Economic and market snapshot for February 2020

**Highlights**

- **United States (US):** Although growth risks posed by the economic spillover effects of the coronavirus are skewed to the downside, only a modest dent is expected to impact annual growth in the US.
- **Eurozone:** While the coronavirus has had a minimal economic effect so far, the number of infections has jumped in the region highlighting risks of short-term economic damage.
- **Japan:** Growth plunged by a larger margin than anticipated in the final quarter of 2019 on soft durable goods spending and limited fiscal support from government, which only ramped up towards the end of 2019.
- **China:** Chinese officials have implemented a number of economic support measures to help offset the effect of the outbreak, but risks of softer activity spilling over into the second quarter remain significant.
- **South Africa (SA):** A slowdown in Chinese activity can affect SA through its exports of minerals to China and inward-bound tourism from mainland China.
- **Financial markets:** Coronavirus worries slammed riskier asset classes further in February 2020 on concerns over the spread of Covid-19 outside of China.

**Global economic developments**

**US**

Although virus-related risks are skewed to the downside, only a modest dent is expected to impact annual growth in the US.

Goldman Sachs is of the view that the coronavirus can affect growth in the US primarily through four channels, including (1) a reduction in exports of US goods destined for China, (2) less spending by Chinese tourists and students in the US economy, (3) a dip in retailers’ services value added and (4) disrupted US production as a result of affected supply chains, which rely on inputs from China.

With the first channel, Goldman Sachs estimates a reduction of 0.4% from US growth in the first quarter of the year related to the spillover effects of goods destined for China. Based on the fall in Chinese air passengers, Goldman Sachs predicts spending by Chinese tourists in the US will drop by two thirds in the first quarter of 2020, while the third channel could shave off an additional 0.1% from growth in the first quarter of the year.

The fourth channel considers the effects of supply chain disruptions. The Japanese earthquake of 2011 was noted by Goldman Sachs as the most recent example of a severe supply chain disruption. Japanese exports of transport equipment to the US fell as the earthquake
encumbered production and had a knock-on effect on the production of Japanese vehicles in the US. According to Goldman Sachs, US imports of intermediate inputs from China account for 1.7% of gross domestic product (GDP), followed by 1% from Canada and 0.6% from Mexico (see chart 1). Its analysis further states that few US firms have reported any reduction in production due to supply chain disruptions, but based on exposure, automakers would be the most likely affected industry. As a consequence of the trade war, many US firms have already moved supply out of China, reducing the effect of supply chain disruptions to US production.

Chart 1: US imports of intermediate inputs (%)

Tallying up the effects of the four channels, Goldman Sachs projects a 0.8% hit to annualised growth in the first quarter of the year with growth for the remaining three quarters of the year as capacity is run harder in China, resulting in a modest 0.1% drag on annual GDP outcomes. Goldman Sachs expects growth in the US to average 2.1% in 2020, relative to the Bloomberg consensus of 1.8% and our estimate of 1.7%. The Bloomberg consensus forecast for growth in the first quarter of the year has edged lower to 1.5% from 1.7% at the end of 2019.

Eurozone

Jump in number of infections highlights short-term risks to economic activity which has held up so far.

The German IFO Business Climate Index (measuring responses in the services, construction, manufacturing and trade sectors) rose to 96.1 points in February 2019, beating consensus expectations of 95.3. The figure came in stronger than the previous month’s 95.9 despite growing concerns over the coronavirus contagion in the Eurozone’s largest economy.

That said, the growth base in Germany remains weak. The second estimate of GDP data for the fourth quarter of 2019 showed that growth flat-lined in quarterly, seasonally-adjusted terms, with negative growth in investment spending and exports. Household spending was flat in the fourth quarter, while government spending was the primary support factor behind growth.

While supply chain disruptions and the negative effect of weaker Chinese demand have not burdened growth as yet, the rising number of infections in Germany (79 cases at the time of writing) point to downside risks to an already weak economy. Subdued investment intentions, downward pressure on export activity and negative consumer sentiment (see chart 2) point to growth weakening in 2020 from 0.6% in 2019.

Chart 2: Deteriorating German consumer sentiment

The number of coronavirus cases jumped to 1128, at the time of writing, in the Eurozone’s third-largest economy, Italy. A significant response from authorities to curb the spread of the disease threatens to dampen economic activity. According to Capital Economics, Lombardia (where most of the coronavirus cases have erupted) accounts for 16% of Italy’s population, 22% of gross value added and a quarter of arrivals at Italian
airports which could have a non-negligible impact on Italian tourism which accounts for 7% of GDP.

