Weekly Monitor

ECONOMICS | SOUTH AFRICA

Review of 20 to 24 January and a preview of 27 to 31 January

- The rand recovered further this week amid a broad-based US dollar retreat.
- Consumer inflation ticked up to 3% in December on higher food inflation and softer declines in fuel prices, with CPI averaging 4.4% in 2024 from 6% in 2023.
- Retail sales growth exceeded expectations in November, jumping by 7.7% yoy from 6.2% in October.
- Mining production fell below our expectation of 1.6% yoy in November, contracting by 0.9% yoy after growing by 1.1% in October.
- US industrial production recovered some lost ground, supported by a rebound in manufacturing.
- Eurozone inflation rose to 2.4% from 2.2% as energy prices rose.
- The Bank of Japan has raised its policy rate, in line with the market forecast, to the highest level since 2008.
- As expected, the People's Bank of China kept its benchmark 1- and 5-year prime rates unchanged.

Market developments

Currencies

This week, the rand has maintained its rebound that started on 10 January, with the local unit trading around R18.40/$, a 3.8% gain from the low it hit two weeks ago. It has also recovered against the euro and the British pound, firming by 1.7% and 1.8%, respectively. The improvement in global risk aversion, as investors' fears about the effects of Trump policies eased, boosted emerging market currencies. This week, local news had little to no impact on the exchange rate. Consumer inflation came in slightly better than market expectations, affirming expectations of a 25 basis points (bps) cut by the South African Reserve Bank next week.

The US dollar continued to surrender this week, with pressure added by Trump's comments that he would "demand" lower interest rates. The euro firmed to $1.05, the highest level since the 2nd week of December. The British pound has recovered at a slower pace as jitters about the government's borrowing plans persist. It is trading around $1.24 this morning, its level on 8 January. The Canadian dollar and the Mexican peso came under pressure on Monday after US President Donald Trump hinted that he could impose tariffs of up to 25% on the two countries' exports to the US. However, the two units have since rebounded, with the Canadian dollar at Monday morning's rate of CAD1.43/$, while the peso is trading around MXN20.27/$ this morning after touching MXN20.61/$ from MXN20.48. The Japanese yen is firmer at 155.37/$ after the Bank of Japan raised its interest rate by 25 bps.

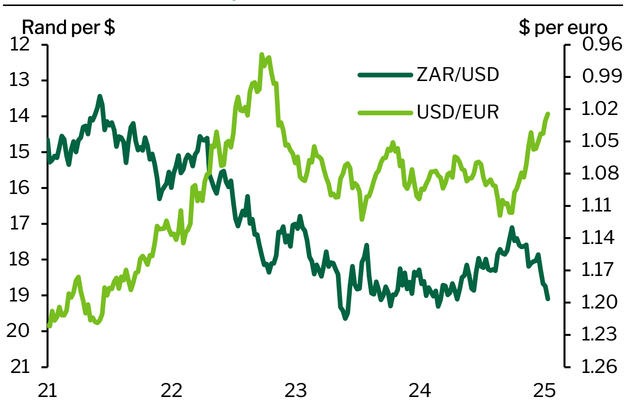
Elsewhere among emerging market currencies, the Brazilian real has broken below BRL6/$ for the first time since the 2nd week of December to trade at BRL5.92/$, with the Korean won also at a six-week high of KRW1 431/$.

Table 1: The currency markets

	2025/01/23	2025/01/16	% Δ
Rand			
USD/ZAR	18.41	18.73	1.73
GBP/ZAR	22.77	22.68	-0.40
EUR/ZAR	19.24	19.24	0.03
JPY/ZAR	8.44	8.33	-1.31
Majors			
EUR/USD	1.0446	1.0271	-1.68
GBP/USD	1.2390	1.2163	-1.83
JPY/USD	155.51	156.30	0.51

Source: Refinitiv

Chart 1: The currency markets



Source: Refinitiv

Equities, bonds and commodities

The local market traded higher this week, with the JSE All Share Index boosted by gains in industrials and financials, which added to more solid gains in basic materials.

