The SPM Eco Week: Week of 26 November – 02 December 2018

Economic indicators due this week: (Consensus estimates from Bloomberg)

The Week Ahead

Date	ECO Release	Period	Consensus		Previous	
27 Nov Tue	RMB/BER Business Confidence Index	Q4	40 pts		38 pts	
28 Nov Wed	FNB/BER Consumer Confidence Index	Q3	15 pts		22 pts	
	US GDP (% saar) – 2nd revision	Q3	3.6% q/q		3.5% q/q	
29 Nov Thu	SA Private Sector Credit Extension	Oct	6.35% y/y		6.26% y/y	
	SA Money supply	Oct	7.00% y/y		7.00% y/y	
	SA PPI	Oct	6.30% y/y	0.8% m/m	6.20% y/y	0.5% m/m
	US FOMC meeting minutes	8 Nov				
30 Nov Fri	SA Main Budget Balance	Oct	(R27.0 bn)		+R3.4bn	
	SA Merchandise Trade Balance	Oct	(R5 bn)		(R3 bn)	
	US Chicago PMI	Nov	58.5 pts		58.4 pts	
	China Manufacturing PMI	Nov	50.2 pts		50.2 pts	

Absa Research forecast: BCI 45 pts, CCI 10 pts, PSCE 6,2% y/y, Main Budget Balance –R42,8bn, Trade Balance +R0,4bn.

Last week

ECO Release	Period	Actual		Consensus		Previous	
SA CPI	Oct	5.1% y/y	0.5% m/m	5.2% y/y	0.5% m/m	4.9% y/y	0.5% m/m
SA Core CPI	Oct	4.2% y/y	0.1% m/m	4.3% y/y	0.2% m/m	4.2% y/y	0.5% m/m
SARB Interest Rate decision	Nov	6.75%		6.63%		6.50%	
SARB Leading Indicator	Sep	104.7 pts		104.6 pts		104.9 pts	
S&P SA credit rating review	Foreign	BB	Stable	-	-	BB	Stable
	Local	BB+	Stable	-	-	BB+	Stable

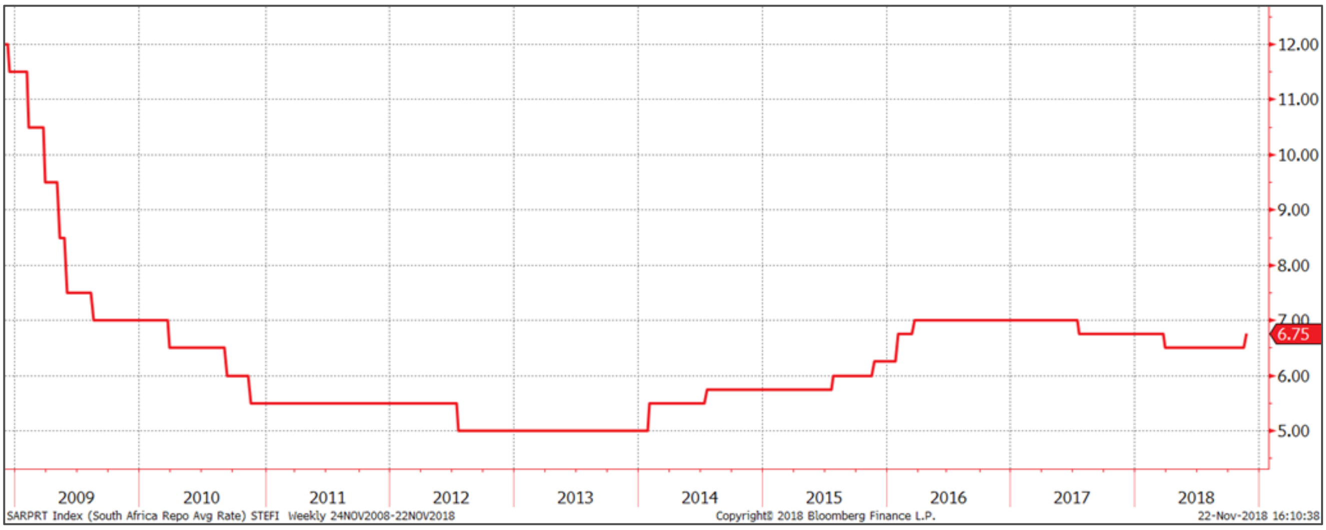
Source: Bloomberg

Discussion point 1: The SARB: Well they did!