Capital Economics estimates the effect of the virus will detract 0.1% from GDP growth in 2020, which will be too small to elicit a response from the European Central Bank, unless there is a further sharp rise in the number of cases and a prolonged shutdown of business activities to prevent the spread of the virus.

Although the contribution from household spending helped to boost growth in GDP in the third quarter of 2019, retail volumes eased in a number of the core economies suggesting that consumption spending dropped in the fourth quarter of 2019. Consumer sentiment has faded since the start of 2018 and could slide further if slower wage and employment growth materialise in line with the downbeat indications of recent business surveys.

The Bloomberg consensus expects growth in the Eurozone to average 1.0% in 2020 from 1.2% in 2019.

**Japan**

*Growth plunged in the final quarter of 2019 on weaker-than-expected domestic demand.*

Real growth in economic activity slipped 1.6% in quarterly, seasonally-adjusted terms in the fourth quarter of 2019 (6.3% in annualised terms), while the Bloomberg consensus had projected a smaller decline of 1%. Negative growth in the final quarter of the year followed soft growth of 0.1% in the third quarter of the year, which was revised lower from an earlier estimate of 0.4%.

In year on year (y/y) terms, growth was 0.4% weaker in the final quarter of 2019 driven by a plunge in household spending of 1.9% y/y following the implementation of a higher consumption tax rate from 8% to 10% on 1 October 2019.

With monetary policy options largely exhausted, government will have to step in with fiscal support. The supplementary budget has passed the Diet and is currently being deliberated. Government is likely to frontload the 15-month spending plan given the likely negative effect of the coronavirus on the Japanese economy. At the time of writing, Japan had the fourth-highest number of confirmed coronavirus cases in the world after China, South Korea, Italy and Iran at 241 (excluding cases on the Diamond Princess cruise ship).

As the number of infections have risen, popular support for Prime Minister Shinzo Abe and his ruling Liberal Democratic Party has fallen. CNBC news reported a 8.3-point drop in support ratings for Abe’s cabinet, with only 36% of the surveyed respondents satisfied with government’s measures to contain the outbreak.

According to research from HSBC, more than a quarter of Japan’s tourist arrivals are from mainland China (see chart 3). Fortunately, tourism accounts for less than 8% of the Japanese economy, but with the economy on the brink of recession, the decline in tourist flows is unwelcome.

**Chart 3: Share of tourist arrivals from mainland China (%)**

Source: HSBC, Momentum Investments

Abe has ordered all Japanese schools to be closed from March 2020 to limit social contact and prevent a faster spread of the virus. This move will affect 13 million pupils. A number of large-scale public events have also been cancelled and Abe has requested that companies have more flexible working hours and that firms promote remote working from home.
The Japan Times reported that a number of Japanese manufacturers have moved production out of China on fears of prolonged factory closures related to the coronavirus outbreak. Some of these firms relocated earlier on fears of a further escalation in the trade war between the US and China. While a move in production facilities to Vietnam or other countries in Southeast Asia increases costs temporarily, it raises an opportunity to upgrade facilities with robotics technologies which reduces the reliance on labour.

The Bloomberg consensus forecast on Japanese growth remains at the September 2019 estimate of 0.3% for 2020.

China

Chinese officials have implemented a number of economic support measures to help offset the effect of the outbreak.

The Bloomberg median consensus forecast for Chinese growth in the first quarter of the year was slashed to 0.4% quarter-on-quarter (q/q) (translating into 4.5% y/y) from 1.4% at the beginning of the month. Nomura Securities and Standard Chartered have the most bearish forecasts of negative 1.5% q/q, while Morgan Stanley is more optimistic at 1.4% q/q. The median Bloomberg forecast for annual Chinese growth has dropped from 5.9% at the start of the year to 5.6%. According to Capital Economics, to achieve China’s longstanding target of doubling 2010 GDP by 2020, growth would have to print at 5.7% at least in 2020.

These forecasts assume that some of the lost output in the first half of the year is made up in the second half as firms run capacity harder to partly offset lost output.

According to Capital Economics, workplaces have in general opened but most are operating below usual capacity, particularly for industries reliant on migrant workers where quarantine periods and a reluctance to travel have had a negative effect on worker presence. According to a survey by academics from Tsinghua University and Peking University, only a third of 1,000 small and medium enterprises (SMEs, which support 70% of China’s urban workforce) had enough liquid assets to pay employees for one month at the start of the outbreak. The survey noted that 85% of respondents said they would go out of business if the outbreak lasted three months, while 90% claimed their companies would collapse after six months.

