Economies at a glance

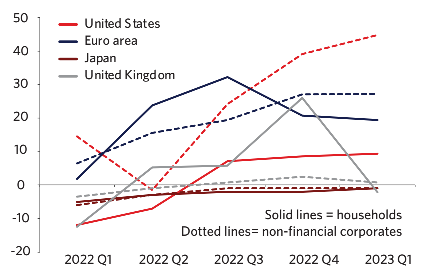
June 2023

momentum investments

8 Charts showing the increasingly **visible impact** of **tighter monetary policy**

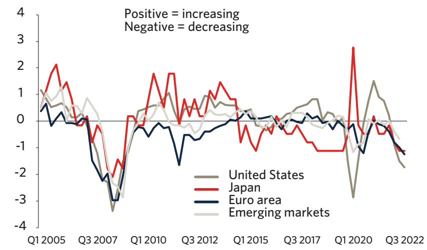
1 Tighter lending standards

Net % of banks tightening lending standards



2 Squeezed global credit demand

Loan demand (index)



3 Default rates inching higher in the US

% default rate of low-grade bonds vs loans

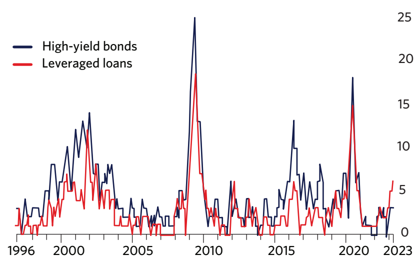
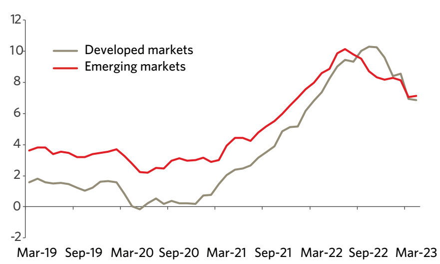


Chart shows three-month trailing annualised default rates

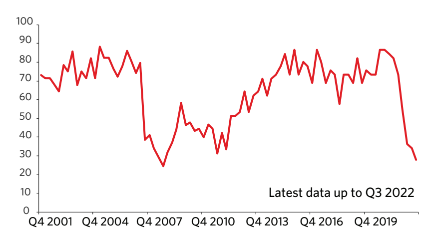
4 Softening global inflation

Headline inflation in median economy (%)



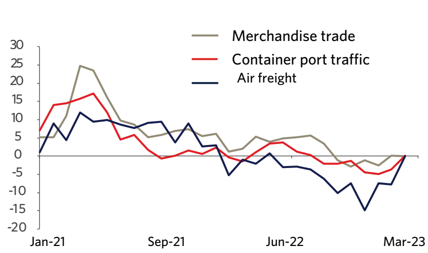
5 Slumping global house prices

Proportion of countries with rising real house prices (%)



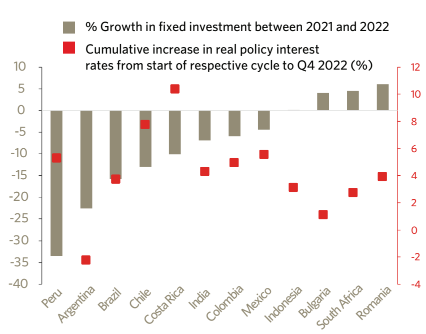
6 Sliding global trade activity

Global trade indicators (% y/y)



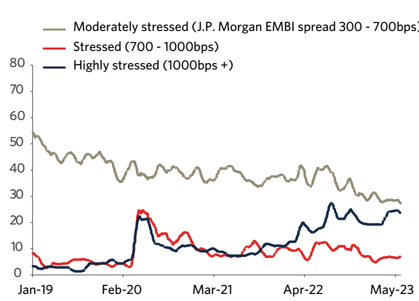
7 Construction crunch

Fixed investment growth % y/y



8 Debt stress climbing

Debt distress in 62 emerging markets (%)



Source: Financial Times, Organisation for Economic Cooperation and Development, International Monetary Fund, World Bank

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investments

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UNITED STATES

Following a series of ten consecutive interest rate increases that began in March 2022, the Federal Open Market Committee (FOMC) of the United States (US) decided to pause in June 2023. However, the post-meeting statement revealed that many Fed officials still considered additional hikes necessary to gradually reduce inflation to the desired level of 2%. The dot plot, a chart depicting the Fed's official projections for short-term interest rates, hinted at the possibility of two more hikes in the current cycle. This aligns with the Fed's upward revision to core personal consumption expenditure (PCE) inflation for 2023, from an initial forecast of 3.6% in March to 3.9% in June. Additionally, the projected unemployment rate for the same period was adjusted lower from 4.5% to 4.1%. Consequently, market expectations for the timing of the first interest rate cut have shifted to the second quarter of 2024.

