Economic Insights | 10 January 2025

Weekly Monitor

ECONOMICS | SOUTH AFRICA

Review of 16 December 2024 to 10 January 2025 and a preview of 13 to 17 January 2025

- The rand has remained under pressure as broad US dollar strength persists.
- Manufacturing production contracted 2.6% in November, reversing its 0.9% gain in October.
- Domestic new vehicle sales were up 2.5%, driven by passenger vehicle sales. Exports, however, declined.
- The US Federal Reserve has hinted at a cautionary approach in cutting interest rates further.
- The other major central banks will likely cut further, but the looming trade war could disrupt the pace of easing.
- The US core PCE inflation rate was steady at 2.8% in November, against the market consensus of 2.9%.
- A key German business sentiment indicator continued to reflect the lacklustre conditions.
- Services continued to prop up aggregate global economic activity while manufacturing remained weak.

Market developments

Currencies

The rand has remained under pressure as US dollar strength persists. The local unit ended 2024 at R18.85/$, down by 3% for the year, and it hovered between R18.75 and R18.95/$ in the first days of 2025. This morning, it is trading at R18.95/$. Against the euro and the British pound, the local unit is trading at R19.49 and R23.25, little changed from the end-2024 rates of R19.50 and R23.47, respectively.

The US dollar made further gains at the start of 2025 due to continued positive sentiment towards the incoming Trump presidency. The euro has dropped to $1.03 after ending 2024 at $1.05 (-5.1% in 2024). This week, the British pound remained under pressure as worries about the government's borrowing plans persisted. The UK unit has dropped to $1.23, its lowest level since November 2023, while the 30-year UK government bond yield has risen to its highest since 1998. The UK unit lost 1.7% against the dollar in 2024.

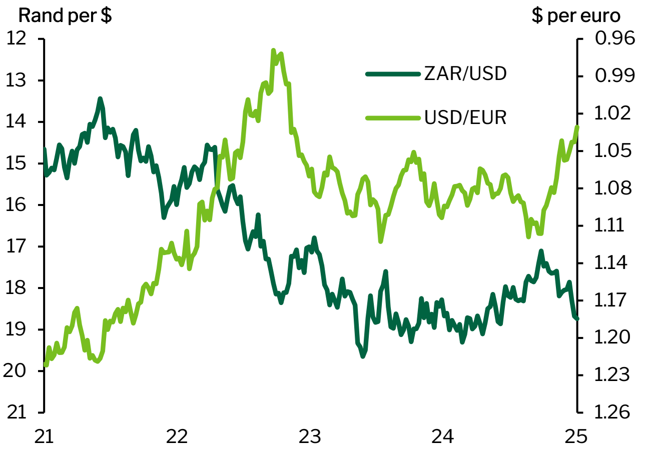
Emerging market currencies generally have fallen further since the start of 2025. The Chinese yuan has depreciated to CNY7.34/$, a 16-year low, prompting the People's Bank of China to launch a $8.2 billion sale of 6-month treasury bills to boost the exchange rate. The Brazilian real has bucked the trend, firming to BRL6.04/$, reversing some of its sharp losses in December, when concerns about Brazil's fiscal policy impasse weighed. The unit touched a historic low of BRL6.30/$ on 18 December. The Mexican peso pulled back from MXN20.82/$ at the end of 2024 to MXN20.29 on 6 January but dropped to MXN20.51. The Korean won ended 2024 at KRW1 476.78/$, slumping by 11.4% since the final week of September as that country's political crisis intensified. It pulled back slightly to KRW1 453.11/$ on 7 January and is trading at KRW1 465.37 this morning.

Table 1: The currency markets

	10/01/2025	27/12/2024	% Δ
Rand			
USD/ZAR	18.98	18.68	-1.28
GBP/ZAR	23.31	23.34	-0.78
EUR/ZAR	19.55	19.45	-1.29
JPY/ZAR	8.31	8.44	0.96
Majors			
EUR/USD	1.0301	1.0427	0.07
GBP/USD	1.2287	1.2579	1.08
JPY/USD	157.78	157.82	-0.32

Source: Refinitiv

Chart 1: The currency markets



Source: Refinitiv

Equities, bonds and commodities

The local equity market has started the year on a slightly firmer trend, which is in line with the trend in global markets. The JSE All Share Index (ALSI) is up by 0.2% since the end of December, boosted by a 7.2% gain in basic materials. Financials are 0.3% higher, while industrials have dropped by 0.8%.