According to JPMorgan, Chinese officials have implemented several measures to help offset the negative effect of the outbreak on economic growth. These include:

- Value-added tax (Vat) deductions in epidemic prevention-related business activities
- Support for medicine and vaccine research and development (R&D)
- Issuance of a Covid-19 bond at a 1.65% interest rate
- 300 billion yuan re-lending facility for epidemic prevention corporate entities
- Issuance of SME bond products to support liquidity
- 20 measures to support SMEs (including delays for fee collection on electricity and water bills, tax payment delay, rent deduction and financing support, unemployment insurance expense and subsidies for companies that did not lay off many workers and rescue measures for distressed firms)
- Funding costs dropped by 50 basis points for SMEs
- Increased lines of credit for qualified SMEs with no additional credit enhancement measures needed
- Front-loaded local government bond quota by 858 billion yuan
- Quarantine policy loosened for drivers/operators supplying the infected regions
- Fiscal fund allocation of 80.55 billion yuan for Covid-19 prevention
- Higher tolerance level for delays of loan repayments
- Drop in interest rate of 10 basis points
- People’s Bank of China injection of RMB200 billion in liquidity
- Removal of counter tariff on certain US imports (effective March 2020)
- Acceleration of experimental free trade zones
- Measures to support real estate industry
- Measures to support agricultural companies
- Plans to lower the required reserve ratio for qualified financial institutions to support inclusive finance
Local economic developments

A slowdown in China can affect SA through its exports of minerals and inward-bound tourism.

According to Price Waterhouse Coopers (PwC), the scope for Covid-19-induced business disruption in SA could be significant given that China is SA’s largest trading partner. Bilateral trade accounted for nearly a third of total China-Africa trade in 2017 according to Control Risks Group. In 2019, China bought nearly 11% of SA’s exports, while almost a fifth of SA’s imports originated from China. The PwC study cites that the International Monetary Fund forecasts the anticipated trade disruption to shave 0.2% off from GDP growth in SA this year, taking account of affected export revenues and disruptions to manufacturing and retail supply chains which are exposed to imports and tourists.

According to PwC, iron ore, manganese and chrome account for two-thirds of SA’s total exports to China (in value terms). A weaker pace of growth in China could dampen demand for these minerals.

A dip in Chinese activity can prove disruptive to key industries, where the economy plays a significant role in the supply chain. PwC mentioned mobile phones as an example, which is SA’s largest import category by value from China. China supplies a significant 85% of the country’s mobile phone imports.

A 2018 tourism report from Statistics SA recorded 97 000 Chinese tourists in SA in 2018. China accounted for the seventh-largest origin of foreign visitors into SA. PwC claims nearly a third of Chinese tourists visiting SA are here on business (see chart 4). PwC calculated that the average international tourist spent around R11 500 in SA in 2018 and noted that the average Chinese tourist (for leisure purposes) spent a longer time than average in SA, which is supportive for the country’s retail sector.

PwC also noted SA’s attractiveness for more affordable healthcare (medical tourism) for Chinese tourists. Using the swine flu outbreak of 2009 as a reference point, PwC measured that Chinese arrivals in SA dipped by nearly 15%. PwC warns the drop could be greater given more stringent travel bans this time around. As such, PwC estimates a R200 million loss in Chinese tourist spending in the SA economy for 2020.

Financial market performance

Global markets

The global equity market was on its way to recovering from a torrid first month of the year. However, fears of a rise in the global spread of Covid-19 in the last week of February 2020 caused markets to take a nasty turn for the worse. By the end of the month the CBOE Volatility Index (Vix) had spiked to its highest level since the ‘flash crash’ of August 2011, as investor angst intensified over the spread of the epidemic outside of China. The magnitude of the weekly rise in the Vix in the final week of February 2020 lined up closely to the surge in the Vix experienced in the second week of October 2008. The Vix ended the month at close to 40 points. Similarly, the international price of oil tumbled more than 12% in the month on global demand concerns.
The MSCI All Country World Index suffered a 6.4% blow by the end of the month, with developed markets (DMs) taking more of a beating relative to their emerging market (EM) counterparts. The MSCI DM Index shed 6.9% in February 2020 and experienced the worst week in the final week of the month since the global financial crisis in November 2008. The index was led weaker by a bloodbath in European and Japanese bourses.

