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Month in Review | August 2023

LOCAL MARKETS
- STATE FINANCES DETERIORATING

With the mid-term budget on the agenda for October, August ended with several media reports about South Africa's deteriorating finances and the government's plans to reduce expenses against a backdrop of declining tax collection. The National Treasury revealed that South Africa recorded its largest budget deficit since at least 2004, sending the rand crashing and lowering demand for government bonds. A report released in late August showed that the budget moved to a deficit of R143.8 billion for July.

LOCAL MARKET CLOSES LOWER

The tough environment was evident in the performance of the local market for August and the JSE All Share Index declined by 5.1% in August (+2.6% YTD). The SA Listed Property Index managed to eke out a 0.8% gain for the month (-4.7% YTD) while resources, industrials and financials all ended in the red, with the Resi-10 down 10.3% MoM (-18.6% YTD), the Indi-25 losing 5.1% MoM (+14.6% YTD) and the Fini-15 retreating by 2.0% MoM (+9.4% YTD). The biggest JSE-listed shares by market cap were under pressure - BHP Group, closed 1.4% lower month on month and Prosus, the second-biggest listed company, dropped 7.3% MoM. Naspers lost 8.5% MoM and Richemont declined 6.7% MoM.

Packaging Group, Nampak was last month's best-performing share, with its share price gaining 50.3% MoM, albeit from a low base. Real estate investment trust (REIT), Fortress Real Estate Investments Ltd -B- shares was August's second best-performing share with education Group Stadio in third place.

INFLATION IMPROVES

SA's July headline CPI slowed for a fourth consecutive month, easing by more than expected to 4.7% YoY (the lowest reading since July 2021) vs June's 5.4%, as fuel prices continued to decline. Significantly, food and non-alcoholic beverages, one of the key upward drivers of inflation over the previous few months, has dropped back down to single digits – 9.9% YoY for July vs 11% in June. Core inflation (excluding the volatile food and energy categories) reached a 10-month low of 4.7% YoY in July vs 5% YoY in June. June retail sales data (released in August) fell again, declining by 0.9% YoY, following a revised 1.6% YoY drop in May. YTD, every month has seen a decline in retail sales data. Manufacturing activity improved slightly in August, pushed up "artificially" by the unusually long supplier delivery times index, pointing to the effect a weeklong taxi strike had on the sector.

At 49.7 Absa's purchasing managers' index (PMI) — conducted by the Bureau for Economic Research in partnership with Absa Bank — for August suggests softness in activity in the manufacturing sector even as the index increased from a two-year low of 47.3 in the previous month. After two consecutive months of gains, the rand fell by 5.8% against the US dollar in August (-10.5% YTD).

VEHICLE SALES DECLINE

As South Africans continue to deal with the high cost of living in the country, new vehicle sales fell to the biggest year-on-year decline in sales since December 2021. According to figures released by Naamsa the automotive business council, South Africa's new vehicle sales fell 3.1% in August to 45 679.

Naamsa said that the weak new vehicle sales performance underlined the ongoing stressed business and consumer environment in the country given that negative economic considerations still greatly outweigh positive ones. The council reported that aggregate domestic new vehicle sales in August 2023, at 45 679.units reflected a decline of 1 476 units, or a fall of 3.1%, from the 47 155 vehicles sold in August 2022.

Export sales recorded an increase of 10 405 units, or 33.5%, to 41462 units in August 2023 compared to the 31057 vehicles exported in August 2022.

INTERNATIONAL MARKETS
- GLOBAL MARKETS CLOSE LOWER

Major global markets (MSCI World -2.3% MoM; +16.6% YTD) recorded declines in August (traditionally a weak month for markets) as worries about the health of the global economy, especially China, and the US Federal Reserve's (Fed) keeping interest rates higher for longer than expected weighed on sentiment. In the Fed's July meeting summary, Fed members said they still see "upside risks" to inflation, which could lead to more interest rate hikes.

Economic data out of China continued to disappoint, with the world's second-largest economy reporting much weaker-than-expected July retail sales growth in August, while industrial production data rose less than expected, and manufacturing activity fell for a sixth straight month in August.

Among the major Wall Street indices, the tech-heavy Nasdaq Composite Index recorded its worst monthly performance of 2023 – down 2.2% MoM (+34.1% YTD). The blue-chip S&P 500 slipped 1.8% MoM (+17.4% YTD), while the Dow Jones declined by 2.4% MoM but is up 4.8% YTD.

In Europe, Germany's DAX ended August 3.0% down (+14.5% YTD), while France's CAC Index closed 2.4% in the red (+13.0% YTD). In economic data, inflation in the eurozone was steady at 5.3% in August, while core inflation (excluding food and fuel) eased to 5.3% vs 5.5% in July, raising hopes that the European Central Bank (ECB) will hold interest rates steady when it meets this month.

The UK's blue-chip FTSE-100 closed 3.4% in the red in August (-0.2% YTD). July UK inflation cooled to a 15-month low of 6.8% YoY (down from June's 7.9% YoY print) off lower energy prices. July core inflation, excluding the volatile food and energy items, was unchanged at 6.9%.

ECONOMIC TROUBLES IN CHINA CONTINUE

MoM, Chinese markets recorded losses with foreign funds exiting equity markets as the slump in manufacturing activity persisted, and the property sector's debt woes continued hurting sentiment. Hong Kong's Hang Seng Index lost 8.5% in August (-7.1% YTD), its first MoM drop since May and its biggest since February, while the Shanghai Composite Index retreated by 5.2% (+1.0% YTD). China's official Manufacturing Purchasing Managers Index (PMI) rose to 49.7 in August vs July's 49.3 print but remained in contraction territory for a fifth consecutive month. The official non-manufacturing PMI, measuring business sentiment in the services and construction sectors, slowed to 51 in August from 51.5 in July. The 50-point mark separates expansion from contraction.

Japan's equity market performance disappointed, with the benchmark Nikkei declining by 1.7% (+25.0%YTD) in August after two consecutive positive MoM performances. Core CPI (excluding the volatile fresh food category but including energy costs) rose 3.1% YoY in July, down from a 3.3% rise in June. The latest data remained above the Bank of Japan's 2% target for the 16th consecutive month.

OIL PRICE HIGHER, GOLD LOWER

In commodities, Brent crude oil recorded a third consecutive MoM gain (+1.5% MoM/+1.1% YTD) as tighter crude supplies overshadowed worries around China's economic malaise and the impact on global energy demand. Iron ore prices fell 1.2% MoM and are down 1.6% YTD. Meanwhile, the gold price declined by 1.2% MoM (+6.4% YTD). The platinum price rose 1.9% MoM (-9.4% YTD), while palladium ended the month 5.1% lower (-31.9% YTD). Natural gas prices rose by 5.1% MoM (-38.1% YTD), while thermal coal prices jumped 12.7% MoM (-36.1% YTD).

SMART TIP

MAKE SURE THAT YOUR WILL IS UP TO DATE

Wills week happens in September every year. As a will is an important component of an overall financial plan, make sure that your will is up to date. Especially if your circumstances changed. Contact your advisor to make amendments if required and to review possible tax issues that may affect your estate.

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Sources: Anchor Capital, IOL.co.za, Business Day, Daily Investor

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