Weekly Monitor

ECONOMICS | SOUTH AFRICA

NEDBANK

Review of 17 to 21 February and a preview of 3 to 7 March

- The rand is under moderate downward pressure this morning on higher global risk aversion.
- Global markets are jittery on fears about the effects of a trade war.
- Consumer inflation rose to 3.2% from 3%, while producer inflation was also higher.
- Private sector credit extension (PSCE) improved to 4.6% yoy in January from 3.8% in December.
- The US economy expanded by 2.3% qoq in Q4 and by 2.8% in 2024.
- Eurozone inflation remains sticky due to higher energy costs.
- Germany's economy shrank in Q4 due to a decline in exports.

Currencies

The rand has dropped this week after pulling back last week. This morning, the local unit is trading closer to R18.50/$ from Monday's close of R18.33. Rising global risk aversion due to the looming global trade war has also weighed on other emerging market currencies. The Brazilian real has shed 1% to BRL5.84/$, while the Korean won is down by 2.3% since Monday.

The US dollar is broadly firmer this week, appreciating to $1.04 per euro after touching $1.05 on Tuesday. The greenback is trading around $1.26 against the British pound. The Japanese yen has surrendered some of its gains over the past two weeks, falling to ¥150.3/$ this morning after touching ¥149.02 on Tuesday, its highest level since the first week of December.

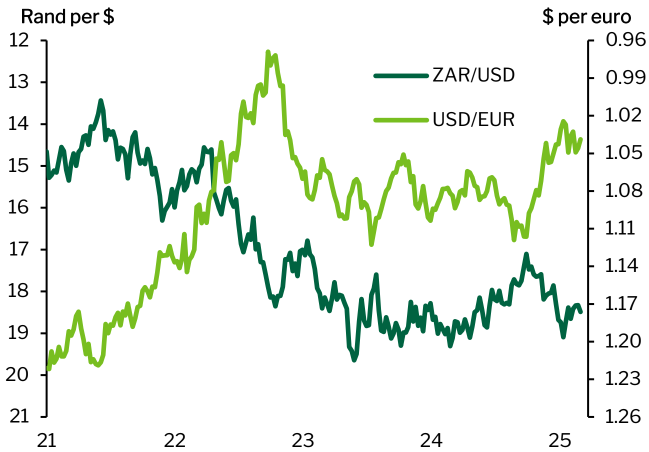
The Canadian dollar and the Mexican peso came under renewed pressure after President Trump declared that the higher tariffs will be levied on imports from the two countries from Tuesday next week. The Canadian dollar dropped CAD1.44/$ from CAD1.42 early in the week, while the peso was slightly weaker at MXN20.49/$.

Table 1: The currency markets

	2025/02/27	2025/02/20	% Δ
Rand			
USD/ZAR	18.49	18.33	-0.88
GBP/ZAR	23.24	23.04	-0.86
EUR/ZAR	19.21	19.22	0.05
JPY/ZAR	8.09	8.11	0.27
Majors			
EUR/USD	1.0388	1.0458	0.67
GBP/USD	1.2582	1.2630	0.38
JPY/USD	149.63	149.29	-0.23

Source: Refinitiv

Chart 1: The currency markets



Source: Refinitiv

Equities, bonds and commodities

The JSE All Share Index was weighed down by lower metal prices, with basic materials sliding by more than 3% compared to the previous week, while further pressure came after the US announced that it would cease non-essential aid to South Africa.

Globally, US stocks were hurt by elevated worries about the likely impact of a trade war on global trade and the US economy, while underwhelming earnings from chipmaker Nvidia added to the downward pressure on Thursday. European equities fell on Thursday after US President Donald Trump indicated that he would impose higher tariffs on European Union imports, and the major bourses have opened weaker this morning. Asian markets fell sharply this morning, with the Japanese Nikkei down by 2.9%.

