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Month in Review | September 2022

LOCAL MARKETS
- LOCAL MARKET STRUGGLES & POWER DRAMA CONTINUES

Eskom implemented record hours of load shedding in September, disrupting business activities and causing heightened frustration for citizens. This, and continued volatility in global markets, weighed on the JSE and the All Share Index closed 5.2% lower month-on-month (-13.5% year to date and -3.8% in the 3rd quarter).

All sectors were affected. The SA Listed Property Index was the worst performing and closed 7.7% lower than August (-20.0% YTD). It was followed by the Indi-25 (-7.3% MoM and -18.9% YTD) and the Fini-15, which declined by 7.2% MoM (-6.8% YTD). The resources sector also declined, but held up relatively well – the Resi-10 closed 0.1% lower month-on-month, but is at -15.1% for the year to date. Some of the bigger shares, in terms of market capitalisation, fared better, with BHP Group, the largest company on the exchange, closing 4.0% higher MoM. It was followed by Glencore (+6.6% MoM), Anglo American Platinum (Amplats; +7.5% MoM), and Gold Fields (+6.35 MoM).

The rand continued its retreat against a rampaging US dollar, weakening by a further 5.3% MoM and now stands at -13.5% for the year to date. The local currency is not the only one affected. Several of the world's leading currencies are also much weaker.

INFLATION SLIGHTLY LOWER

In terms of local economic data, annual August headline inflation eased slightly, coming in at 7.6% vs 7.8% in July. The major driver of the lower CPI print was fuel inflation, as was broadly anticipated, August core CPI inflation also came in much softer than expected at 4.4% YoY – down from July's 4.6%.

The downside surprise in core inflation partly owed to a modestly smaller increase in public transport costs than initially forecast, amid the sharp mid-year rise in taxi fares (surveyed outside their regular quarterly schedule). Following two consecutive quarters of growth, 2Q22 GDP decreased 0.7% QoQ seasonally adjusted, marginally better than expectations. Year on year, GDP increased by only 0.2%.

While SA had a solid start to the year with GDP growth of 1.9%, QoQ seasonally adjusted in 1Q22. Flood damage in KwaZulu-Natal (KZN) and extensive bouts of power outages have weighed on activity across different sectors of the economy during the quarter.

The more intense electricity issues in September saw manufacturing activity plummet into contractionary territory, coming close to July levels when load-shedding reached stage 6 and the economy was still recovering from the devastating KwaZulu-Natal floods, which saw production in the region come to a halt. The agriculture, trade and mining industries are also struggling due to the ongoing power drama. Eskom has implemented electricity outages for over half of the days in the second quarter of the year, adding to the record blackouts in the financial year through March, which hobbled local economic output.

ANOTHER INTEREST RATE HIKE

At its 22 September meeting, the SA Reserve Bank's (SARB's) Monetary Policy Committee (MPC) hiked interest rates by 75 basis points, taking the repo rate to 6.25%. Neither the 2Q22 GDP contraction nor the easing of inflation in August influenced the MPC's planned interest rate normalisation meaningfully.

Whilst it is expected that inflation will trend lower and second-round inflation to remain relatively subdued, as it stands, there are enough indicators of stronger price pressure to keep the SARB hawkish, especially given its resolve to avoid underestimating the pervasiveness of inflation, such as several other central banks have done, including the Fed in the USA. July mining production dropped for a sixth consecutive month as power outages hindered industrial activities.

VEHICLE SALES HIGHER

Rising car prices and interest rates failed to put the brakes on consumer demand in September, with new-vehicle sales up 10.8% on the same month last year. Amid the despondency around load shedding and other weakening economic indicators, the new-vehicle market continued to reflect a healthy performance, but the pace of recovery has started to slow down, said motor industry body Naamsa.

There were 47,786 new vehicles sold in SA last month, an increase of 4,639 units over September 2021, while export sales recorded a 104.6% increase to 41,474 units.

INTERNATIONAL MARKETS
- GLOBAL MARKETS CLOSE IN THE RED

It was another wretched and tumultuous month for world markets (MSCI World -9.3% MoM/-25.1% YTD), with market participants worried about a possible global recession as major central banks continued to implement outsized interest rate hikes in the hopes of pushing down the high inflation that has swept the globe. Geopolitical risks (Russia's ongoing war in Ukraine and the increasing tension between Russia and much of Europe), Europe's energy crisis, and China's COVID-19 lockdowns added to the negative sentiment.

US markets fared relatively well earlier in September until the mid-month release of US August consumer price index (CPI) data triggered the biggest market sell-off since 2020. The print came in above expectations across the board and was largely driven by an acceleration in core inflation. Markets picked up towards the end of the month, but this respite did not last long, and global markets dropped again into month-end. The US blue-chip S&P 500 declined by 9.3% (-24.8% YTD) in September, its worst monthly performance since March 2020, when COVID-19 crashed world markets and the index's third losing quarter in a row. The Dow closed the month 8.8% lower (-20.9% YTD), while the tech-heavy Nasdaq fell by 10.5% MoM (-32.4% YTD).

