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Month in Review | May 2023

LOCAL MARKETS
- MANY UPSETS IN MAY

The weakening of the rand made news headlines several times in May as various factors weighed on the currency. Beyond the rand's decline, another interest rate hike was announced, adding further pressure to household budgets already under strain thanks to sharp rises in especially food prices.

News website Daily Investor reported at the end of May that since 1994 the rand has declined from R3.62 per US dollar to over R19.80 per US dollar. "Over the last three decades, the rand's value has declined by 82% relative to the US dollar," according to the report.

The negative news about the currency and the ongoing power issues also affected the local bourse and the JSE All Share Index recorded a 4.0% MoM decline (+2.8% YTD) in May. As SA battles load shedding, its consequences and costs, as well as tepid consumer spending, rampant corruption etc., the government continues to score own goals, with the US ambassador to SA last month accusing the country of supplying arms to Russia. The SA government has denied the claim, and President Cyril Ramaphosa has established a judicial commission to investigate. Still, the allegations and the threat of US sanctions have already had dire consequences for the SA economy.

This development was a major contributor to the decline of the rand and bond yields spiked, pushing up the cost of government borrowing and reflecting the negative impact of these allegations on the local economy. SA is the biggest beneficiary of the US Africa Growth and Opportunity Act (AGOA), exporting $15bn of goods and services in terms of that act. One of the conditions for a country to qualify under AGOA is that it is not a threat to US national security interests. If the allegations of supplying arms to Russia prove true, it will leave SA in contravention of that requirement. SA's free trade agreement with the EU and our trade relations with the UK could also be at risk.

ALL JSE INDEXES CLOSE LOWER

It was red across the board on the JSE. Financials were hardest hit (Fini-15 -8.2% MoM/-7.2% YTD), followed by the SA Listed Property Index (-6.2% MoM/-7.8% YTD). The Resi-10 also retreated – down 2.2% MoM and 4.7% YTD, although some gold shares shone as the rand gold price soared on the back of a falling rand. The Indi-25 declined by 3.1% MoM but is still up 17.4% YTD.

In economic data, April SA headline inflation, as measured by the consumer price index (CPI), slowed to 6.8% YoY (its lowest reading since May 2022) from 7.1% in March. MoM, CPI advanced by 0.4% in April vs 1.0% in March. Inflation eased mainly due to the expected decline in fuel inflation to 5.0% YoY in April from 8.1% in March and partly due to an unexpected softening in food and non-alcoholic beverages inflation to 13.9% from 14.0% YoY.

REPO RATE HIGHEST IN 14 YEARS

Against this backdrop, and in line with expectations, the SARB's Monetary Policy Committee (MPC) increased the repo rate for the tenth time in 18 months by 50 bps. The repo rate now stands at 8.25% (its highest level in 14 years), with prime at 11.75%. Elsewhere, local retail trade sales shrank for a fourth consecutive month in March (-1.6% YoY) following February's upwardly revised drop of 0.7% YoY. MoM retail trade sales declined 0.7% in March, compared to a 0.1% MoM decrease in February. In some positive news, the Crop Estimates Committee (CEC) increased its 2022/2023 maize production estimate for SA by 2% to 16.1mn tonnes due to favourable weather conditions. This is a 5% YoY increase and the third-largest harvest on record.

The Absa Purchasing Managers' Index (PMI) edged down in May, ending the short-lived rise seen in April. April's PMI stood at 49.8 index points – a considerable increase from the 48.1 index points recorded for March. However, the PMI decreased marginally to 49.2 in May, signalling a deterioration in business conditions for four consecutive months. In addition to the downbeat assessment of the current environment, respondents were considerably more negative about business conditions in the future.

VEHICLE SALES IMPROVE

The National Association of Automobile Manufacturers of South Africa's (Naamsa) New Vehicle Sales stats for May 2023 show a year-on-year increase of 10.1%, despite the shrinking disposable income of consumers and crippling load shedding. For the period under review, aggregate domestic new vehicle sales, recorded at 43,060 units, reflected a significant increase of 3,959 vehicles from the 39,101 new cars sold in May 2022.

The main reason for this was the record export sales of 31,437 units from 19,007 sold in May 2022 – representing a remarkable increase of 12,498 units or 67.5% year-on-year.

INTERNATIONAL MARKETS
- NEGATIVE SENTIMENT ON MOST GLOBAL MARKETS

Bearish sentiment dominated most major global markets (MSCI World -0.9% MoM/+8.8% YTD) in a tumultuous May, with concerns around a US debt default, high inflation and a possible US recession weighing on investor sentiment. While news emerged over the weekend of an agreement between President Joe Biden and US House of Representatives Speaker Kevin McCarthy on the debt ceiling, US markets were down at the end of the month as the deal headed for a vote in Congress. In addition, unexpectedly strong US labour market data rattled investors worried that the US Federal Reserve (Fed) might hike interest rates again in June.