In bond markets, inflation worries pushed the US 10-year yield slightly higher to 4.29% from 4.25%. Locally, the yield on the benchmark 10-year edged marginally higher to 9.78%.

In commodity markets, the Brent crude oil price fell to $73.67 a barrel on Wednesday, its lowest level since the third week of December, as market players worried about the implications of US tariffs on global oil demand. This morning, the price has rebounded marginally to $75.5. The gold price surrendered some of its recent strong gains but remained above $2 800 an ounce, while platinum closed at over $900.

Table 2: Equities

	2025/02/27	2025/02/20	% Δ
Local (JSE)			
ALSI	88913.81	89253.73	-0.38
Industrials	128291.98	128971.21	-0.53
Financials	20800.59	20706.79	0.45
Basic materials	44937.42	46490.81	-3.34
Global Equities			
SP500	5861.57	6013.13	-5.02
Nasdaq Composite	18544.42	19524.01	1.12
German DAX	22550.89	22287.56	1.18
France CAC	8102.52	8154.51	-0.64
Nikkei	38256.17	38776.94	-1.34
UK FTSE	8756.21	8659.37	1.12
Commodities			
Brent crude ($/barrel)	75.50	76.26	-1.00
Gold ($/ounce)	2864.13	2936.03	-2.45
Platinum ($/ounce)	948.30	969.65	-2.20

Source: Refinitiv

Chart 2: JSE Equities

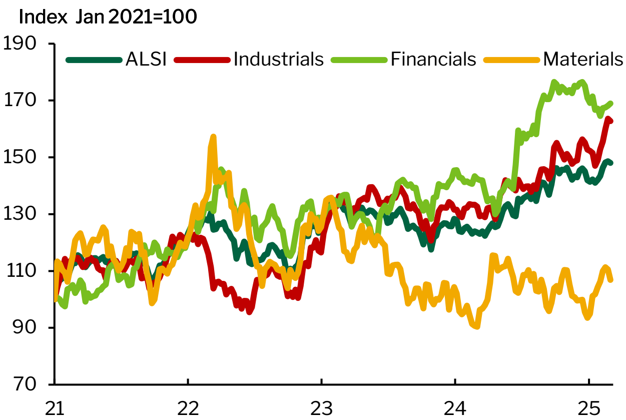
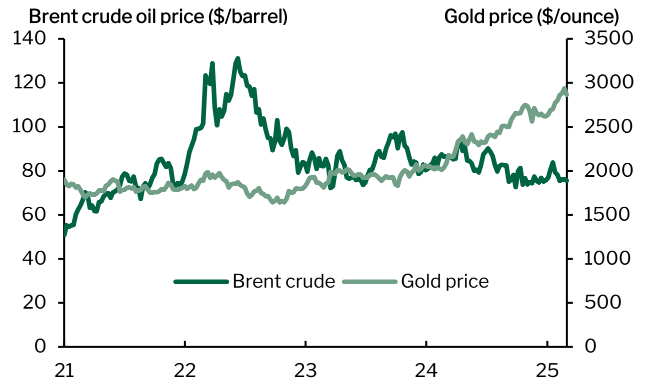


Chart 3: Commodities



Source: Refinitiv

Economic developments

Domestic economic releases and events

Consumer inflation remained subdued in January, rising slightly less than the market expected to 3.2% from 3% in December. Housing and utilities exerted the most upward pressure, followed by hotels and insurance. In contrast, food inflation slowed further, easing from 2.6% in December to 2.3% in January. Fuel price deflation continued, but the declines were shallower due to petrol and diesel price hikes. Encouragingly, core inflation, which excludes volatile food and energy costs, held steady at 3.5%, suggesting that underlying price pressures remain contained. Statistics SA also introduced the new basket and weights for the consumer price index, which assigns a larger weight to food and non-alcoholic beverages. Given that food inflation declined, the new weights likely resulted in a softer outcome than would have been the case. We expect the gentle rise in inflation to continue. Goods inflation will start edging up off a low base, driven by food and fuel prices. The upside will be kept in check by subdued services inflation, which is expected to moderate further in the first half before reversing course towards year-end. Despite the anticipated upward trend, headline and core inflation remain well below the SARB's 4.5% target, with no evidence of significant upward momentum among the goods and services in the basket. We still expect headline inflation to average 4% in 2025, down from 4.4% in 2024.

