Economic Insights | 03 February 2025

Weekly Monitor

ECONOMICS | SOUTH AFRICA

NEDBANK

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

- The rand regained most of its losses from early in the week after the SARB presented a hawkish statement that suggested the end of interest rate cuts was near.
- Annual growth in money supply and private sector credit ended the year on a weaker note, moderating to 6.7% and 3.8%, respectively.
- Producer inflation was 0.7% in December from 0.1% deflation in November.
- On the monetary policy front, the US Federal Reserve kept interest rates unchanged while the European Central Bank and Canada cut rates. Meanwhile, Brazil hiked its policy interest rate further.
- Global factory activity rebounded in January, with the major economies reporting Composite PMIs above 50 points.
- In Germany and France, GDP shrank in Q4.

Currencies

The rand fell early in the week as global risk aversion was stoked by a sharp fall in US equity markets, but it has since recovered most of the losses. The local unit touched R18.72/$ in late trading on Monday before pulling back on Tuesday. It was little changed after the US Fed presented a hawkish statement that pointed to a long pause in US interest rate cuts. It then strengthened marginally to R18.48/$ in late trading on Thursday after the South African Reserve Bank presented a statement that suggested that there was limited room for more local interest rate cuts. This morning, the local unit is trading around R18.54.

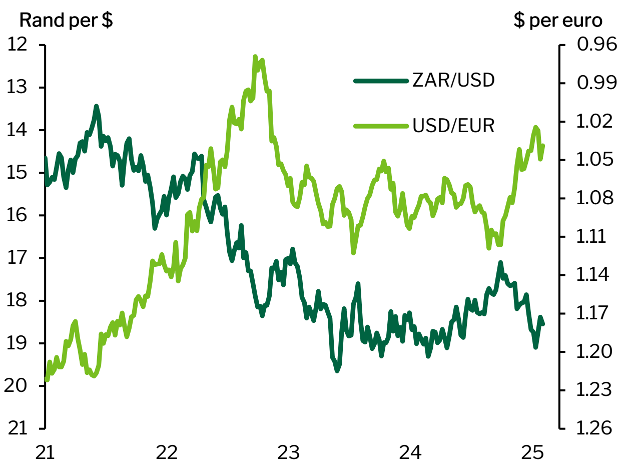
The US dollar firmed against most currencies this week bolstered by a combination of factors. On Wednesday, the US Fed left interest rates unchanged and suggested they would remain steady for some time. The greenback also gained on safe-haven demand amid the uncertainty surrounding the ongoing tariff threats from President Trump. The euro weakened after the European Central Bank (ECB) cut its main refinancing rate by 25 basis points (bps) at its first meeting for the year. The Japanese yen was stronger as the equity market volatility and tariff fears bolstered demand for the Asian safe-haven currency.

Table 1: The currency markets

	2025/01/30	2025/01/23	% Δ
Rand			
USD/ZAR	18.55	18.38	-0.87
GBP/ZAR	23.00	22.84	-0.69
EUR/ZAR	19.27	19.29	0.13
JPY/ZAR	8.33	8.47	1.73
Majors			
EUR/USD	1.0493	1.0271	-2.12
GBP/USD	1.2479	1.2163	-2.53
JPY/USD	155.98	156.30	0.21

Source: Refinitiv

Chart 1: The currency markets



Source: Refinitiv

Equities, bonds and commodities

The local market traded marginally higher this week, with the JSE All Share Index gaining just over 0.5%. The upside support mainly emanated from industrial stocks. However, gains were capped by losses in the financial and basic materials sectors.

US markets were rattled on Monday, with technology stocks recording sharp losses after Chinese startup DeepSeek released its freely available artificial intelligence (AI) app, which it claimed was developed at a much lower cost compared with similar apps by US companies and did not need many microchips. Nvidia shed $600 billion on Monday, the steepest daily loss by a stock in history, on fears that future AI apps will not need its costly microchips. The Nasdaq tumbled on Monday before recovering later in the week to end 1.7% higher on Thursday. In contrast, the S&P500 was down 1.4%. European equities closed in the green after the ECB cut interest rates for the first time since June 2024. The Japanese Nikkei reversed the previous week's gain, down by 1.1%.

Bond markets firmed this week. The benchmark US 10-year yield dipped to 4.53% after the Fed left interest rates unchanged and suggested that it would not hurry to cut further. Locally, long-term yields also edged lower amid a favourable inflation outlook.