Still, Wall Street wrapped the month with an impressive rally in artificial intelligence-related stocks and other tech names, which buoyed the tech-heavy Nasdaq Composite Index to end the month 5.8% higher (+23.6% YTD). Unfortunately, the Dow Jones and the blue-chip S&P 500 indices were less fortunate. The Dow fell 3.5% MoM (-0.7% YTD), while the S&P 500 recorded a small advance (+0.2% MoM) for May (the index is up 8.9% YTD).

In US economic data, April headline CPI showed a decrease to 4.9% YoY from 5.0% in March – coming in below expectations of another 5.0% print. Following two months of declines, US April retail sales rose 0.4% MoM – a weaker gain than the 0.8% increase consensus forecasts had expected but significantly better than March's downwardly revised 0.7% drop.

The US Fed's Federal Open Market Committee (FOMC) held its latest meeting at the beginning of May, raising rates by 25 bps – in line with expectations. This latest rate hike increases the federal funds rate to the 5%–5.25% range, the highest since 2007, before the global financial crisis. Fed Chair Jerome Powell said that the Fed will not be guiding for further hikes and that decisions will remain data-dependent going forward. However, the possibility of further hikes has not been completely removed.

MARKETS CLOSE LOWER

In Europe, Germany's DAX ended May down 1.6% MoM (+12.5% YTD), while France's CAC Index closed 5.2% MoM lower (+9.7% YTD). April euro area annual inflation was higher at 7.0% YoY vs 6.9% in March. Germany's economy, the biggest in Europe, entered a technical recession in 1Q23 as data showed a downward revision to its gross domestic product (GDP) – from zero to -0.3% YoY for 1Q23. In 4Q22, Germany recorded a 0.5% YoY contraction. Germany's annual inflation rate came in at an eight-month low of 7.2% vs 7.4% in March. The cost of energy surged 6.8% YoY in April, following a marked slowdown in March (+3.5% YoY), while April also saw an above-average rise in food prices (+17.2% YoY).

In the UK, the blue-chip FTSE-100 Index fell 5.4% in May (-0.1% YTD). April UK inflation slowed (to 8.7% YoY) vs March's 10.1% YoY print but still came in higher than expected as food and non-alcoholic drinks prices accelerated by 19.1% YoY. Core inflation, which excludes the volatile food and energy items, surprised the market by rising sharply to 6.8% in April vs 6.2% in March.

CHINESE MARKETS LOWER, JAPAN'S MARKET RALLIED

Chinese markets were down, with Hong Kong's Hang Seng Index plummeting 8.3% MoM (-7.8% YTD), while the Shanghai Composite Index fell by 3.6% MoM (+3.7% YTD) as foreign investors continued to sell Chinese shares and expectations were for weak corporate earnings in China. On the economic data front, China's factory activity shrank for a second straight month in May, with the official manufacturing purchasing managers index (PMI) coming in at 48.8, down from April's 49.2. In addition, the official non-manufacturing PMI, measuring business sentiment in the services and construction sectors, also declined to 54.5 vs April's 56.4.

Japan's equity market rallied, with the benchmark Nikkei recording its best performance in 30 months, soaring 7.0% in May (+18.4%YTD). Japan's annual CPI accelerated to 3.5% in April vs 3.2% in March, with food prices ticking up and driving the acceleration.

COMMODITIES UNDER PRESSURE

In commodities, Brent crude oil has slumped by 16% since peaking at US$86.96 on 12 April following OPEC+'s announcement of production cuts. The decline has come amid concerns around the US debt ceiling, a global recession, and the high interest-rate environment. MoM, Brent crude was down 8.4%, and YTD, the price has dropped by 15.2%. Iron ore prices (-1.6% MoM/-11.1% YTD) were also under pressure amid concerns about unfulfilled expectations for steel consumption in China's real estate sector during peak season. Worries around the US debt ceiling weighed on the price of gold (-1.7% MoM/+7.2% YTD) for most of the month, although there was a slight rebound in the yellow metal after a deal on the debt ceiling was announced towards month-end. The price of platinum dropped 5.7% MoM (-5.3% YTD) to close May at US$998.42/oz, while palladium ended the month 7.3% lower (-22.1% YTD). Natural gas prices fell 4.4% MoM (-48.5% YTD), while thermal coal prices fell 21.1% MoM (-45.2% YTD).

Sources: Anchor Capital; BusinessTech; Daily Investor

NEWS FLASH | TAX SEASON STARTS IN JULY

SARS has not released full details of the 2023 tax season but announced that it will start on 7 July 2023. Get your documents ready.

VIEW THE BRENTHURST MARKET REPORTS FOR INVESTMENT INSIGHTS

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