Producer inflation also increased further in January, rising to 1.1% from 0.7% in December. The main driver of the rise was the 'food, beverages and tobacco products' category, which contributed 1.4 percentage points to the annual increase. Food, beverages, and tobacco prices accelerated to 4.4% from 4.2%. Deflation in the coke, petroleum, chemicals, rubber, and plastic products category moderated significantly to 1.8% from 4.7% yoy. The smaller contraction came from rising fuel prices. As a result, the annual decline in petrol and diesel prices slowed to 5.4% and 6.7%, respectively, from 9.5% and 12.4%. Chemicals, rubber and plastics prices also decelerated further. Metals, machinery, and equipment inflation eased to 1.4% from 2.4%.

Producer inflation will likely increase gradually in 2025, driven mainly by the normalisation of the base on food and fuel indices. We forecast PPI to average around 3.5% in 2025

Broad money supply (M3) rose by 7.1% yoy in January, up from a four-month low of 6.7% in December. On a monthly basis, M3 increased by 0.3%, driven by a rise in net claims on the government sector (+R47.4 billion). This outweighed declines in all the other components, with net foreign assets down by R16.3 billion, net claims on the private sector (-R11 billion) and net other assets and liabilities (-R4.7 billion). Annual growth in private sector credit extension (PSCE) improved to 4.6% in January from 3.8% in December. The recovery was mainly driven by the highly volatile bills and investments category, which jumped by 1.5% mom and 11% yoy (from -0.1% yoy). Growth in mortgages was steady at 3.2%, while 'other loans and advances' and 'instalment sales and leasing finance' softened further. Loans and advances, which excludes bills and investments, edged down 4.1% yoy from 4.2% as growth in household and corporate loans eased to 2.9% and 5.3%, respectively, from 3% and 5.4%.

International economic releases and events

US President Donald Trump again raised tariffs on imports from Canada, Mexico and China, taking effect on 4 March. Canada and Mexico face 25% import tariffs, while an additional 10% will be levied on Chinese goods. Trump also announced that he was considering higher tariffs on European Union products. These measures follow the decision to impose a 25% tariff on all aluminium and steel products from 12 March. The US President has indicated he is mulling higher tariffs on automotive products, semiconductors, and pharmaceuticals.

Indicators of US consumer confidence fell as households fretted about the impact of import tariffs and avian flu on their purchasing power. The University of Michigan consumer sentiment index dropped to 64.7 in February, a 15-month low, from February's preliminary estimate of 67.8 and 71.7 in January. The current economic conditions and expectations subindices fell due to a significant decrease in buying conditions for durables and concerns over imminent tariff-induced price hikes. Inflation expectations edged higher, with one-year inflation expectations rising to 4.3% from 3.3%, while the five-year inflation gauge rose to 3.5%, its highest level since 1995, from 3.3%. Similarly, the Conference Board's consumer confidence index fell to 98.3 in February from 105.3 in January, the largest drop since August 2021, when the economy was in the throes of the Covid pandemic. The present situation subindex, which assesses consumers' view of current economic conditions, dropped to 136.5 from 139.9. In contrast, the expectations subindex, which reflects the short-term view on income, business and labour market conditions, decreased to 72.9 from 82.2. The Conference Board stressed that the expectations subindex fell below 80 for the first time since June 2024, pointing towards a looming recession.