In commodity markets, the Brent crude oil price was down 1.1% as markets considered the US tariff threats against various countries. The imposition of the tariffs could weigh on global growth and threaten the demand for oil. Markets are also looking ahead to next week's OPEC+ meeting, where the group is expected to maintain current supply levels until April. Gold prices increased as President Trump's tariff threats stoked fears of an economic slowdown. Platinum also edged higher.

Table 2: Equities

	2025/01/30	2025/01/23	% Δ
Local (JSE)			
ALSI	85741.58	85303.40	0.51
Industrials	119911.00	117417.28	2.12
Financials	20257.84	20578.06	-1.56
Basic materials	43665.97	43842.93	-0.40
Global Equities			
SP500	6071.17	6101.24	-1.37
Nasdaq Composite	19681.75	19954.30	1.70
German DAX	21727.20	21394.93	1.55
France CAC	7941.64	7927.62	0.18
Nikkei	39513.97	39931.98	-1.05
UK FTSE	8646.88	8502.35	1.70
Commodities			
Brent crude ($/barrel)	78.48	79.35	-1.10
Gold ($/ounce)	2795.72	2771.30	0.88
Platinum ($/ounce)	967.80	949.00	1.98

Source: Refinitiv

Chart 2: JSE Equities

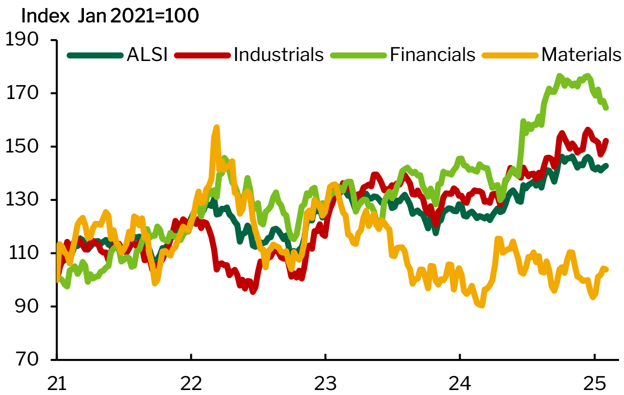
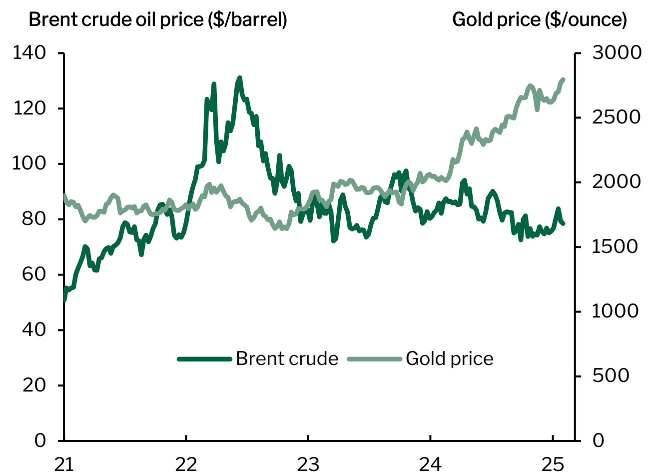


Chart 3: Commodities



Source: Refinitiv

Economic developments

Domestic economic releases and events

South African Reserve Bank's Monetary Policy Committee (MPC) reduced the repo rate by 25 basis points (bps) to 7.50%. It was a split decision, with two members voting for a pause. The decision was motivated by recent below-target inflation outcomes and a benign near-term inflation outlook. However, the committee struck a cautious tone, warning that the medium-term inflation outlook is '*more uncertain than usual*', with the external environment posing '*material*' upside risks. The MPC was clearly worried about the more hawkish tilt in US monetary policy and its likely negative implications for the rand's future course. Other upside risks included the threat of potentially hefty electricity tariff hikes and above-target increases in other administrative prices. The SARB tweaked its inflation forecasts here and there, but the trajectory still pointed to contained price pressures. Headline inflation is forecast to rise off a low base, albeit at a slightly slower pace than envisaged in November. Inflation remains comfortably below the target until Q3 2025, then climbs to 4.6% in Q4 2025 and stays there for much of 2026, before easing to 4.5% in the second half of 2027. The slight downward adjustments mainly reflect the lower base (or starting point) and generally subdued price increases in most CPI components, which largely offsets the impact of a weaker rand. They expected headline inflation to average 3.9% (vs 4% previously) in 2025, 4.6% (unchanged) in 2026, and 4.5% (unchanged) in 2027 The SARB lowered its GDP forecast for 2024 to 0.7% (vs 1.1% in Nov-24) to account for the disappointing Q3 outcomes. The economy likely rebounded in Q4, supported by a recovery in agriculture and strong consumer spending driven by lower inflation and the 2-pot pension withdrawals. The SARB still expected moderately faster growth over the next three years, forecasting GDP growth of 1.8% for 2025 and 2026, followed a pick-up to 2% in 2027.