The Eurostoxx 50 Index plunged 7.9% in February 2020. European travel shares bore the brunt of the sell-off with a rapidly rising infection count in a key industrial area of Italy also threatening a disruption to supply chains. Meanwhile, healthcare and online services have benefited. Across in Japan, the Nikkei 225 Index haemorrhaged 8.8% in the month. The market sank on news late in the month from the US Centres for Disease Control (CDC), which announced that the new virus would likely spread in the US after confirming the first infection of unknown origin in California. Mining, oil and coal-related shares were among the hardest hit as fears of a global slowdown weighed on demand for raw materials and fuels.

Losses in the S&P 500 Index trailed at 7.5%. Despite White House economic advisor, Larry Kudlow, maintaining that the virus was contained so far in the US, views from CDC officials rattled investors and extended the rout in US equities. Although the number of confirmed cases in the US were low at 69, fears that the number could mushroom have dampened investor sentiment.

DM government bond yields slid lower in February 2020 as investors shied away from riskier asset classes. The US 10-year government bond yield rallied 29 basis points to end the month at a 1.22% touching all-time lows, while the German 10-year government bond yield sank 16 basis points deeper into negative territory to negative 0.6%.

The MSCI EM Index fared relatively better in February 2020. The index was down by a lesser 2.9% in the month, but displayed a wide dispersion in underlying returns. The MSCI Latin America Index nosedived 11.5% in the month on weaker commodity prices. The Bloomberg Commodity Price Index was set back 4.2% in February 2020. Losses were shallower in the MSCI Europe, Middle East and the Africa (EMEA) region at 7.9%, while losses in the MSCI Asia Index were capped at 0.6%.

Risk appetite towards EMs deteriorated in the second half of the month as investors sought safe-haven assets as the virus continued to spread. The JPMorgan EM Bond Index (Embi) spread ended February 2020 18 points higher and traded 76 points above levels seen at the end of 2019. The largest deterioration in sovereign credit quality was observed in Turkey, where the credit default swap (CDS) spread rose 58% in February 2020. Turkey’s net reserves have plunged nearly US$12 billion since the start of the year to arrest a slide in the lira. The Central Bank of Turkey lowered interest rates by 50 basis points in February amid growth anxieties arising from coronavirus fears and concerns about rising tensions between Turkey and Syria. Notable monthly deteriorations in the CDS spread were also seen in Indonesia (50%), Malaysia (49%) and Thailand (44%).

The JPMorgan EM Currency Index weakened at the margin by 2.6%. All major EM currencies printed in the red for February 2020. The steepest depreciations against the US dollar were in the Indonesian rupiah (4.2%), Russian rouble (4%) and Brazilian real (4%).

Local markets
Local equity markets echoed the fragility in global bourses in February 2020. The FTSE/JSE All-Share Index quickly shrugged off a more positive-than-expected national budget announcement, which detailed extensive projected cuts to the wage bill, and slumped 9.0% in the month (see chart 5) on a poor performance in commodity-affected resource shares and financial shares.

The FTSE/JSE Financials Index lost 9.5% in February 2020, with banks down 5.4% during the month. Despite a weaker local currency, the FTSE/JSE Resources Index dived 11.6% in the month. The international price of gold shifted 2.1% higher in the month. According to the Financial Times, the World Gold Council reported unprecedented demand for
gold-backed exchange traded funds from global investors seeking protection against virus angst. The international price of platinum held up reasonably well for the first three weeks of the month, but the price sank late in the month ending February 2020 9.2% weaker.

The FTSE/JSE Industrials Index sank 7% lower. Retail shares were hit hard in month, falling by 11%.

Chart 6: Returns from local asset classes (%)

Source: Iress, Momentum Investments, data up to 28 February 2020

The FTSE/JSE Small-cap Index fared worse than the Mid-cap Index in February 2020, with the former tumbling 13.3% in the month while losses in the latter amounted to 12.9%.

The SA 10-year government bond yield sold off 10 points in February 2020. Intra-month, yields rallied nearly 10 basis points on the tabling of the February 2020 national budget which aimed to bring about consolidation efforts through curbing the wage bill rather than raising additional taxes. The JSE Assa All Bond Index (Albi) edged 0.1% lower in February 2020, while the JSE Assa Government Inflation-linked Bond Index (Ilbi) traded 1.1% higher for the same period. Meanwhile, the FTSE/JSE SA Listed Property Index had a dismal month and retreated 15.7% in February.