Global equity markets were broadly firmer as worries about the negative earnings impact of Trump policies moderated. In the US, the S&P500 set a new record close. The key equity indices in Europe recorded solid gains for the 3rd week running, while the Japanese Nikkei yen rebounded after three weeks of losses.

Bond markets firmed marginally as inflation fears moderated. The benchmark US 10-year yield has dipped to 4.64% after briefly touching 4.8% two weeks ago. Locally, better than expected inflation figures were broadly supportive.

In commodity markets, the Brent crude oil price fell after US President Donald Trump signed an executive order to invest in more oil production. He also urged OPEC producers to slash oil prices in his address to the Davos gathering on Thursday. Gold and platinum prices gained this week as worries about global growth and inflation eased.

Table 2: Equities

	2025/01/23	2025/01/16	% Δ
Local (JSE)			
ALSI	85303.40	84700.44	0.71
Industrials	117021.59	115891.22	0.98
Financials	20578.06	20524.50	0.26
Basic materials	43842.93	42812.62	2.41
Global Equities			
Nasdaq	20053.68	19630.20	2.16
SP500	6118.71	5996.66	2.04
UK FTSE	8565.20	8505.22	0.71
DAX	21411.53	20903.39	2.43
CAC	7892.61	7709.75	2.37
Nikkei	39958.87	38451.46	3.92
Commodities			
Brent crude ($/barrel)	79.51	83.81	-5.13
Gold ($/ounce)	2770.50	2701.55	2.55
Platinum ($/ounce)	955.45	942.45	1.38

Source: Refinitiv

Chart 2: JSE Equities

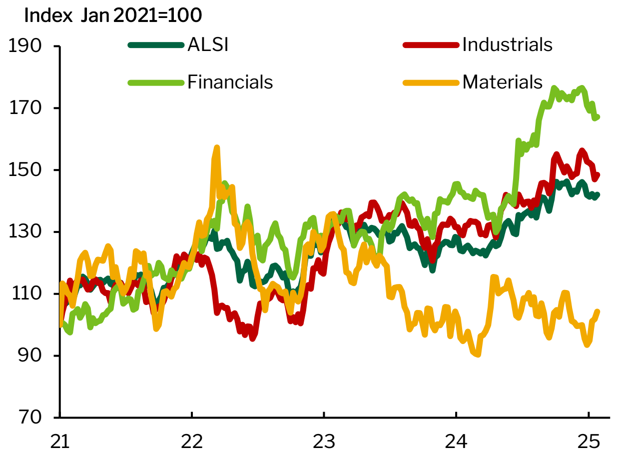
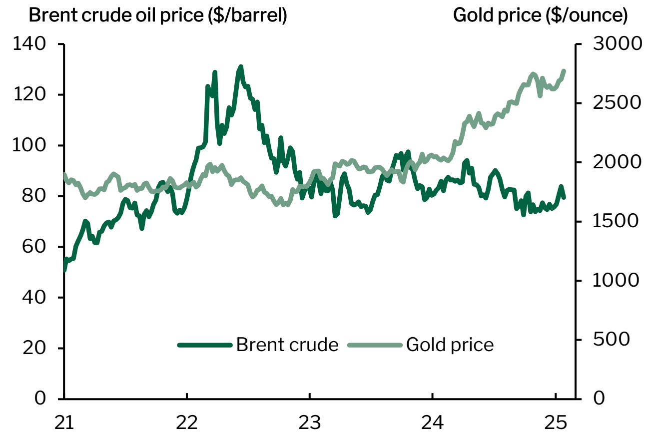


Chart 3: Commodities



Source: Refinitiv

Economic developments

Domestic economic releases and events

Headline consumer inflation increased to 3% in December from 2.9% in November, mainly driven by slower deflation in transport and increasing food inflation. Transport deflation slowed to 2% from 3.3% in November due to another increase in fuel prices. During the month, the petrol price rose by 1.1%, reflecting the impact of a 4.4% depreciation of the rand against the US dollar, while the price of Brent crude oil was relatively steady. In yoy terms, the petrol price fell by 10.2%, less than the 13.6% drop in November. Public transport costs increased slightly, while new vehicles prices rose at steady pace. Food and non-alcoholic beverages inflation edged up to 1.7% from 1.6%. The performances of the subcategories were mixed but broadly showed price increases due to fading base effects. Housing and utilities inflation eased further from 4.7% to 4.4% due to lower interest rates.