US markets, which were closed on Thursday in honour of President Jimmy Carter, have started the year on a firmer note, although the gains have been subdued. The S&P500, the Dow Jones and the Nasdaq are up by 0.6%, 0.2% and 0.9%, respectively. European markets are broadly higher, with the UK FTSE, German DAX and French CAC up by 1%, 2.1% and 1% since the start of the year, respectively. The Japanese Nikkei has gained only 0.2%.

In commodity markets, the Brent crude oil price has risen to $78.63 a barrel from $75.7 in late December. Precious metal prices have gained since the start of the year. Gold has gained 2.3% over the past two weeks to $2 681 an ounce, while platinum is up by 4.9%.

Table 2: Equities

	09/01/2025	31/12/2024	% Δ
Local (JSE)			
ALSI	85419.86	85243.81	0.21
Industrials	119448.02	120394.31	-0.79
Financials	21104.50	21035.54	0.33
Basic materials	42158.26	39311.41	7.24
Global Equities			
Nasdaq	19478.88	19310.79	0.87
SP500	5918.25	5881.63	0.62
UK FTSE	8319.69	8173.02	1.79
DAX	20317.10	19909.14	2.05
CAC	7490.28	7380.74	1.48
Nikkei	39605.09	39894.54	-0.73
Commodities			
Brent crude ($/barrel)	80.46	75.70	6.29
Gold ($/ounce)	2680.90	2620.00	2.32
Platinum ($/ounce)	961.20	919.60	-3.10

Source: Refinitiv

Chart 2: JSE Equities

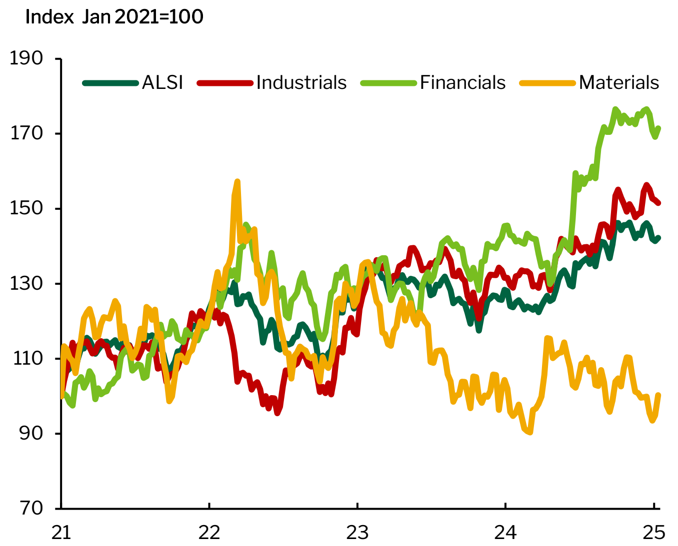
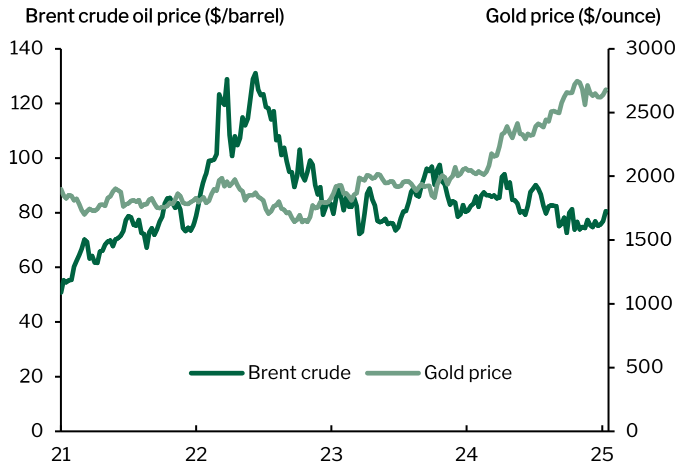


Chart 4: Commodities



Source: Refinitiv

Economic developments

Domestic economic releases and events

Manufacturing production contracted by 2.6% yoy in November, reversing the 0.9% gain in October. Parts and accessories were the leading cause for the decline, followed by paper and paper products and special purpose machinery. The three sub-sectors contributed -1.5 ppts to the total outcome. However, the production of other chemical products and beverages increased by 8.1% yoy and 3.0% respectively. High operating costs remain a hindrance for manufacturers, and the sideways trend in production is likely to continue over the short- to medium-term.

New vehicle sales were up 2.5% yoy in December, lower than November's 8.1% increase. Passenger vehicle sales increased 8.2% yoy, while those of commercial vehicles fell 9.7%. Exports continued downward, reflecting a loss of 1 158 cars from last year. A 25.7% decline in passenger vehicles explains the drop. The sector remained under pressure throughout 2024, with domestic sales and exports down 3% and 22.8%, respectively. According to the Automotive Business Council, the resilience of the domestic passenger car segment in the last quarter of 2024 suggests a potential rebound for the new vehicle market this year.

