



The SPM Eco Week: Week of 28 January - 02 February 2019

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

Date	ECO Release	Period	Consensus		Previous	
30 Jan Wed	SA M3 Money Supply	Dec	--		5.7% y/y	
	SA Private Sector Credit	Dec			5.6% y/y	
	SA PPI	Dec	-0.5% m/m	5.9% y/y	0.4% m/m	6.8% y/y
	SA Main Budget Balance	Dec	-		-16.9% y/y	
	US FOMC Rate Decision	Jan	2.25% - 2.50%		2.25% - 2.50%	
31 Jan Thu	SA Trade Balance	Dec	+R9,0bn		+R3,5bn	
01 Feb Fri	SA Absa Manufacturing PMI	Jan	50.7 Pts		50.7 Pts	
	SA NAAMSA New Vehicle sales	Jan	+0.1% y/y		-1,9% y/y	
	US Average Hourly Earnings	Jan	0.3% m/m	3.2% y/y	0.4% m/m	3.2% y/y
	US Nonfarm Payroll	Jan	175k		312k	
	US Unemployment	Jan	3.9%		3.9%	

Abcap forecasts: SA Private Sector Credit (5.3% y/y), SA PPI (6.0% y/y), SA NAAMSA New Vehicle sales (-2.0% y/y), SA Main Budget Balance (16.5% y/y)

Last week

ECO Release	Period	Actual		Consensus		Previous	
China GDP Growth (Actual)	Q4	1.5% q/q	6.4% y/y	1.5% q/q	6.4% y/y	1.6% q/q	6.5% y/y
China Retail Sales	Dec	8.2% y/y		8.2% y/y		8.1% y/y	
SA Leading Indicator	Oct	105.5 Pts		-		105.8 Pts	
SA Core Inflation	Dec	4.4% y/y		-		4.4% y/y	
SA Inflation Rate	Dec	-0.2% m/m	4.5% y/y	-0.2% m/m	4.5% y/y	0.2% m/m	5.2% y/y
SA Consumer Confidence	Q4	7 Pts				7 Pts	

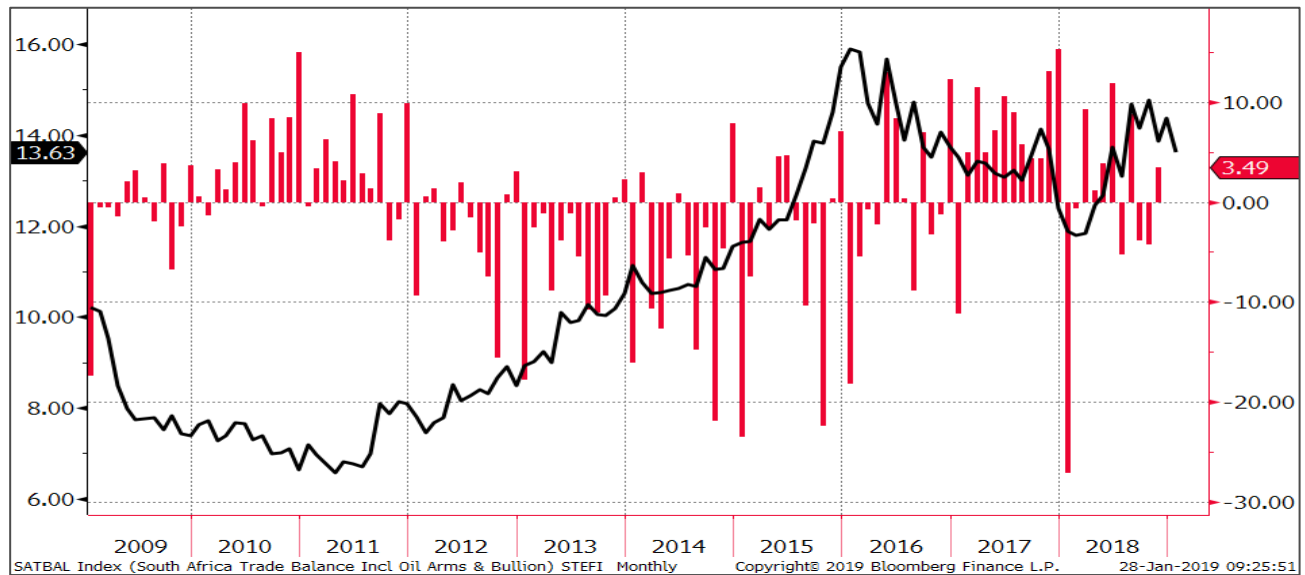
Discussion point 1: Getting the balance right!