A shock to risk appetite caused by the virus left the rand as the worst performing currency against the US dollar for January 2020. The rand weakened by 4.2% against the US dollar in the first month of the year. The rand ended the month 3.6% softer against the euro and 1.3% weaker against the pound.

Renewed fears about a global economic slowdown sparked by the outbreak unnerved markets and left riskier assets on the back foot. Despite CDS spreads widening for a number of SA’s EM peers, SA’s five-year CDS spread narrowed by 4% in February 2020, possibly owing to the market pricing in a marginally lower risk of a ratings downgrade following a market-friendly budget. SA’s five-year CDS spread nevertheless traced 9% above levels seen at the end of 2019.
## Indices summary for February 2020

<table>
<thead>
<tr>
<th>Equity Indices</th>
<th>One month</th>
<th>Three months</th>
<th>One year</th>
<th>Three years</th>
<th>Four years</th>
<th>Five years</th>
<th>Six years</th>
<th>Seven years</th>
<th>Ten years</th>
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<tbody>
<tr>
<td>FTSE/JSE All-Share Index (ALSI)</td>
<td>-8.99%</td>
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<td>-5.71%</td>
<td>3.15%</td>
<td>3.92%</td>
<td>2.21%</td>
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<td>2.29%</td>
<td>5.61%</td>
<td>1.89%</td>
<td>3.53%</td>
<td>5.48%</td>
<td>8.54%</td>
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| Interest-bearing indices | | | | | | | | | |
| JSE ASSA All Bond Index (ALBI) | -0.04% | 3.03% | 8.91% | 9.07% | 10.16% | 7.24% | 8.51% | 7.10% | 8.73% |
| JSE ASSA All Bond Index 1-3 years (ALBI) | 0.79% | 2.29% | 8.20% | 8.69% | 9.03% | 8.09% | 8.12% | 7.40% | 7.71% |
| JSE ASSA SA Government ILB Index | 0.56% | 1.48% | 1.55% | 1.27% | 2.58% | 3.08% | 4.50% | 3.77% | 6.92% |
| Short-term Fixed Interest Composite Index (SteFI) | 0.54% | 1.71% | 7.26% | 7.33% | 7.38% | 7.22% | 7.02% | 6.76% | 6.51% |

| Commodities | | | | | | | | | |
| NewGold Exchange-Traded Fund | 6.71% | 18.13% | 36.09% | 14.97% | 6.00% | 11.78% | 9.64% | 8.11% | 10.98% |
| Gold price (in rand) | 6.81% | 17.43% | 36.33% | 15.46% | 6.30% | 12.38% | 10.02% | 8.57% | 11.43% |
| Platinum Exchange-Traded Fund | -5.63% | 2.63% | 10.45% | -0.15% | -2.32% | -0.87% | -2.80% | | |
| Platinum price (in rand) | -3.94% | 5.20% | 12.37% | 0.91% | -1.73% | -0.08% | -1.97% | -1.94% | -1.81% |

| Currency movements | | | | | | | | | |
| Rand/euro movements | 3.85% | 6.47% | 7.19% | 7.26% | 0.01% | 5.59% | 2.46% | 5.58% | 5.08% |
| Rand/dollar movements | 4.76% | 6.81% | 11.28% | 6.14% | -0.22% | 6.07% | 6.47% | 8.26% | 7.41% |

| Inflation index | | | | | | | | | |
| Consumer Price Index (CPI) | 4.49% | 4.29% | 4.86% | 5.13% | 5.01% | 5.12% | 5.11% |

**Important notes**

2. Returns for periods exceeding one year are annualised.
3. The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns.
4. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
5. The MSCI World Index (All Countries) returns are adjusted to correspond with global investment prices received.
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There are signs of the economy tracking in a late cycle phase, with 2020 growth likely to print below trend. Previous monetary easing and only a limited fallout from the virus outbreak should prevent a hard landing. While services and consumer spending have remained resilient, rising wage growth has curbed corporate profitability. A pullback in hiring in 2020 and a rolling over in wage growth could soften consumption. In our view, contained inflation and slowing growth leaves space for an additional cut in interest rates.

The coronavirus outbreak has exacerbated the slowdown in growth already underway in China, which had been initially triggered by a trade war with the United States (US). While a faster ramp up in activity in the second half of the year should help to partly offset lost output from the first half of the year, the overall effect on full-year growth will still likely be negative. Chinese authorities have responded to the crisis by easing monetary and fiscal policy, issuing bonds and implementing measures to support small and medium enterprises which are struggling to meet payments and remunerate workers. Government has also provided support to the real estate and agricultural goods sectors to alleviate the negative effect of the outbreak on growth.