International economic releases and events

Monetary policy decisions remained in focus in December as most of the major central banks remained in easing mode. Minutes of the US Federal Reserve's December meeting hinted that members of the rate-setting Federal Open Market Committee (FOMC) will be adopting a cautionary stance in the upcoming meetings. In December, the FOMC reduced the Fed's target for the federal funds rate to 4.25%-4.5% from 4.5%-4.75%, bringing total cuts to 100 basis points since easing started in September 2024. In its December projections, the Fed's forward guidance pointed at two interest rate cuts in 2025, down from four at the time of the September meeting. Markets are now pricing in a cut in July 2025. The FOMC's median GDP growth forecasts rose to 2.5% in 2024 (2% in September) and 2.1% in 2025 (2% in September). PCE inflation projections have been adjusted higher for 2024 (2.4% vs 2.3%), 2025 (2.5% vs 2.1%), and 2026 (2.1% vs 2%). The Bank of England's Monetary Policy Committee left its Bank rate at 4.75%, in line with market expectations, but three of the nine policymakers preferred a cut to 4.5% on the back of sluggish demand and a weakening labour market. The Bank of Japan (BoJ) maintained its key short-term interest rate at around 0.25% in an 8-1 vote, with Governing Board member Naoki Tamura advocating for a 25bps increase. The BoJ is expected to hike further at its meeting on 23-24 January as data shows that wage pressures have remained elevated. In emerging markets, the Bank of Mexico cut its benchmark rate by 25 bps to 10%, the fifth reduction since the easing cycle started in March. The People's Bank of China (PBoC) maintained its key lending rates steady for the second straight month, with the one-year and the five-year loan prime rates at 3.1% and 3.6%, respectively. Both rates remain at record lows following rate reductions in October and July.

The US economy expanded an annualised 3.1% in the third quarter of 2024, higher than 2.8% in the second estimate and slightly above 3% in Q2. Personal spending increased at the fastest pace since Q1 2023 (3.7% vs 3.5% in the second estimate), boosted by a 5.6% surge in consumption of goods (vs 5.6% in the second estimate) and robust spending on services (2.8% vs 2.6%). Fixed investment (up by 2.1% from 1.7%) was boosted by firm outlays on equipment (10.8% vs 10.6%), while spending on structures (-5% vs -4.7%) and residential investment (-4.3% vs -5%) declined. Government consumption growth was up by 5.1%, while the contribution of net trade was less negative as export growth was revised to 9.6% (from 7.5%) and imports to 10.7% (from 10.2%). The personal consumption expenditure (PCE) price index rose by 0.1% mom in November, below 0.2% in each of the previous two months and lower than market forecasts of 0.2%, with the headline PCE inflation rate marginally higher at 2.4% from 2.3%. The core PCE index, which excludes volatile food and energy prices, increased by 0.1%, with the core PCE inflation rate steady at 2.8% against the market consensus of 2.9%. Consumer sentiment improved further, with the University of Michigan's consumer sentiment index at 74 in December 2024, the highest level since April, from 71.8 in November. Inflation expectations were revised to 2.8% from 2.9% for one-year ahead and to 3% from 3.1% for the five-year indicator.

Purchasing Managers' Indices (PMIs) continued to show reasonably firm momentum in services while manufacturing remained lacklustre. JP Morgan Global Composite PMI rose to 52.6 in December from 52.4 in November. Services activity was still broadly resilient, with the PMI remaining above 53 since Q1. The manufacturing PMI dipped slightly to 49.6 in December from 50 in November. Although the figure reflected a slight deterioration in manufacturing activity, it marked the fifth decline in the past six months, pointing to the fragile global momentum in manufacturing.

Eurozone inflation rate rose to 2.2% in November 2024 from 2% in October as energy costs fell at a softer pace (-2% vs -4.6% in October) and prices of non-energy industrial goods rose by 0.6% from 0.5%. Services inflation moderated to 3.9% from 4%, while food, alcohol and tobacco inflation was 2.7% from 2.9%. Annual core inflation was 2.7%.

The German Ifo Business Climate indicator decreased to 84.7 in December 2024, the lowest level since May 2020, as business conditions in the Eurozone's largest economy weakened further. The sub-index for business expectations declined to 84.4 from 87, more than offsetting the slight improvement in the current conditions gauge to 85.1 from 84.3.

