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# Economic and market snapshot for September 2019

## Highlights

- United States (US): The Federal Reserve (Fed) cut interest rates by 25 basis points, to a range between 1.75% and 2%, amid rising disagreement among the Federal Open Market Committee (FOMC) members.
- Euro area: In his parting shot, European Central Bank (ECB) President, Mario Draghi, pledged to buy bonds and sustain ultra-accommodative policy rates “for as long as necessary”.
- Japan: The Bank of Japan (BoJ) sat tight in September, holding interest rates at negative 0.1% and left its target for 10-year bond yields at around 0%. It signalled it may consider more stimulus if needed in October.
- China: Lenders are building defences as the trade war with the US continues, but a better mechanism would be increased reform at state entities, including privatisation and improved governance, to improve efficiencies.
- South Africa (SA): Seeing retirement saving as a low priority expense and not as an essential investment will worsen SA’s retirement crisis. Even fewer people are prepared for retirement than previously assumed.

## Global economic developments

### US

*Fed cuts interest rates by 25 basis points amid rising disagreement among the FOMC members*

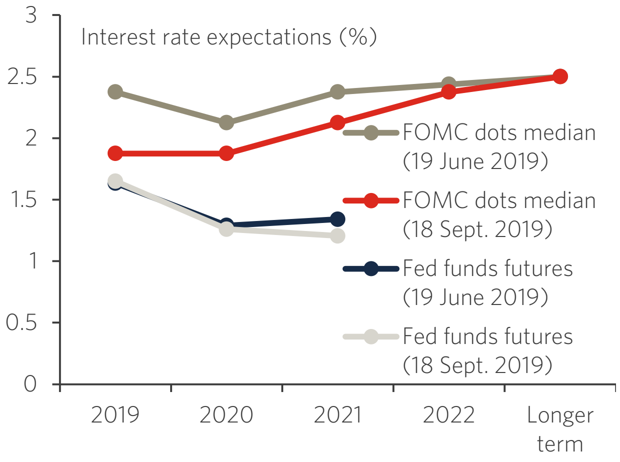
Sticking to a more hawkish line, the Fed once again attracted criticism from another tweet by US President Donald Trump saying, “Jay Powell and the Federal Reserve Fail Again. No “guts,” no sense, no vision! A terrible communicator!”

The Fed predominantly left the language from the July interest-rate-setting meeting unchanged in its latest September 2019 communication and cut interest rates by 25 basis points to a range between 1.75% and 2%. It noted that household spending had risen at a “strong pace”, but fixed investment and exports had weakened.

In line with elevated uncertainty around the downside threats to global economic activity, Fed Chair, Jerome Powell, explained the disparate perspectives on the FOMC by acknowledging the path ahead was becoming less clear. There were three dissents to the decision. Esther George (Kansas City Fed) and Eric Rosengren (Boston Fed) voted to keep interest rates unchanged, while the president of the St. Louis Fed, Jim Bullard, preferred a steeper cut of 50 basis points.

The Fed dot plot (a chart with dots reflecting what each Fed official thinks would be an appropriate target range for the fed funds rate at the end of each calendar year) now indicates the median forecast of the Fed officials will remain at the same level until the end of 2020 (see chart 1). Longer-term interest rate expectations remained unchanged at 2.5%, matching unchanged expectations on longer-term growth of 1.9%, unemployment of 4.2% and inflation of 2%.

Chart 1: Disparate view on interest rates between the Fed and the futures market




*Source: Bloomberg, Momentum Investments*

According to the Financial Times, in response to the overnight lending rate spiking to a high of 10%, the FOMC authorised a drop in the interest rate that the Fed pays on excess reserves, from 1.85% to 1.8%. The Fed is also now expected to offer reverse repurchases at an offering rate of 1.7%, instead of 1.75%. This move has likely disappointed markets who were expecting a more explicit repurchase facility or an increase in asset purchases to boost the level of bank reserves in the system. The door has, however, not closed on the latter, with Powell indicating (in the press conference) the Fed would be discussing its response to the volatility in overnight lending at its next meeting.

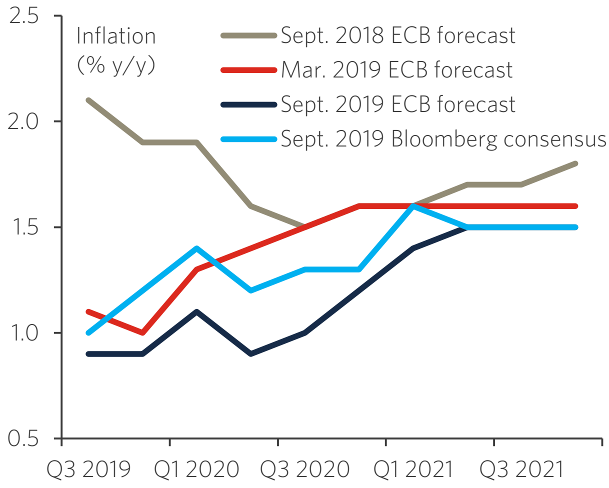
## Euro area

*ECB President Mario Draghi pledges to buy bonds "for as long as necessary"*

The decisions arising from the ECB's September 2019 monetary policy meeting turned out to be a mixed bag for investors. The market was disappointed by the size of the cut in the deposit rate of 10 basis points, which came in below expectations for a cut of 20 basis points. Similarly, the pace of asset purchases, at €20 billion per month, undershot the majority of investors' expectations. In contrast, the market was surprised by the announcement of open-ended quantitative easing, in favour of calendar-based guidance.

