sheets) has boosted prospects for property sales and housing construction. Measures such as extending access to credit for developers, loan support to bolster rental housing supply, an allowance to extend loans and bonds due by up to 12 months and allowing developers to buy more land to expand their businesses, should start supporting the real estate market before the middle of this year.

Forecast 2023:
GDP: **4.1%**
Inflation: **5.9%**
Forecast 2024:
GDP: **4.4%**
Inflation: **4.4%**

EMERGING MARKETS

Still high inflation, elevated interest rates and weakening domestic demand are expected to weigh on the composite for the first half of this year. Eastern Europe, Latin America and vast areas of Africa have felt the burden of intensified cost-of-living pressures on the back of sharp increases in food and energy prices. With China rapidly pivoting away from its stringent zero-COVID policy, the growth outlook for emerging markets could improve in the second half of this year. Moreover, resilient growth in the United States and warmer weather conditions in Europe limiting energy rationing should further support global trade prospects. That said, renewed geopolitical pressures on energy markets continue to pose an upside threat to broadening inflation for the composite. This could result in a further tightening of policy and weigh on demand, placing additional pressure on smaller emerging economies, which have already run into fiscal trouble. Fortunately, freely floating exchange rates and improved external positions should shelter larger emerging countries.

Forecast 2023:
GDP: **1.1%**
Inflation: **5.8%**
Forecast 2024:
GDP: **1.6%**
Inflation: **4.6%**

SOUTH AFRICA

South Africa's (SA) Finance Minister Enoch Godongwana announced a major debt relief programme for energy utility Eskom. However, we expect difficult budgeting trade-offs ahead to maintain fiscal restraint. Few tax implications, outside of a marginal increase in carbon taxes applied to fuel and inflation-related increases in sin taxes, together with full compensation for bracket creep and inflation-adjusted rises in social grants left budget outcomes largely positive for consumers. Although Treasury stuck to its guns on fiscal consolidation and adhered to a prudent approach to spending, market participants remain wary of the tough fiscal decisions that need to be taken to further support other state entities, to address the cost-of-living crisis faced by civil servants and to increase government's financial reach to the most vulnerable. At 4.2% of gross domestic product, SA's fiscal deficit ratio for FY22/23 was more favourable than the Reuters median consensus of 4.5%. But the consensus is more bearish on the success of fiscal consolidation efforts and sees the deficit ratio narrowing to only 3.9% in the outer year of the medium-term expenditure framework relative to Treasury's projection of 3.2%. Despite a well-received State of the Nation Address and a prudent budget, news of the country's greylisting dampened the mood late in the month. Treasury has nevertheless pledged to address the eight areas of strategic deficiencies highlighted by the Financial Action Task Force by the end of January 2025.

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.



The information used to prepare this document includes information from third-party sources and is for information purposes only. Although reasonable steps have been taken to ensure the validity and accuracy of the information contained herein, Momentum Metropolitan Life Limited does not guarantee the accuracy, content, completeness, legality or reliability of the information contained herein and no warranties and/or representations of any kind, expressed or implied, are given to the nature, standard, accuracy or otherwise of the information provided.

Neither Momentum Metropolitan Life Limited, its affiliates, directors, officers, employees, representatives or agents (the Momentum Parties) have any liability to any persons or entities receiving the information made available herein for any claim, damages, loss or expense, including, without limitation, any direct, indirect, special, incidental, punitive or consequential cost, loss or damages, whether in contract or in delict, arising out of or in connection with information made available herein and you agree to indemnify the Momentum Parties accordingly. For further information, please visit us at momentum.co.za. Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider, and rated B-BBEE level 1.