The second estimate of Q4 GDP showed that the US economy grew by an annualised 2.3% qoq, unchanged from the advance estimate. Personal consumption drove growth, rising by 4.2% qoq. Exports fell by less than reflected in the previous estimate, while imports declined more than expected. Government expenditure rose by 2.9%. Fixed investment contracted faster due to lower equipment purchases, while residential investment increased. Private inventories had a smaller negative impact on growth. The economy expanded by 2.8% in 2024 from 2.5% in 2023. Other data showed that durable goods orders increased by 3.1% mom in January, rebounding from a 1.8% drop in December. A 9.8% surge in transportation equipment orders led to the bounce, especially non-defence aircraft and parts. Defence-related orders rose 3.5%, and non-defence capital goods rose 0.8%. The housing market remains under pressure as mortgage rates and house prices remain high. Existing home sales dropped by 4.9% mom to 4.08 million units in January from 4.24 million in December. The inventory of existing home sales rose by 3.5%, and the home prices increased by 4.8%.

Eurozone inflation rose to 2.5% yoy from 2.4% in December, driven primarily by higher energy costs. Non-energy industrial goods prices increased by 0.5%, while services, food, alcohol, and tobacco slowed. Monthly prices fell by 0.3% after a 0.4% rise in the previous month. The Economic Sentiment Indicator rose to 96.3 in February from 95.3 in January. Industrial goods producers were less pessimistic (-11.4 from -12.7) due to improved production expectations. Consumers were also slightly less gloomy, while confidence among retailers and service providers remained low.

The German economy contracted by 0.2% qoq in Q4, following a 0.1% expansion in Q3. Shrinking exports (-2.2% from -1.9%) and slower growth in household consumption were mainly to blame, while government spending rose. Fixed investment rebounded due to increased construction investment. Most industries experienced contractions, including agriculture, forestry, fishing (-1%) and manufacturing (-0.6%). Over the year, GDP contracted by 0.2%. The forward-looking GfK Consumer Climate Indicator deteriorated to -24.7 for March from a revised -22.6 in February, highlighting the challenges for the new government which range from rising costs and political uncertainty to more business closures. Income expectations and the willingness to buy declined while the savings propensity rose. Economic optimism improved slightly. The Ifo Business Climate indicator remained at 85.2 in February. Companies were less optimistic about the current business situation (85) but more optimistic about the outlook (85.4). Sentiment varied across industries, with service providers showing more pessimism and manufacturers, traders, and construction firms expressing improved confidence.

UK retail sales jumped by 1.7% mom in January, rebounding from a decline of 0.6% in December. Food store sales saw a notable 5.6% growth, driven by supermarkets, specialist stores, and alcohol and tobacco outlets. In contrast, non-food stores experienced declines. Annually, retail sales rose by 1%.

Next week's focus: Key economic releases and events

Domestic

Next week, the focus will be on GDP and balance of payment figures for Q4 2024. New vehicle sales for February are also due. High-frequency statistics reflect a modest recovery in economic activity over Q4, driven mainly by the services sector, propped up by stronger consumer demand. In contrast, the primary and secondary sectors relapsed, still held back by a challenging operating environment, aggravated by persistent inefficiencies in essential economic infrastructure. Barring any significant revisions to the Q3 numbers, real GDP is forecast to grow by 0.5% qoq in Q4, translating into a growth of only 0.5% in 2024, down from an already weak 0.7% in 2023. We believe the current account deficit narrowed slightly to 0.9% of GDP in Q4 from 1% in Q3, due to a wider trade surplus as imports fell faster than exports over the quarter. New vehicle sales likely grew by 5.2% yoy in February, a moderation from 10.4% in January. Growth is slower than in January because of the seasonal jump in vehicle sales at the start of every year. The positive outcome, though, reflects a slow recovery in demand as household finances improved due to modest interest rate cuts, lower prices and a boost from withdrawals from the two-pot retirement system.

