



SELECT MANAGER

Newsletter

February 2023

MARKETS AND ECONOMICS

Most markets took a significant breather in February, erasing some of the strong gains achieved in January. The two primary themes that emerged towards the end of the month were stubborn inflation in Europe and the United States (US), and a faster-than-expected recovery in Chinese economic activity. The overriding impact on markets, however, was from a higher-for-longer interest rate narrative, as markets started to price in more interest rate hikes in Europe and the US. This sentiment caused weaker equity markets, higher bond yields, and a further strengthening of the US dollar throughout the month.

Locally, there were a few noteworthy headlines during February. Unfortunately, not all of them were positive. Amid ongoing load shedding, South Africa (SA) experienced Stage 6 blackouts for an entire week for the first time. Furthermore, apart from Eskom being a hot topic in both key government addresses during the month, namely the State of the Nation Address and the 2023 Budget Speech, the explosive interview with former Eskom Chief Executive Officer, André de Ruyter, was almost a higher trending event. In this interview, De Ruyter made damaging allegations of corruption and crime at the power utility. Although unproven at this point, the comments and allegations have raised significant concerns and uproar from various organisations who are calling for a full investigation.

In terms of the State of the Nation Address and the 2023 Budget Speech, Eskom and the ongoing energy crisis were the primary topics. The Budget also reiterated the commitment to fiscal consolidation and reigning in spending. Government further confirmed debt relief to Eskom (to the amount of R254 billion), as well as increased tax incentives for rooftop solar photovoltaic (PV) systems.

Another significant headline was the announcement by the Financial Action Task Force (FATF) of SA's greylisting. The FATF is an independent intergovernmental authority that is tasked with developing and promoting anti-money laundering and counter-terrorist financing standards. When the FATF places a country on the greylist, it means that the country is placed under enhanced scrutiny in cross-border financial transactions, implying enhanced monitoring and due diligence on the part of the institutions that transact with international counterparts. This, in turn, leads to an increased cost of doing



business and increased transaction timelines. Importantly, despite the obvious negative impact on capital flows and international transactions, several studies on the impact of greylisting seem to indicate that there is no consistent relationship between the timing of the greylisting and markets or currency, suggesting that markets price in the risk in advance, despite potential short-term reactions. Many international counterparts already treat SA as a high-risk jurisdiction, meaning that there has already been an increased focus on due diligence and monitoring for some time.

A few other key highlights during the month included:

- + South African inflation eased further to 6.9% for the year in February (down from 7.2% in January).
- + Retail sales data fell by 0.6% for the year, likely influenced by rising costs and the impact of load shedding.
- + US inflation figures slowed less than expected, with the January figure at 6.4% for the year as opposed to market expectations of 6.2%.
- + Consumer spending in the US jumped 1.8% in January, pointing to relatively strong economic activity and resilient consumers.
- + Euro inflation eased slightly from 9.2% to 8.6% in January, despite Germany experiencing further increasing price pressures.
- + Chinese factory activity data rose sharply, as the Manufacturing Purchasing Managers' Index jumped to 52.6 in February, ahead of expectations.

JSE All Share -2,19% 77 733,87	MSCI World (USD) -2,40% 2 714,57	MSCI EM (USD) -6,48% 964,01
SA Bonds -0,87% 875,30	SA Property -0,72% 312,52	CPI (y/y) 6,90% 107,10
Gold -5,01% 1 811,06	Platinum -5,70% 953,59	Oil -2,35% 83,45
\$/R 5,45% 18,36	€/R 2,67% 19,42	£/R 2,91% 22,07