Goods inflation accelerated further to 1.9% from 1.6%, pushed up by non-durable goods. Semi-durable goods were steady while durable goods slowed. Services inflation also eased for the third consecutive month. Core inflation (which excludes food and fuel prices) eased from 3.7% in November to 3.6% in December, reflecting subdued underlying price pressures as restrictive monetary policy kept demand in check, while structural reforms improved supply conditions. In 2024 consumer inflation averaged 4.4%, down from 5.9% in 2023. We expect inflation to drift higher but remain below 4.5% for most of the year, averaging around 4% in 2025. The upward pressure will mainly emanate from food and fuel prices as the base effects fade.

Retail sales exceeded expectations in November. It jumped by 7.7% yoy from 6.2% in October. General dealers posted the strongest growth, with sales up 11.9%. Retailers in textiles, clothing, footwear and leather goods (up 9.5%) as well as household furniture, appliances, and equipment (9.4%) also did well. The only negative contribution was from retailers in hardware, paint, and glass. The jump reflects a rise in consumer demand driven by lower inflation. While the 50-bps decline in interest rates probably supported consumer sentiment, it was still too early to have materially improved financial conditions.

Mining production fared much worse than we expected in November. Output contracted by 0.9% yoy, after growing by 1.1% in October. The drag came from lower production of gold (-11.5% yoy), iron ore (-3.8%), coal (-1.6) and diamonds (-11.4%), together shaving 2 ppts off the total. Over the three months ending in November, mining production was up by 4% qoq. The strong quarterly number reflects the positive impact on mining from electricity availability. Mineral sales at current prices rose by 8.1% yoy and was driven by a sharp increase in the sale of gold. Sales of gold jumped 93.4% and contributed 11.4 ppts to the total.

International economic releases and events

There was more good news on the US economy. Industrial production rose by 0.9% mom in December, up from a 0.2% increase in November. Manufacturing rebounded (up 0.6% from 0.2%) as a major aircraft producer resumed production after a disruptive strike. Output by mining and utilities also expanded. Over the year, industrial production grew by 0.5%, the first year-on-year increase in five months.

Eurozone inflation edged up slightly from 2.2% in November to 2.4% in December. Base effects, higher energy costs and sticky services inflation were mainly to blame. Within the bloc, inflation accelerated in Germany and France, rising to 2.8% and 1.8%, respectively. Eurozone core inflation remained unchanged for the fourth straight month at 2.7%.

Economic conditions in Germany deteriorated in January. The ZEW Indicator of Economic Sentiment fell to 10.3 from 15.3 in December as high prices dampened household spending. Additionally, the slowdown in the construction sector and political uncertainty ahead of the German general elections weighed on confidence. Meanwhile, the current conditions gauge improved slightly to -90.4 from -93.1.

In the UK, the unemployment rate increased to 4.4% over the three months to November, compared with 4.3% over the three months to October. Although unemployment increased slightly, labour market conditions remained relatively robust. Employment rose by 35 000 to 33.7 million. Moreover, wage growth accelerated further. Regular pay, excluding bonuses, grew by 5.6% yoy over the three months to November. Private sector pay rose by a robust 6% yoy, while growth in public sector pay softened to 4.1%. Despite rising incomes, retail sales disappointed in December, shrinking unexpectedly by 0.3% mom, after expanding by 0.1% in November. The downturn was driven by lower sales at food stores, especially supermarkets. On a year-on-year basis, sales rose by 3.6% from a flat reading in November.

The Bank of Japan (BoJ) hiked its policy interest rate by 25 basis points. It hiked to 0.5%, the highest level since 2008, from 0.25%. The Bank's decision was expected after wage increases remained elevated in recent months, pushing inflation higher. Inflation surged to 3.6% yoy in December from 2.9% in November, due to a jump in food and electricity prices. Food prices increased by 6.4% from 4.8%, while electricity costs soared by 18.7% from 9.9%. Meantime, core inflation rose to 3% from 2.7%. The trade balance shifted to a surplus of ¥130.94 billion in December from a deficit of ¥117.6 billion in November on the back of a faster expansion in exports. Exports grew by 2.8% yoy to ¥9.9 billion due to a jump in machinery shipments. At the same time, imports rebounded by 1.8% to ¥9.7 billion.