The underlying message of yesterday's MPC meeting is that the inflation and interest rate outlooks are uncertain and face significant upside risks. The Committee appears to be setting the stage for a shallow easing cycle and a likely pause in the meetings ahead. Fears of renewed rand weakness against the backdrop of a more hawkish Fed seem to be main reason for today's cautious message. Consequently, meaningful further rate cuts look increasingly unlikely. We still expect the SARB to follow through with another 25-bps reduction in the repo rate, but it now appears more likely around the middle of the year. The rand has stabilised somewhat over the past two weeks, trading between R18.30-R18.90 against the US dollar. There is an outside chance that the most significant adjustments to Trump's policies have already occurred, suggesting the rand could continue to trade in a narrow band over the near term. At the same time, the other major drivers of domestic inflation will likely remain relatively subdued. Global oil prices receded in recent weeks and will likely decline further as oil supply outpaces global demand. Although domestic demand picked up, the upturn was moderate and largely matched by easing supply-side constraints.

Annual growth in broad money supply (M3) moderated further to a four-month low of 6.7% in December from 7.8% in November. During the month, M3 recorded no growth as the rise in net foreign assets (+R64.2 billion) and net claims on the private sector (+R27 billion) was offset by sharp declines in net claims on the government sector (-R48.5 billion) and net other assets and liabilities (-R25.5 billion). Growth in private sector credit extension (PSCE) slowed to 3.8% yoy, the lowest since July. The slowdown was almost broad-based, but the most significant drag came from the bills and investments category, which contracted by 0.1% yoy following a 3% growth. Loans and advances, which excludes bills and investments, slowed to 4.2% yoy from 4.3% as growth in household loans softened further and that of companies was steady. Household loans eased to 3%, the weakest since February 2021, suggesting that consumers remain cautious about taking additional debt despite some improvement in household finances and falling interest rates. Corporate credit growth was unchanged at 5.4% yoy. Growth in general loans, which is usually used to finance capital spending, edged higher in December after slowing down in November. Growth in commercial mortgages also continued to improve. In contrast, growth in overdrafts and credit cards slowed. Growth in household and corporate credit averaged 3.5% and 4.8%, respectively, in 2024, down from 6.4% and 7.5% in 2023. Growth in credit demand is expected to improve in 2025. Falling interest rates, subdued inflation and slightly better growth prospects will boost consumer finances, confidence and spending, which will lift borrowing. On the corporate side, credit demand will also accelerate, as improving domestic demand, easing operating costs, and increasing profits will prompt the private sector to increase capital spending. Renewable energy projects will also support credit demand, albeit at a reduced scale than in the past two years. Altogether, we expect credit growth to end 2025 at around 5.5%.

Producer inflation was 0.7% in December from 0.1% deflation in November. The main driver of the rise was food products, beverages and tobacco products, as a slower rate of contraction in the coke, petroleum, chemicals, rubber, and plastic products prices. Food, beverages, and tobacco inflation increased slightly to 4.2% from 4% due to higher food prices. Deflation in the coke, petroleum, chemicals, rubber, and plastic products category moderated to 4.7% yoy in December from 8.1% in November and 10.1% in October. The shallower contraction came from fuel prices. The petrol price fell by 9.5% yoy, less than the 14.4% drop in November, while the diesel prices declined by a less intense 12.4% from the 23.5% slide. Chemicals prices also increased in December after recording their first decline in over a decade in November. However, rubber and plastics prices decelerated further. Metals, machinery, and equipment inflation slowed further to 2.4%, the lowest since November 2020. In 2024, producer inflation averaged 3%, down significantly from 6.9% in 2023. We expect producer inflation to increase further in 2025 to average around 3.5% as food and fuel prices rise off a low base.