Electricity supply issues are exacerbating the country’s longest economic downturn in history and fractious politics are stymying the pace of reform. Growth is likely to muddle along at moribund levels and will remain reliant on positive global factors to provide interim growth boosts. While it is yet to be seen whether government will successfully negotiate with labour to achieve its proposed cuts to the wage bill, Moody’s could give the country the benefit of the doubt in the near term. This, together with little demand-pull inflation pressure provides space for additional interest rate easing in our view.

Growth has slowed in tune with downbeat confidence and a worsening in the global backdrop. Distinctive factors in some countries (notably Brexit and political troubles) add downside risks. Although services output remains solid, potential spillovers from weakness in industrial activity and the risk of trade disputes with the United States (US) remain concerning. Slower growth in jobs, wages and investment point to a smaller growth contribution from domestic demand in 2020.
Economies at a glance: US

- The Federal Reserve left interest rates unchanged at its January 2020 monetary policy meeting although inflation breached the 2% target since November 2019. Medical and transport price increases have added upward pressure to inflation. The International Monetary Fund (IMF) however expects inflation to only rise to 2.3% in 2020 underpinned by muted core inflation.
- The rate of household savings slowed further while consumer spending remained robust in recent quarters.
- Slightly above trend inflation is likely to persist in the near term as signaled by a mild uptick in inflation expectations in twelve months.

**Chart 1: Headline inflation breached the 2% target again in January 2020**

**Chart 2: Growth in key inflation components (% y/y)**

**Chart 3: Household savings rate off earlier highs**

**Chart 4: Consumer spending still robust**

**Chart 5: News related to higher prices have been skewed towards a mild uptick**

**Chart 6: Expected inflation in 1 year**

Source: Bloomberg, Momentum Investments
Economies at a glance: Eurozone

- Economic indicators continue to show signs of waning activity. Softer growth activity is further revealed by a slowdown in the growth rate of money supply. Despite negative interest rates, the momentum in savings has risen and growth in consumption spending has slowed.
- The negative credit-to-gross domestic product (GDP) gap has widened further due to an ease in the household credit ratio in most of the Eurozone’s constituent countries.
- Debt-services costs have also receded and appear to have stabilised. Similarly, the credit impulse has been weak and has not provided additional growth support.

Chart 1: Money supply growth easing in all three categories

Chart 2: Savings growing faster than consumption

Chart 3: Negative credit-to-GDP gap

Chart 4: Household credit-to-GDP well below 70%

Chart 5: Household debt-service costs stable below 7%

Chart 6: Credit impulse less supportive for growth

Source: Bloomberg, Momentum Investments
Economies at a glance: China

- The ongoing rise in confirmed coronavirus cases has terrorised global markets and sentiment. The Purchasing Managers’ Index (PMI) lost momentum in January 2020 and slowed below the 50 neutral mark amid the signed phase 1 trade détente.
- High-frequency economic indicators have disappointed and the expectation is for trade data to remain weak due to below-capacity manufacturing activity. The daily price of oil has slowed as demand from China has eased.
- Policy uncertainty has however dipped in January 2020 and has a high likelihood of falling further due to the intensive monetary policy intervention by the People’s Bank of China and fiscal authorities to stabilise growth.

Source: Bloomberg, Momentum Investments
Economies at a glance: SA

- The February 2020 national budget highlighted further downward revisions in growth, now below 1% in 2020 alongside consensus expectations. This propels a larger initial budget deficit relative to what was estimated in the Medium Term Budget Policy Statement.
- The debt profile fails to stabilise and debt-service costs remains high despite no additional funds being granted to Eskom in addition to what was previously announced and despite significant proposed cuts to the wage bill.
- Living standards have continued to deteriorate as a large portion of government expenditure is skewed towards debt repayment and cannot be used to fund other social priorities. Efforts to curb the wage bill could help downtrodden confidence at the margin.

Source: National Treasury, BER, IMF, SARB, Momentum Investments
The macro research desk

Herman van Papendorp is the head of the Momentum Investments research and insights team and takes ultimate responsibility for macro research and asset allocation. Economist, Sanisha Packirisamy, is responsible for providing a macro framework to inform investment opportunities and strategies. Roberta Noise has recently joined the team as an economic analyst.

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