In US economic data, CPI unexpectedly rose in August, driven by increasing rental and food prices. Consensus economists' forecasts were expecting August headline CPI to ease to 8.1% YoY vs 8.5% YoY in July in a growing sign that inflation may have peaked at 9.1% in June. Instead, headline CPI came in at 8.3% YoY for August. Shelter, food and medical care were the most significant contributors to price growth. The most concerning component of US inflation is core services inflation which looked to be flattening in July, but reaccelerated in August, with shelter (42% of the core CPI basket) and medical care (9% of the core CPI basket) prices accelerating from already elevated levels.

At its 21 September meeting, the Fed hiked rates by 75 basis points – the third consecutive 75 basis points increase. Cumulatively, the market now anticipates a 1.5% rise in the federal funds rate over the next two meetings, followed by an easing off trajectory.

SHARP RISE IN INFLATION ACROSS EUROPE

In Germany, the DAX ended the month 5.6% lower (-23.7% YTD), while France's CAC Index closed September 5.9% in the red (-19.4% YTD). In economic data, eurozone headline inflation reached a new record high of 9.1% YoY in August vs 8.9% in July. The jump was mainly driven by high energy prices (+40.8% YoY). The region's biggest economy, Germany, recorded unprecedented double-digit inflation levels, coming in at 10.8% YoY in September vs a revised 7.9% YoY for August, while France's inflation rate decreased to 6.2% YoY in September vs 6.5% YoY in August. In the Netherlands, inflation shot up 17.1% YoY – the highest since World War II and a significant jump from August's already high 12% print. Meanwhile, Europe's GDP grew 4.1% YoY in 2Q22, coming in above market expectations, while Eurostat data show that the eurozone July unemployment rate remained at a record low of 6.6%.

In the UK, the blue-chip FTSE-100 Index closed September 5.4% lower (-6.6% YTD). On the political front, following Boris Johnson's resignation, Liz Truss became UK prime minister. A controversial UK government plan to cut taxes saw bond markets in turmoil last week on worries that it could worsen inflation (bond markets calmed somewhat after the BOE pledged to buy however many UK government bonds needed to bring yields down).

UK August headline inflation eased into the single digits coming in at 9.9% YoY vs July's 40-year high of 10.1% YoY, on lower petrol prices.

Lockdowns in several of China's large cities, tightened COVID-19 control measures, and an embattled real estate sector weighed on Chinese markets. Hong Kong's Hang Seng Index posted a 13.7% MoM loss (-26.4% YTD), while the Shanghai Composite Index fell 5.6% MoM (-16.9% YTD). On the economic data front, China's official Manufacturing Purchasing Managers Index (PMI) unexpectedly expanded to 50.1 in September compared with August's 49.4. Chinese retail sales beat expectations, rising 5.4% YoY in August vs July 2.7% YoY increase, as strong vehicle sales (+15.9% YoY) led the way on the back of government tax cuts and subsidies.

In Japan, the benchmark Nikkei dropped 7.7% MoM in September (-9.9% YTD). On the economic front, Japan's economy grew by an annualised 3.5% in 2Q22, revised upwards from an initial estimated 2.2% growth. Private consumption, which accounts for more than 50% of its GDP, grew 1.2%, also revised higher from an initial estimate of a 1.1% increase.

OIL PRICE DROPS FURTHER

Among commodity prices, Brent crude oil dropped for a third month (-8.8% MoM/+13.1% YTD) to end September at US$87.96 per barrel, as a strong US dollar weighed on prices. Meanwhile, the price of iron ore rose 0.2% MoM (-16.3% YTD) as the world's top steel producer, China, ramped up output. China's steel mills have also been replenishing iron ore stock ahead of that country's week-long National Day holidays, which started on 1 October. The gold price recorded its sixth consecutive MoM decline (-2.9% MoM/-9.2% YTD) on the back of a rampant US dollar and as hawkish Fed comments continue to point to an aggressive interest rate path, denting gold's appeal. The price of platinum rose 1.8% MoM (+10.8% YTD), while palladium jumped 3.7% MoM (+13.7% YTD).

Sources: Anchor Capital, Business Day

SMART TIP | REVIEW YOUR INVESTMENT PLAN

It is always advisable to review your finances as your circumstances change. Is your will up to date? Is your risk cover still relevant to your needs? Are your retirement investments structured for optimum benefit? Our advisors have shared their insights regarding these issues in our weekly newsletters. If you missed any of the articles or comments by our team, find it here: Investment Reports.

CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY

THIS IS THE SIXTH TIME THAT WE HAVE BEEN LISTED AMONGST THE TOP FIVE COMPANIES IN SOUTH AFRICA, OF WHICH WE WERE ADJUDICATED THE TOP BOUTIQUE WEALTH MANAGER IN 2020 AND 2017.

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