International economic releases and events

On the monetary policy front, the Federal Reserve (Fed) maintained its federal funds rate between 4.25% and 4.5%. The Fed is monitoring the impact of the new administration's policies on inflation, suggesting that US interest rates would be unchanged until there was clarity on the implications of the mooted higher import tariffs. In the meantime, the European Central Bank (ECB) cut the deposit rate by 25 bps, taking it to 2.75%, as prompted by recent data that pointed to softer industrial activity and consumer spending. The Bank of Canada cut interest rates by 25 basis points (bps), taking the current rate to 3%, as it remained concerned about an elevated unemployment rate, erratic consumer spending, and subdued business investment. In contrast, the Central Bank of Brazil hiked its Selic rate by another 100 bps to 13.25% as inflation remained elevated. A surprisingly robust economy and labour market challenges influenced the unanimous decision. The Committee revised its inflation forecasts higher for 2025 and 2026.

Factory activity in the US grew at a modest pace in January as services rose slower while manufacturing expanded for the first time in six months. The preliminary estimate showed S&P Global US Composite PMI fell to 52.4 in January from 55.4 in December. Businesses are optimistic about output, buoyed by expectations of the positive impact of the Trump administration's policies. In contrast, inflationary pressures persist, with both input and output costs increasing. In the Eurozone, business activity recovered, with the overall HCOB Flash Eurozone Composite PMI rising to 50.2 from 49.6, as services grew slower while the rate of contraction in manufacturing slowed. The biggest driver was improved output in Germany, while French output remained in contraction. In the UK, factory activity edged up marginally, boosted by the services sector. The UK Composite PMI marginally rose to 50.9 from 50.4. Meantime, Japan's private sector activity increased, driven by the services sector, which grew faster while manufacturing shrank. The au Jibun Bank Japan Composite PMI expanded to 51.1 from 50.5.

US consumer confidence fell unexpectedly, with the University of Michigan Consumer Sentiment dropping to 71.1 in January from 74 in December due to concerns about the impact of tariffs on inflation. Both the current conditions and expectations subindices declined. On prices, the one-year outlook was unchanged at 3.3%, while the five-year expectations edged down to 3.2%. The US housing market continues to recover despite high mortgage costs. Existing home sales increased by 2.3% to a seasonally adjusted and annualised 4.38 million rate in December, driven by the strong labour market and growing wages.

Germany's economy remained sluggish at the end of 2024 due to a lack of private and public investment. GDP shrank by 0.2% qoq in Q4 from a 0.1% increase in Q3. Private and government spending increased while exports dropped significantly. GDP for the full year contracted by 0.2%. Consumer confidence fell slightly as all three subindexes declined in January, pointing to the lacklustre conditions in the Eurozone's largest economy persisting into 2025. The GfK Consumer Climate Indicator dropped to -22.4 from -21.3, with the Economic prospects (-1.6 from 0.3), income expectations (-1.1 from 1.4), and the willingness to buy (-8.4 from -5.4) indicators all dropping.

Preliminary estimates showed that France's economy contracted by 0.1% qoq in Q4 after a 0.4% growth in Q3. The drag was led by growing political uncertainty and the fading effect of the Olympics. Also, fixed investment declined, and household and government expenditures slowed. For the full year, the economy grew by 1.1%.

Next week's focus: Key economic releases and events

Domestic

key releases scheduled for next week include vehicle sales, Absa's purchasing managers index and gold and foreign exchange reserves, all for January 2025. We forecast gross reserves at $66.29 billion in January from $65.46 billion in December, driven mainly by a rise in the value of gold reserves. During the month, gold reserves increased by around 5.5%, reflecting valuation adjustments as the gold price continued to benefit from its safe-haven status. Foreign exchange reserves accumulation is also expected to have increased marginally by 0.5% mom. The international liquidity position will likely grow to $61.48 billion from $60.37 billion. The rand value of reserves is forecast to remain steady at around 7.9 months of imports. New vehicle sales likely grew by 3.0% yoy in January, up from 2.5% in December. The improvement reflects the seasonal uptick in vehicle sales at the start of the new year, improved financial conditions in the form of interest rate reductions, lower prices and a boost from withdrawals from the two-pot retirement system.

International

This afternoon, US PCE numbers are due, and the forecast is that the PCE Price Index will increase to 0.3% mom from 0.1% while core inflation is expected to rise marginally by 0.2% mom from 0.1%. Next week will be headlined by the release of the US labour market report. The market consensus is for nonfarm payrolls to fall to 205 000 from 256 000. The unemployment rate is projected to remain unchanged at 4.1%, while average weekly earnings growth is projected at 0.3% mom.