The People's Bank of China (PBoC) left its key rates unchanged, with the 1- and 5-year loan prime rates at 3.1% and 3.6%, respectively. The PBoC adopted a cautious tone, pointing to the pressure on the yuan amid the threat of higher US tariffs under the Trump administration. Meanwhile, there was more evidence of economic recovery, possibly reflecting the impact of the government's more aggressive stimulus. Industrial production grew by a faster 6.2% yoy in December, after expending by 5.4% in November. The momentum came from manufacturing, which grew by 7.4%, up from 6% in November. Consumer demand also gained moderate upward traction, but still lagged manufacturing by a considerable margin. Retail sales growth improved from 3% in November to 3.7% in December. The boost came from food, tobacco and alcohol retailers. The unemployment rate rose from 5% in November to 5.1% in December.

Next week's focus: Key economic releases and events

Domestic

Next week the focus will be on the South African Reserve Bank's Monetary Policy Committee (MPC) meeting, with the interest rate decision due on Thursday. We believe the MPC will deliver another rate cut amid cautious rhetoric, warning of mounting upside risks to the inflation outlook. Our forecast is for a 25-bps reduction, taking the repo rate down to 7.50% and the prime rate to 11%. The decision to cut will likely be motivated by the benign inflation outcomes of the past two months and a relatively subdued inflation outlook. Headline and core inflation remains well below the SARB's 4.5% target. Moreover, the subdued picture is broad-based, with no evidence of significant upward traction in goods or services. However, the upside risks to the inflation outlook have increased. The rand weakened against a resurgent US dollar, driven by the anticipated changes in US economic policies under the Trump administration. The currency's slide and its underlying vulnerability to shifting global risk appetites will make the MPC more cautious. A mitigating factor is that the US Fed has already reduced its policy rate by 100 bps, while the SARB has only eased by 50 bps. This creates some space for another rate cut without placing the rand under too much pressure.

Economic indicators scheduled for release include the December numbers for money supply and private sector credit extension (PSCE), producer inflation and external trade. PSCE growth probably remained unchanged at 4.2% yoy in December. On the upside, growth in loans and advances likely improved slightly to 4.1% from 3.9%. We expect faster growth in both corporate and household loans. Corporate loan growth is expected to normalise after two disappointing months. Meanwhile, household credit demand likely improved, supported by rising real incomes, subdued inflation and lower interest rates, which probably lifted consumer confidence. We also expect healthy transactional demand for credit on anecdotal reports of robust spending over the festive season. Producer inflation is projected at 0.7% yoy in December from deflation of 0.1% in November. Higher fuel prices will drive the upturn. In December, petrol and diesel prices increased by 0.8% and 0.1%, respectively. The monthly rise will reduce the year-on-year rate of decline in petrol prices to 9.2% from 14.5% and in diesel prices to 15% from a steep 23.5%. Food price deflation is also expected moderate off a lower base, adding modest upward pressure on producer inflation.

The trade surplus likely widened to around R40.3 billion in December from R34.7 billion in November, with imports contracting at a faster pace than exports. Seasonal factors will weigh on imports, which usually declines in December as companies frontload orders ahead of the festive season. Exports will be kept in check by modest economic growth in SA's key trade partners. However, exports could surprise on the upside, potentially benefitting from strong gold prices and a weaker rand.

International

All eyes will be on the central banks next week. The US, EU, Canada, and Brazil will announce their interest rate decisions on Thursday. The US Federal Reserve is expected to keep its federal funds rate unchanged at 4.25-4.50% on recent evidence of sticky inflation and growing concerns that Trump's policies could reawaken price pressures. In contrast, the market anticipates the European Central Bank to cut its deposit rate by 25 basis points to 2.75% to aid the weak economy. Canada is also expected to ease rates, while Brazil will likely tighten monetary policy further amid resurgent inflation.