Faced with lacklustre growth and tepid inflation (see chart 2), Draghi announced interest rates would remain at ultra-accommodative levels until inflation recovered to its target of below, but close to, 2%. Draghi added that the ECB would restart its quantitative easing in November 2019 and admitted the Governing Council will run the asset purchase programme for as long as is necessary.

Chart 2: Tepid inflation trajectory in the Euro area




*Source: Bloomberg, Momentum Investments*

This start date coincides with the changing of the guard at the helm of the ECB. The former managing director of the International Monetary Fund (IMF), Christine Lagarde, is set to be appointed as president of the ECB from 1 November 2019. She is likely to face opposition from a sizeable portion of the Governing Council for further asset purchases as this may threaten to breach the ECB's self-imposed limits of shares of country debt. She has nevertheless hinted at launching a review of the ECB's tools and its policy framework to assess the benefits against the associated costs.

According to Capital Economics, around 75% of the assets purchased will be public sector securities, with the remainder coming from private sector securities. The ECB also used additional measures to encourage bank lending. The maturity of the loans under the third targeted long-term refinancing operations (TLTROs) was increased from two to three years and the minimum interest rate was cut marginally. Moreover, tiered interest rates were also introduced (whereby a portion of bank deposits would be exempted from the charge), but this only partly solves the problem of the annual cost associated with negative rates. According to Reuters, the exemption is likely to result in an annual saving of only €3.1 billion for the banking system. Bank profitability is likely to be hurt further by an assumed flattening of the curve in response to the ECB's open-ended guidance.

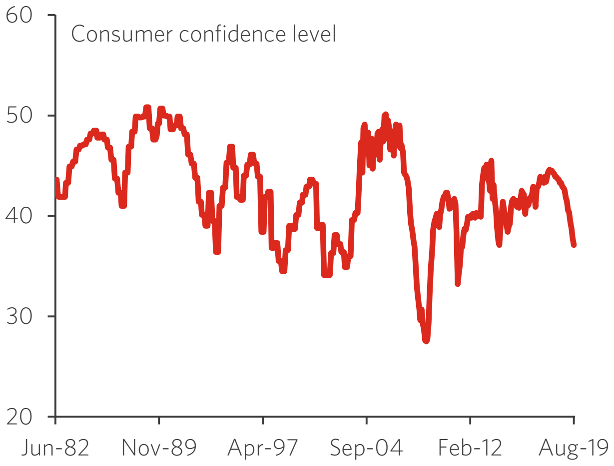
### Japan

*The BoJ kept policy steady, but signalled a chance of easing in October 2019*

The BoJ maintained its policy stance in September 2019, even after the US Fed cut interest rates by 25 basis points. In line with the Bloomberg consensus, the BoJ also left its level of asset purchases unchanged.

While the BoJ did not commit to taking further action in October 2019, it remarked it would review growth and inflation. Growth in economic activity for the second quarter of 2019 was revised lower to 1.3% in annualised terms from an initial estimate of 1.8%. A re-escalation of trade disputes between the US and China manifested in a contraction in spending by Japanese manufacturers. In addition, capital spending came in below expectations and net exports, which were dented in line with the slowdown in global growth, detracted from economic activity.

Chart 3: Japanese consumer confidence on the decline since the end of 2017




*Source: Bloomberg, Momentum Investments*

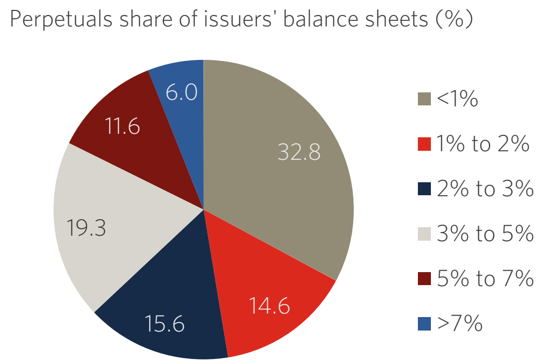
Though domestic consumption spend remained firm in the quarter, growth could fade in response to a hike in Japan's sales tax from 8% to 10%. The consumption tax was last raised in April 2014 from 5% to 8%. Japanese consumer confidence fell from 45.5 points to 37.5 points in the six months preceding the previous hike in consumption taxes (see chart 3). Consumer sentiment has slid since the end of 2017. A further hike in the consumption tax is likely to take this number even lower in the near term, putting further pressure on growth outcomes and necessitating additional policy easing.