Indices summary for February 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)	-2.19%	4.09%	6.24%	19.46%	12.60%	9.76%	11.01%	10.32%	10.49%
FTSE/JSE Shareholder Weighted Index (Swix)	-2.33%	1.92%	4.04%	14.67%	8.91%	5.80%	7.71%	7.70%	8.98%
FTSE/JSE Capped Swix All Share index	-2.32%	1.55%	3.75%	16.52%	9.37%	6.06%	7.37%	7.40%	8.76%
FTSE/JSE All Share Top 40 Index	-2.37%	4.68%	6.81%	20.41%	13.60%	10.66%	12.13%	10.84%	10.83%
FTSE/JSE Mid Cap Index	-0.23%	0.56%	4.60%	11.24%	6.42%	3.97%	4.27%	6.04%	7.48%
FTSE/JSE Small Cap Index	0.76%	1.62%	11.75%	26.89%	14.17%	7.57%	6.03%	8.27%	9.62%
FTSE/JSE Resources Index	-12.51%	-10.27%	-16.05%	23.80%	16.60%	19.61%	19.02%	19.03%	7.94%
FTSE/JSE Financials Index	2.34%	1.29%	8.13%	11.41%	3.57%	1.82%	4.72%	5.49%	7.82%
FTSE/JSE Industrials Index	1.57%	14.24%	21.50%	18.26%	12.97%	7.57%	9.02%	7.81%	10.92%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	-2.58%	3.34%	8.49%	23.05%	13.33%	11.17%	12.65%	12.80%	10.71%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	-2.98%	2.64%	7.69%	22.07%	12.69%	10.53%	11.74%	12.38%	10.20%
FTSE/JSE SA Listed Property Index (Sapy)	-0.72%	-0.61%	5.09%	2.73%	-3.22%	-3.62%	-4.04%	-2.03%	2.03%
FTSE/JSE All Property Index (ALPI)	-0.14%	0.19%	3.11%	2.13%	-4.32%	-4.49%	-4.91%	-3.70%	1.45%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	-0.87%	2.68%	4.93%	7.40%	7.78%	7.06%	8.24%	8.97%	7.19%
FTSE/JSE All Bond Index 1-3 years (Albi)	-0.01%	2.01%	6.40%	6.93%	7.25%	7.39%	7.81%	8.13%	7.26%
FTSE/JSE Inflation-linked Index (Ili)	0.45%	2.10%	2.63%	7.44%	5.94%	5.08%	4.31%	4.64%	4.86%
Short-term Fixed Interest Composite Index (Stefi)	0.54%	1.69%	5.70%	4.80%	5.41%	5.78%	6.06%	6.27%	6.17%
Commodities									
NewGold Exchange-Traded Fund	-0.30%	12.26%	12.88%	9.47%	15.59%	16.22%	12.19%	7.47%	8.52%
Gold price (in rands)	-0.33%	11.48%	13.76%	9.88%	15.97%	16.63%	12.63%	7.82%	8.96%
Platinum Exchange-Traded Fund	-0.23%	-0.12%	6.82%	8.49%	8.98%	8.20%	4.08%	2.18%	
Platinum price (in rands)	-0.56%	-0.10%	4.56%	7.16%	8.44%	8.00%	3.99%	1.98%	0.71%
Currency movements									
Rand/euro movements	3.37%	11.16%	12.70%	4.41%	5.10%	6.29%	5.83%	1.87%	5.23%
Rand/dollar movements	5.38%	8.36%	18.82%	5.46%	6.88%	9.24%	5.80%	2.18%	7.41%
Inflation index									
Consumer Price Index (CPI)			6.89%	5.23%	5.05%	4.84%	4.76%	5.02%	5.16%

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.
5. FTSE/JSE disclaimer: www.jse.co.za
6. The information reproduced in this document has been compiled by or arrived at by Investments from sources believed to be reliable.
7. Reasonable steps have been taken to ensure the validity and accuracy of the information in this document. However, Momentum Investments does not accept any responsibility for any claim, damages, loss or expense, howsoever arising out of or in connection with the information in this document, whether by a client, investor or intermediary.
8. The content used in this document is sourced from various media publications, the Internet and Momentum Investments. For further information, please visit us at www.momentuminv.co.za.
9. Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider, and rated B-BBEE level 1.