The flash purchasing managers indices (PMIs) are due today. They are expected to reflect relatively steady trading conditions, with services expanding while manufacturing remains relatively subdued. Other data include the final estimate of US consumer confidence.

Table 3: Release Calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Unit
24 Jan 2025	Japan	JibunBK Composite Flash	Jan		50.5	Index
	Japan	JibunBK Services PMI Flash	Jan		50.9	Index
	France	HCOB Composite Flash PMI	Jan	48	47.5	Index
	Germany	HCOB Composite Flash PMI	Jan	48.2	48	Index
	EU	HCOB Manufacturing Flash PMI	Jan	45.3	45.1	Index
	EU	HCOB Services Flash PMI	Jan	51.5	51.6	Index
	EU	HCOB Composite Flash PMI	Jan	49.7	49.6	Index
	UK	Flash Composite PMI	Jan	50.0	50.4	Index
	UK	Flash Manufacturing PMI	Jan	47.0	47	Index
	US	S&P Global Manufacturing PMI Flash	Jan	49.7	49.4	Index
	US	S&P Global Services PMI Flash	Jan	56.5	56.8	Index
	US	S&P Global Composite Flash PMI	Jan		55.4	Index
	US	Existing Home Sales	Dec	4.2	4.15	Million
	US	U Mich Sentiment Final	Jan	73.2	73.2	Index
	US	U Mich Conditions Final	Jan		77.9	Index
	US	U Mich Expectations Final	Jan		70.2	Index
	US	U Mich 1Yr Inflation Final	Jan		3.3	%
	US	U Mich 5-Yr Inflation Final	Jan		3.3	%
27 Jan 2025	China (Mainland)	Caixan Composite PMI	Jan		52.2	Index
29 Jan 2025	Germany	GfK Consumer Sentiment	Feb		-21.3	Index
	Canada	BoC Rate Decision	29 Jan	3	3.25	%
	US	Fed Funds Tgt Rate	29 Jan	4.25-4.5	4.25-4.5	%
	Brazil	Selic Interest Rate	29 Jan	14.25	12.25	%
30 Jan 2025	France	GDP Preliminary (qoq)	Q4		0.4	%
	Germany	GDP Flash (qoq)	Q4		0.1	%
	SA	PPI (mom)	Dec		0	%
	SA	PPI (yoy)	Dec		-0.1	%
	EU	GDP Flash Preliminary (qoq)	Q4		0.4	%
	EU	Business Climate	Jan		-0.91	Index
	EU	Unemployment Rate	Dec		6.3	%
	SA	Budget Balance (mom)	Dec		-4.46	Billion
	SA	Prime Rate	Jan		11.25	%
	SA	Repo Rate	Jan	7.5	7.75	%
	EU	ECB Deposit Rate	Jan	2.75	3	%
	US	GDP Advance	Q4	2.6	3.1	%
31 Jan 2025	Japan	Unemployment Rate	Dec		2.5	%
	Japan	Industrial Preliminary (mom)	Dec		-2.2	%
	China (Mainland)	Caixin Manufacturing PMI Final	Jan		50.5	Index
	SA	M3 Money Supply (yoy)	Dec		7.77	%
	SA	Pvt Sector Credit Ext.	Dec		4.16	%
	France	CPI Preliminary (yoy)	Jan		1.3	%
	Germany	Unemployment Rate	Jan		6.1	%
	SA	Trade Bal (Incl. Region)	Dec		34.7	Billion
	Germany	CPI Preliminary (yoy)	Jan		2.6	%
	US	Core PCE Price Index (mom)	Dec		0.1	%
	US	Core PCE Price Index (yoy)	Dec		2.8	%
	US	PCE Price Index (mom)	Dec		0.1	%
	US	PCE Price Index (yoy)	Dec		2.40	%

Source: Refinitiv/Trading Economics

GROUP ECONOMIC UNIT

Isaac Matshego	+27 10 234 8358	isaacmat@nedbank.co.za
Busisiwe Nkonki	+27 10 233 2966	busisiwenkon@nedbank.co.za