In November the country recorded a trade surplus of R3,5bn (see chart overleaf). The trade numbers are always erratic but this was particularly the case in 2018 where for the first 11 months of the year we had six surpluses and five deficits. This can be compared to the relative stability of 2017 where we had one deficit month in January and then a surplus each month for the rest of the year. This resulted in a trade surplus of R80bn for the 2017 calendar year. On Thursday the South African Revenue Service will release the trade balance for December and that should give us the total trade balance for the 2018 calendar year. The Bloomberg consensus expectation is for a surplus of R9bn and that would leave the annual trade balance in positive territory – the cumulative Jan-Nov 2018 trade balance currently stands at a deficit of R4,2bn and December is seasonally a surplus month.

The Trade Balance is important for the contribution it makes to the country's current account balance. The current account is perennially in deficit and a trade surplus helps reduce that deficit and provides support to the rand (as less external financing is required to fill the shortfall). A trade deficit adds pressure to the current account and acts as a drag on the currency. A weaker currency should ideally restore balance to trade as exports generate more revenue and demand reduces for the more expensive

imports. Unfortunately, South Africa has little scope to ramp up exports when the currency is weak but the trade balance certainly benefits from the exports that we do have.

Monthly trade balance (Rbn, red, RHS) and Rand/USD (R/\$, black, LHS): 2009 - 2018



Source: Bloomberg

Discussion point 2: Fuelling a decline in producer prices

The consumer price inflation data published last week dropped encouragingly down to 4,5% y/y to be exactly in the midpoint of the target range and what now appears to be the de facto point inflation target of the South African Reserve Bank. The sharp fall in the CPI in December from 5,2% in November could largely be ascribed to the lower fuel prices in the month and the high base of fuel prices a year ago. The decline in the fuel price in December is also expected to positively impact producer price inflation where the PPI basket weighting for fuel is higher than that for the CPI basket. Bloomberg consensus is for a decline in the PPI to 5,9% y/y (Absa 6,0% y/y) from 6,8% y/y. Overall the declining oil price has helped improve the domestic as well as the global inflation outlook. For the local economy the one threat to the inflation outlook is the drought and the potential for higher food prices. The SARB will watch developments keenly but for now the market is largely expecting no change to the official Repo rate this year.

Producer price inflation of manufactured goods (y/y % change) – 2013 - 2018



Source: Bloomberg

Quick graph: Disruption to iron ore supply after another tragedy in Brazil

A tailings dam of Brazilian iron ore company Vale burst at a mine in the province of Minas Gerais on 27 January. Sixty people, including employees, were killed in the mud slide and 300 are still missing. The incident follows the 2015 bursting of a Vale-BHP Billiton tailings dam which killed 19 people. The graph below highlights the market reaction to the expected lower iron ore supply in the wake of the disaster.

Quick Graph: Iron Ore – Active Futures Contracts (USD) – 2013 - 2018



Source: Bloomberg

FYI: Federal Open Market Committee and SARB MPC meeting dates in 2019

2019 FOMC Meetings	
January	29-30
March	19-20*
April/May	30-1
June	18-19*
July	30-31
September	17-18*
October	29-30
December	10-11*

* Meeting associated with a Summary of Economic Projections.

Monetary Policy Committee meeting dates for 2019:
15 - 17 January 2019
26 - 28 March 2019
21 - 23 May 2019
16 - 18 July 2019
17 - 19 September 2019
19 - 21 November 2019

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