In the UK, inflation edged higher for a second consecutive month. It rose to 2.6% in November 2024, the highest inflation rate in eight months, from 2.3% in October. Core CPI rose to 3.5% from 3.3% in October but below forecasts of 3.6%. The unemployment rate was 4.3% from August to October 2024, unchanged from the previous three-month period. Retail sales increased by 0.2% mom in November 2024, rebounding from a 0.7% fall in October. Higher sales at food stores (0.5%) were offset by a fall in clothing (-2.6%). Overall sales rose 0.5% yoy, below 2% in October and forecasts of 0.8%.

Japanese inflation climbed to 2.9% in November 2024 from 2.3% in the prior month, marking the highest reading since October 2023. Food prices rose at the steepest pace in eight months (4.8% vs 3.5% in October), with fresh vegetables and fresh food contributing the most. However, the upward trend was relatively based, with transport and housing costs also increasing. Monthly, the CPI increased by 0.6%, the highest figure in 13 months.

Chinese data continued to reflect the weak momentum in the world's second-largest economy. Retail sales growth softened to 3% yoy in November 2024 from 4.8% in the previous month and below market expectations of a 4.6% gain. The unemployment rate was steady at 5% in November 2024. The inflation rate eased to 0.1% yoy in December from 0.2% in November as weak demand kept the economy teetering on the edge of deflation.

Next week's focus: Key economic releases and events

Domestic

Next week will be quiet on the domestic front, with no market-moving statistics due for release.

International

The major release is the US nonfarm payroll data, due this afternoon. The market consensus is an increase of 160 000 in December, a slowdown after new jobs rose by 227 000 in November from a low 36 000 in October. The unemployment rate is projected at a steady 4.2%, while average weekly earnings growth, a key wage inflation measure, is estimated at an unchanged 4% yoy. CPI data will be out on Wednesday, with the market consensus of an unchanged 2.7% yoy in December. Chinese trade data will be out on Monday, while fourth-quarter GDP growth, industrial production and retail sales are due on Friday. Inflation data will be out in the UK and Eurozone on Wednesday

Table 3: Release Calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Units
10-Jan-25	US	Unemployment rate	Dec	4.2	4.2	%
		Non-farm payrolls	Dec	160.0	227.0	Thousands
		Private payrolls	Dec	135.0	194.0	Thousands
		Average earnings	Dec	4.0	4.0	yoy %
	Brazil	Inflation	Dec		4.8	yoy %
13-Jan-25	China	Exports	Dec	7.3	6.7	yoy %
		Imports	Dec	6.7	-3.9	yoy %
		Trade balance	Dec	99.8	97.4	USD'bn
14-Jan-25	India	Wholesale price inflation	Dec	2.3	1.9	yoy %
	US	PPI final demand	Dec	0.3	0.4	mom%
		PPI final demand	Dec	3.0	3.0	yoy %
15-Jan-25	Germany	Wholesale price inflation	Dec		-0.6	yoy %
	UK	Core CPI	Dec		2.6	yoy %
		Headline CPI	Dec		3.5	yoy %
	France	Headline CPI	Dec	1.3	1.3	yoy %
		Harmonised CPI	Dec	1.8	1.7	yoy %
	Eurozone	Industrial Production	Nov		-1.2	yoy %
		Industrial Production	Nov	0.5	0.0	mom%
	US	Headline CPI	Dec	0.3	0.3	mom%
		Headline CPI	Dec	2.7	2.7	yoy %
		Core CPI	Dec	-0.1	0.3	mom%
		Core CPI	Dec		3.3	yoy %
16-Jan-25	Germany	Headline CPI	Dec	2.6	2.2	yoy %
		Harmonised CPI	Dec	2.8	2.4	yoy %
	UK	GDP	Nov		1.3	yoy %
		Industrial Production	Nov		-0.7	yoy %
	Eurozone	Trade balance	Nov		6.8	Euro'bn
	US	Retail sales	Dec		3.8	yoy %
		Retail sales	Dec	0.5	0.7	mom%
		Retail sales ex autos	Dec	0.4	0.2	mom%
		Initial jobless claims	11-Jan		201	Thousands
17-Jan-25	China	Industrial Production	Dec	5.4	5.4	yoy %
		Retail sales	Dec	3.5	3.0	yoy %
		GDP	Q4	4.6	5.1	yoy%
		GDP	Q4	1.7	0.9	qoq%
	UK	Retail sales	Dec		0.5	yoy%
		Retail sales ex-fuel	Dec		0.1	yoy%
	Eurozone	Headline CPI final	Dec	2.4	2.4	yoy%
		Core CPI final	Dec	2.8	2.8	yoy%
	US	Industrial Production	Dec	0.2	-0.1	mom%
		Industrial Production	Dec		-0.9	yoy%

Source: Refinitiv/Trading Economics

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