On the monetary front, the Bank of England will announce its interest rate decision on Thursday. The market consensus is a 25 bps cut that will take the Bank rate to 4.5% from 4.75%. At the same time, the central banks of India and Mexico will announce their policy decisions on Thursday and Friday. The market expects them to reduce their policy interest rates further.

Table 3: Release Calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Units
31 Jan 2025	Japan	Unemployment Rate	Dec	2.5	2.5	%
	Japan	Retail Sales (yoy)	Dec	3.2	2.8	%
	Germany	Retail Sales (yoy) Real	Dec	2.5	2.5	%
	France	CPI Preliminary (yoy) NSA	Jan	1.5	1.3	%
	Germany	Unemployment Rate SA	Jan	6.2	6.1	%
	South Africa	Trade Bal (Incl. Region)	Dec	30.4	34.7	Billion
	Germany	CPI Preliminary (yoy)	Jan	2.6	2.6	%
	United States	Core PCE Price Index (mom)	Dec	0.2	0.1	%
	United States	Core PCE Price Index (yoy)	Dec	2.8	2.8	%
	United States	PCE Price Index (mom)	Dec	0.3	0.1	%
	United States	PCE Price Index (yoy)	Dec	2.6	2.4	%
3 Feb 2025	Japan	JibunBK Manufacturing PMI Final SA	Jan	48.8	48.8	Index
	China (Mainland)	Caixin Manufacturing PMI Final	Jan	50.5	50.5	Index
	France	HCOB Manufacturing PMI	Jan	45.3	45.3	Index
	Germany	HCOB Manufacturing PMI	Jan	44.1	44.1	Index
	Euro Zone	HCOB Manufacturing Final PMI	Jan	46.1	46.1	Index
	United Kingdom	S&P Global Manufacturing PMI	Jan		48.2	Index
	Euro Zone	HICP Flash (yoy)	Jan	2.5	2.4	%
	United States	S&P Global Manufacturing PMI Final	Jan	50.1	50.1	Index
	South Africa	Total New Vehicle (yoy)	Jan		2.5	%
	South Africa	Total New Vehicle Sales	Jan		41273	
5 Feb 2025	Japan	JibunBK Composite Op Final SA	Jan	51.1	51.1	Index
	China (Mainland)	Caixin Services PMI	Jan	51.8	52.2	Index
	France	HCOB Composite PMI	Jan	48.3	48.3	Index
	Germany	HCOB Composite Final PMI	Jan	50.1	50.1	Index
	EU	HCOB Services Final PMI	Jan	51.4	51.4	Index
	EU	HCOB - Composite Final PMI	Jan	50.2	50.2	Index
	UK	S&P Global PMI: Composite -	Jan	50.9	50.9	Index
	US	S&P Global Composite Final PMI	Jan		52.4	Index
6 Feb 2025	Germany	Industrial Orders (mom)	Dec	2.5	-5.4	%
	EU	Retail Sales (yoy)	Dec		1.2	%
	UK	BOE Bank Rate	Feb	4.5	4.75	%
	Mexico	Interest Rate	Jan	9.8	10	%
7 Feb 2025	India	Repo Rate	7 Feb	6.3	6.5	%
	SA	Net $Gold & Forex Res	Jan		60.371	Billion
	SA	Gross $Gold & Forex Res	Jan		65.459	Billion
	Germany	Industrial Production (yoy) SA	Dec		-2.85	%
	Germany	Exports (mom) SA	Dec		2.1	%
	Germany	Imports (mom) SA	Dec		-3.3	%
	Germany	Trade Balance, EUR, SA	Dec	22.0	19.7	Billion
	UK	Halifax House Prices (yoy)	Jan		3.3	%
	France	Trade Balance, EUR, SA	Dec		-7.085	Billion
	US	Non-Farm Payrolls	Jan	205.0	256	000
	US	Unemployment Rate	Jan	4.1	4.1	%
	US	Average Earnings (mom)	Jan	0.3	0.3	%
	US	Labor Force Participation Rate	Jan	62.5	62.5	%
	US	U Mich Sentiment Preliminary	Feb	71.1	71.1	Index
	US	U Mich Conditions Preliminary	Feb	74.0	74	Index
	US	U Mich Expectations Preliminary	Feb	69.3	69.3	Index
	US	U Mich 1Yr Inf Preliminary	Feb	3	3.3	%
	US	U Mich 5-Yr Inf Preliminary	Feb	3.2	3.20	%

Source: Refinitiv/Trading Economics

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