Forecast 2023:
GDP: 1.4%
Core PCE Inflation: 4%
Forecast 2024:
GDP: 0.4%
Core PCE Inflation: 2.3%

EUROZONE

European Commission President Ursula von der Leyen emphasised the risks to national security and economic resilience arising from Russia's incursion into Ukraine and has repeatedly called for the European Union (EU) to 'de-risk' from China. While there is no consensus among member states on how to approach relations with China, scrutiny of this partnership is growing. France, Lithuania, and Sweden have raised concerns about China's internal oppression and aggressive behaviour abroad, advocating for limited engagement. The EU's High Representative for Foreign Affairs and Security Policy, Josep Borrell, has warned of potential negative consequences for EU-China relations if China were to circumvent sanctions in support of Russia's war efforts. Meanwhile, tensions with Beijing persist as the EU plans to decrease its reliance on China in critical areas as laid out in Brussels' new European Economic Security Strategy.

Forecast 2023:
GDP: 0.5%
HICP Inflation: 5.2%
Forecast 2024:
GDP: 1%
HICP Inflation: 2.3%

UNITED KINGDOM

The Bank of England surprised markets with a larger-than-anticipated 13th consecutive interest rate hike of 50 basis points, bringing rates to 5%, their highest level since 2008. The decision was supported by a seven-to-two vote from the BoE's Monetary Policy Committee, considering recent data indicating a more persistent inflationary trend. Although headline inflation remained stable at 8.7% in May, core inflation, which excludes food, energy, alcohol and tobacco prices, reached its highest level since March 1992. Despite the economy performing better than expected, the Organisation for Economic Cooperation and Development predicts that inflation in the United Kingdom will be the highest among the Group of Seven (G7) countries this year. Capital Economics suggests that the significant rise in mortgage rates could result in a 25% decline in house sales for the year, with house prices expected to decrease further by 12% from their current levels.

Forecast 2023:
GDP: 0.1%
Inflation: 7.2%
Forecast 2024:
GDP: 0.7%
Inflation: 2.7%

JAPAN

Prime Minister Fumio Kishida's mid-year economic policy roadmap addresses the costs associated with Japan's ageing population, where the average age is 48 years old. To tackle this issue, new childcare measures have been prioritised. However, given Japan's high public debt, which is more than double the nation's output, innovative financing approaches will be required. Kishida's administration is also striving to maintain wage increases as part of their 'new capitalism' initiative, aimed at fostering sustainable growth and wealth distribution. They have hinted at raising the national minimum wage to an average of 1 000 yen from the current 961 yen. In light of inflationary pressures, wages have reached a 30-year peak, raising hopes that higher wages, increased consumption and rising prices can enable the Bank of Japan to finally move away from its ultra-accommodative monetary policy stance.

Forecast 2023:
GDP: 1.1%
Inflation: 2.8%
Forecast 2024:
GDP: 1%
Inflation: 1.7%

CHINA

Several factors that contributed to first-quarter growth are now encountering obstacles. China's increased export share to the ASEAN (Association of Southeast Asian Nations) region and the Middle East has reduced exposure to slower-growing regions like the US and Europe. However, the global economic environment has cooled down, which could dampen exports. Although the real estate market has shown an improvement from a low base in 2022, the regional recovery remains uneven due to discretion regarding mortgage rate adjustments and strict eligibility criteria for property purchases. Nevertheless, monetary policy has become more supportive through a series of interest rate cuts and reductions in reserve requirements. Additionally, on the fiscal front, growth will receive support from tax deductions and the proceeds generated by special local bonds.

Forecast 2023:
GDP: 5.5%
Inflation: 1.2%
Forecast 2024:
GDP: 5%
Inflation: 2.2%

EMERGING MARKETS

Amid escalating tensions between China and India, due to border clashes in the Himalayan region and concerns about China's regional influence and close ties with Pakistan, Delhi and Washington have gravitated towards each other, despite India facing public criticism regarding democracy and human rights issues. To enhance security and technological collaboration in the Indo-Pacific region, India has forged alliances with the US, Japan and Australia, forming the so-called 'Quad Alliance'. During Indian Prime Minister Narendra Modi's recent visit to the US, new commitments were announced, including an agreement to manufacture fighter jet engines in India, assistance in expanding clean energy production and a commitment to foster international cooperation in space exploration. As the strategic partnership between India and the US strengthens, future agreements on technology, supply chains and clean energy will help these economies reduce their reliance on supply chains originating from China and mitigate associated risks.