Ahead of the meeting of the Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) the market was perfectly divided over which way rates were going. The Bloomberg consensus was bang in the middle of the 6,50% to 6,75% range and the Forward Rate Agreement (FRA) market painted the exact same picture. As it turned out the MPC membership was equally divided with three members of the MPC voting for an unchanged rate and three members voting for a 25 basis point (bp) rate hike. The governor must have pulled rank and opted for a rate hike and at the end of the day with the market completely divided, the call was entirely the governor's.

The MPC did ponder whether they should hike now or wait and see and hike later if needed. The governor noted that delaying a hike would have given the MPC further time to assess developments but delaying a hike would potentially have increased and entrenched inflation expectations and contributed to second round inflation effects that would have demanded an even stronger monetary policy response. The governor also noted that "the current challenges facing the economy are primarily structural in nature and cannot be solved by monetary policy alone".

South African Reserve Bank Repo rate: 2009 – 2018 Oops there it is!



The governor highlighted the following in his statement (previous forecasts from the September meeting in brackets):

- GDP growth is forecast at 0,6% (0,7%) in 2018, 1,9% in 2019 and 2,0% in 2020.
- Risks to the growth forecast are moderately to the downside.
- Headline CPI is seen at 4,7% (4,8%) in 2018, 5,5% (5,7%) in 2019 and 5,4% in 2020 (2017: 5,3%).
- Headline CPI is forecast to peak at 5,6% in Q3 2019 (5,9% in Q2 2019) with no quarterly breach over the forecast horizon (out to 2020).
- Market analyst inflation expectations (Reuters) declined to 4,7% (4,8%) in 2018, 5,5% (5,3%) in 2019 and remained unchanged at 5,3% for 2020.
- Core CPI is forecast at 4,3% (4,4%) in 2018, 5,3% (5,6%) in 2019 and 5,5% in 2020 (2017: 4,7%).
- The Quarterly Projection Model (QPM) of the SARB assumes a Brent crude oil price of $73 ($70) in each of 2019 and 2020.
- Administered prices in the QPM (fuel, electricity, water) were seen rising at a rate above the upper end of the target range.
- Risks to the inflation outlook are to the upside (due to tightening global financial conditions, exchange rate risks, oil prices and rising water and electricity prices). Demand pressures do not pose a risk to the outlook.
- The QPM which is used as a broad policy guide forecasts four (five) rate hikes of 25 basis points by the end of 2020.
- The rand was assessed to still be undervalued at a rate of R14,50/$.

Discussion point 2: Expecting a mixed bag from the Confidence Indices this quarter

The Q4 RMB/BER Business Confidence Index (BCI) is due for release on Tuesday and some improvement in corporate confidence is expected given the positive political and investment developments over the past quarter. The BCI is not expected to breach the key (and positive) 50 level but an improvement is expected nonetheless. In contrast, the Q3 FNB/BER Consumer Confidence Index (CCI) is expected to fall from its lofty record levels. Consumer confidence responded very positively in Q1 to the change in political leadership but very strangely the index stayed elevated in Q2 despite a marked slowdown in "Ramaphoria". While the recent investment drive has probably fueled "Ramaphoria" a little more, the economic recession, the weaker rand and the threat to disposable incomes from higher fuel and other administered prices, likely left consumers a little more downbeat in the third quarter. The expectation then is that the BCI will increase modestly but that the CCI will give up some ground. Confidence is the first link in the economic chain and it's imperative for growth that we continue to see an improving trend in these two indicators.

RMB/BER Business Confidence Index: 2009-2018 (38 pts)

FNB/BER Consumer Confidence Index: 2009-2018 (22 pts)

Source: Bloomberg

Discussion point 3: S&P Global Ratings grant SA a ratings reprieve entirely as expected.

S&P Global Ratings affirmed South Africa's local and foreign currency ratings at BB and BB+ respectively and kept the outlook at "stable" for both ratings (after 23:00 on Friday night). S&P cited the president's growth initiatives and the recent move to reprioritising growth spend in the National Budget as developments that would help boost investor confidence, investment and growth. The ratings agency did not consider land expropriation without compensation as significantly hurting investment into the country. While they acknowledged that some investors might be scared away by the policy, South Africa's institutional framework had enough "checks and balances" to ensure that the policy did not significantly deter investment into the economy. S&P also noted that their ratings were constrained by the poor pace of economic growth, particularly per capita growth, the large and rising level of fiscal debt as well as the large amount of contingent liabilities (linked to the State Owned Enterprises).