International

US Personal Consumption Expenditure (PCE) Price Index numbers are due this afternoon. The markets expect core and headline PCE inflation to ease slightly to 2.7% yoy and 2.5% yoy, respectively. Next week's main releases are the European Central Bank (ECB) interest rate decision and US nonfarm payrolls. The market expects the ECB to cut the deposit and refinancing rates by 25 basis points. Inflation remains sticky, and growth is sluggish in the bloc. An ECB committee member, Isabel Schnabel, highlighted that structural problems rather than high borrowing costs are mainly to blame for the Eurozone's growth woes. In the US, analysts forecast that the jobs created will be 133 000 compared to the 143 000, showing a robust but cooling labour sector. Other data includes China's and the EU's trade balances and the final PMI data.

Table 3: Release Calendar

Date	Country/Region	Indicator Name	Period	Reuters Poll	Prior	Unit
28 Feb 2025	Japan	Industrial O/P Prelim (yoy) SA	Jan		-3.2	%
	Japan	Retail Sales (yoy)	Jan	4.1	3.7	%
	SA	M3 Money Supply (yoy)	Jan		6.71	%
	SA	Pvt Sector Credit Ext.	Jan		3.83	%
	France	GDP (qoq) Final	Q4	-0.1	-0.1	%
	France	CPI Prelim (yoy) NSA	Feb	1.4	1.7	%
	France	CPI Prelim (mom) NSA	Feb	0.3	0.2	%
	SA	Trade Bal (Incl. Region)	Jan		15.46	Billion
	Germany	CPI Prelim (yoy)	Feb	2.2	2.30	%
	US	Core PCE Price Index (mom)	Jan	0.4	0.2	%
	US	Core PCE Price Index (yoy)	Jan	2.7	2.80	%
	US	PCE Price Index (mom)	Jan	0.4	0.3	%
	US	PCE Price Index (yoy)	Jan	2.5	2.6	%
	SA	Budget Balance (mom)	Jan		21.38	Billion
3 Mar 2025	EU	HICP Flash (yoy)	Feb	2.3	2.5	%
	SA	Total New Vehicle (yoy)	Feb		10.4	%
	SA	Total New Vehicle Sales	Feb		46398	
4 Mar 2025	Japan	Unemployment Rate	Jan	2.4	2.4	%
	SA	GDP (qoq) Non-Ann SA	Q4		-0.3	%
	SA	GDP (yoy)	Q4		0.3	%
	EU	Unemployment Rate	Jan	6.3	6.3	%
5 Mar 2025	SA	Std Bank Whole Econ PMI	Feb		47.4	Index
	France	Industrial Output (mom)	Jan		-0.4	%
6 Mar 2025	SA	Current Acc. (In Rand)	Q4		-70.8	Billion
	SA	Current Account/GDP	Q4		-1	%
	EU	Retail Sales (mom)	Jan		-0.2	%
	EU	Retail Sales (yoy)	Jan	1.5	1.9	%
	EU	ECB Refinancing Rate	Mar	2.65	2.9	%
	EU	ECB Deposit Rate	Mar	2.5	2.75	%
7 Mar 2025	SA	Net $Gold & Forex Res	Feb		61.33	
	SA	Gross $Gold & Forex Res	Feb		65.876	
	France	Trade Balance, EUR, SA	Jan		-3.905	Billion
	EU	GDP Revised (qoq)	Q4	0.1	0.1	%
	US	Non-Farm Payrolls	Feb	133.0	143.00	000
	US	Unemployment Rate	Feb	4	4	%
	US	Average Earnings (mom)	Feb	0.3	0.5	%
	US	Labor Force Participation Rate	Feb		62.6	%
	China (Mainland)	Exports (yoy)	Feb	15.0	10.7	%
	China (Mainland)	Imports (yoy)	Feb	3.0	1	%
	China (Mainland)	Trade Balance USD	Feb	120.0	104.8	Billion

Source: Refinitiv/Trading Economics

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