Forecast 2023:
GDP: 4.3%
Inflation: 5.9%
Forecast 2024:
GDP: 4.2%
Inflation: 4.9%

SOUTH AFRICA

Eskom noted that the improvement to an energy availability factor of 56% has come about from warmer-than-usual winter weather, increased diesel deliveries, an improvement in the generation capacity available and lower electricity demand (partly due to alternative forms of energy supply being installed in the private sector). However, higher levels of loadshedding remain a significant risk in the near term given that large generating units remain offline and there have been significant delays in connecting projects from the fifth Bid Window of the renewable energy independent power producer (IPP) procurement programme. Nevertheless, we are expecting a significant improvement in energy supply from next year. Government expects that the three units of Kusile (c.2 100MW) taken offline for repairs will be reconnected by December. Unit 2 of Koeberg (c.920MW) should be back online by April next year after the replacement of its steam generators, while repairs following an explosion at Unit 4 of Medupi (nameplate capacity of 800 MW) should be completed by July next year. Unit 5 of Kusile (c.720MW) is scheduled to be online by April 2024. Meridian Economics further anticipates that 150MW, related to the risk mitigation IPPs, will be connected from November, while c.784MW from Bid Window 5 should be operational by August next year, with an additional 1759MW of renewable capacity available by early 2025.

Forecast 2023:
GDP: 0%
Inflation: 5.8%
Forecast 2024:
GDP: 1%
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 June 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)	1.35%	0.66%	19.58%	16.12%	10.93%	9.59%	10.48%	9.18%	10.32%
FTSE/JSE Shareholder Weighted Index (Swix)	3.98%	1.17%	13.97%	12.61%	7.61%	6.30%	7.18%	6.16%	8.69%
FTSE/JSE Capped Swix All Share index	3.84%	1.16%	13.48%	15.69%	8.41%	6.91%	7.12%	5.96%	8.47%
FTSE/JSE All Share Top 40 Index	1.05%	0.95%	22.18%	16.27%	11.82%	10.33%	11.37%	9.92%	10.77%
FTSE/JSE Mid Cap Index	4.16%	-0.21%	7.52%	14.25%	5.29%	5.27%	5.00%	3.84%	6.80%
FTSE/JSE Small Cap Index	3.83%	0.51%	10.81%	29.79%	13.94%	8.47%	7.12%	6.43%	9.03%
FTSE/JSE Resources Index	-7.63%	-6.09%	2.97%	13.88%	13.51%	15.01%	19.14%	16.51%	9.18%
FTSE/JSE Financials Index	10.08%	5.27%	13.56%	19.67%	2.93%	3.47%	4.61%	4.33%	7.52%
FTSE/JSE Industrials Index	3.72%	3.40%	34.16%	14.49%	11.78%	8.50%	8.34%	7.37%	10.16%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	1.86%	1.13%	18.34%	22.42%	11.92%	11.08%	12.41%	11.18%	10.97%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	1.76%	0.35%	16.17%	21.45%	11.09%	10.29%	11.58%	10.54%	10.30%
FTSE/JSE SA Listed Property Index (Sapy)	0.92%	0.66%	10.00%	11.33%	-4.60%	-3.55%	-4.64%	-3.61%	1.45%
FTSE/JSE All Property Index (ALPI)	0.93%	0.96%	8.94%	10.98%	-4.93%	-4.96%	-5.63%	-4.83%	0.63%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	4.58%	-1.53%	8.23%	7.60%	6.39%	7.39%	7.86%	7.87%	7.39%
FTSE/JSE All Bond Index 1-3 years (Albi)	2.50%	0.48%	7.38%	5.52%	6.76%	7.58%	7.61%	7.74%	7.38%
FTSE/JSE Inflation-linked Index (Ili)	1.22%	-0.84%	1.06%	8.71%	5.58%	5.28%	4.65%	3.93%	5.29%
Short-term Fixed Interest Composite Index (Stefi)	0.65%	1.92%	6.76%	4.98%	5.44%	5.82%	6.07%	6.30%	6.26%
Commodities									
NewGold Exchange-Traded Fund	-7.08%	3.04%	21.76%	5.03%	15.75%	15.63%	13.79%	8.97%	11.19%
Gold price (in rands)	-6.17%	3.47%	22.54%	5.85%	16.23%	15.92%	14.39%	9.28%	11.86%
Platinum Exchange-Traded Fund	-14.09%	-3.25%	15.68%	5.53%	9.49%	7.38%	5.53%	1.69%	1.71%
Platinum price (in rands)	-13.43%	-3.72%	10.34%	5.34%	8.82%	7.13%	5.27%	1.31%	1.30%
Currency movements									
Rand/euro movements	-2.50%	6.91%	20.25%	1.85%	6.42%	5.18%	5.50%	3.44%	4.79%
Rand/dollar movements	-4.68%	6.48%	15.29%	2.86%	7.57%	6.62%	6.29%	3.72%	6.67%
Inflation index									
Consumer Price Index (CPI)			6.30%	6.01%	4.99%	4.89%	4.80%	4.90%	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.
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