The National Treasury responded to the S&P rating affirmation saying it was fully aware that the next several months were critical and that government remained determined to improve the country's rating. The graph below highlights the progression of South Africa's foreign currency rating from the three ratings agencies over the past 10 years (above zero being investment grade and sub-zero being sub-investment grade or junk). For all of the ratings agencies, the tone and direction of the February 2019 National Budget and the policy stance of the ruling party post the 2019 elections are critical factors that will determine the course of South Africa's rating over the near future. Fitch do not pre-announce the release date of their ratings reviews but an announcement from Fitch is expected soon.

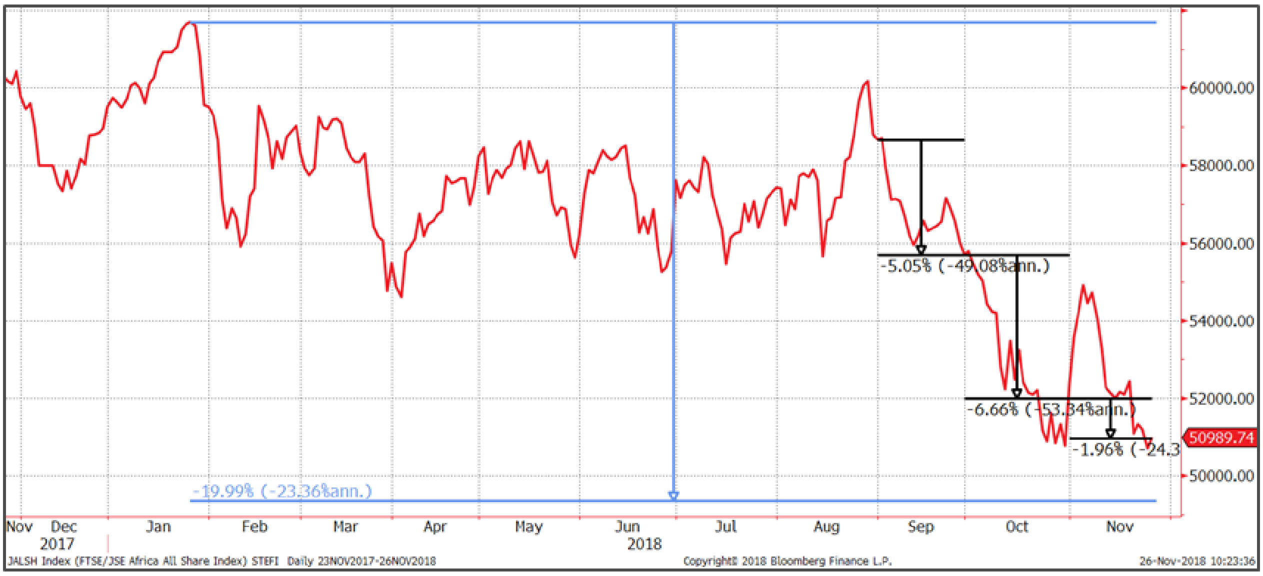
Final snippets:

- **National Minimum Wage –** The president signed the bill into law last week and the minimum wage will become effective from 1 January 2019. The National Minimum Wage, which will be reviewed annually, is set at R20/hour with the exception of agricultural workers (R18/hour) and domestic workers (R15/hour).

- **Oil prices** – The price of crude oil has collapsed as supply has risen and the expectation is for demand to slow down as global growth slows. Saudi Arabia, OPEC's largest producer, has been pumping at record levels of over 11m barrels per day. The one-year graph of Brent crude oil on the right shows the fall in price of just over 30% from $86.29/barrel to the current price of $59.93/barrel. The over-recovery on the domestic fuel price this month should see petrol prices falling by well over 150c/l and diesel prices by well over 100c/l in December.

- **The equity market –** The weak markets of September (-5,1%) and October (-6,66%) have continued into November so far (-2,0%). From the all-time high of 61,684 recorded on 25 January 2018, the market has retraced by just over 17% to a level of 50,995 (mid-morning Monday) – see chart below. A retracement of more than 20% (to the blue line) would be considered the start of a bear market and that level is at 49,347. The local market has suffered in the "risk-off" environment but even the S&P 500 is down from its all-time high of 2,930 to the current level of 2,632 (-10%). The local market is offering a lot more value than it has for a long time and that might just keep us from breaching that bear market level.

FTSE/JSE All Share Index: November 2017 – November 2018



Source: Bloomberg

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