### China

*Chinese lenders are building defences as the trade war with the US continues*

Chinese banks have clambered to shore up capital in recent months to meet capital adequacy ratios and have turned to the issuance of perpetual bonds. The Bank of China became the first issuer of perpetual bonds (bonds with no fixed maturity date) in January 2019. Since then, more banks have issued perpetual bonds to replenish capital (see chart 4).

Chart 4: Perpetuals account for at least 5% of total assets for 18% of issuers




*Source: Washington Post, Momentum Investments*

According to the Wall Street Journal, these securities typically rank below senior debt in the repayment structure and their interest payments can occasionally be stopped or postponed.

According to Caixan, the capital shortage is most urgent for the big four state-owned banks given the requirement of the Financial Stability Board to meet a minimum loss-absorbing capacity requirement by

2025. As of May 2019, Moody's estimated that these four banks needed US$423.4 billion more capital than they had at that stage.

Beijing has ordered its state entities to cut their debt-to-asset ratios by 2% from 2017 levels. The ratio recorded at 64.4% at the beginning of 2019, down from 65.7% at the end of 2017, likely owing to its perpetual bonds not being treated as regular bonds.

While perpetuals have allowed state entities to inch closer to their target, these enterprises are paying more to borrow (to compensate holders for the extra risk assumed as perpetuals pay higher returns than standard bonds), worsening their financial position. A better solution would entail state entities adopting bolder reforms, such as privatisation and improved governance, to improve efficiencies.

## Local economic developments

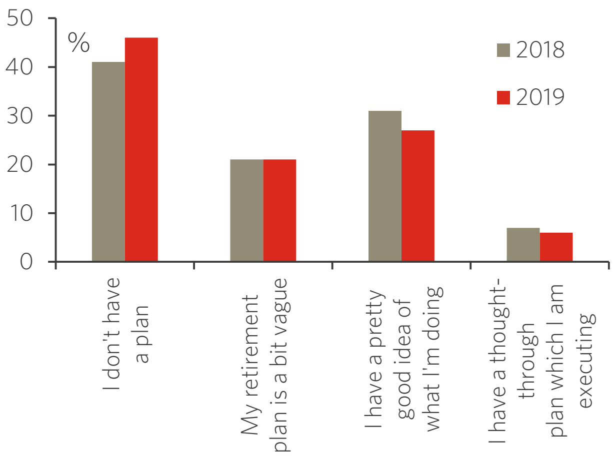
*SA's retirement crisis is set to worsen with even fewer people prepared for retirement than previously assumed*

The annual 10X Investments Brand Atlas survey of the SA population (sampling economically-active citizens earning a monthly income in excess of R7 600) showed that 67% of respondents either did not have a retirement plan or only had a vague plan in 2019. This ratio is up from 62% in 2018. Only 6% acknowledged they have a thought-through plan which they are executing, down from 7% in 2018 (see chart 5). This broadly corresponds to National Treasury's figure of 6% of individuals who were on track for a "decent" retirement.

While the report reassures that 56% of respondents understand they need to be saving for retirement for most (if not all) of their working lives, more than a third of South Africans believe that a "comfortable" retirement can be achieved through saving for less than 24 years. Of the survey respondents, only 26% strongly agreed with the statement that they would have enough money to live on after they retire. Of the respondents who said they had some sort of retirement plan, a whopping 72% felt concerned or were unsure that they would have enough to live on after they retired and assumed that they would have to keep earning money after they retired.

Astonishingly, the reality of not potentially having enough to retire on does not match respondents' expectations of maintaining the same standard of living they had during their working lives. 69% of respondents either strongly agreed or agreed in part that they would expect the same standard of living they enjoyed before they retired. This emphasises the need for further education about what is needed to ensure adequate retirement savings.

Chart 5: How do you feel about your current retirement plan?




*Source: 10X Investments, Momentum Investments*

The data also shows significant gender disparities. Women in SA typically earn 23% less than their male counterparts, but are expected to live longer than men on average. The survey results showed that 9% more women than men did not have a retirement plan and 6% more women indicated they were "doing badly financially", suggestive of South African women being in a more precarious financial position that men.
The survey data highlights that 42% of women do not save or invest, with only 35% saving via cash savings. Only 13% invested in options which had the potential of beating inflation and growing their wealth.

Racial differences also exist in the survey data. While 39% of white respondents were positive about their financial standing, this ratio was lower at 22% for black respondents. The report highlights the "triple jeopardy" that many historically-disadvantaged citizens and poorer communities face, where the younger generation have to support themselves, elderly parents and younger family members, leaving little funds over for retirement savings.

The survey results predominantly attribute the reason for no retirement plan to not having enough money to save (55%), not seeing retirement as a priority at the moment (35%) and not planning to retire (13%). These responses also differed by age group. For those between 25 and 34 years of age, 65% did not have enough money to save and 26% did not see it as a priority. This compared with 73% and 19%, respectively, when looking at the age group of 35 to 49 years and 69% and 11%, respectively, when investigating the responses of those older than 50 years.

## Financial market performance

### Global markets

Fresh uncertainty was injected into global equity markets in September 2019 when the US Democratic House speaker, Nancy Pelosi, formally initiated impeachment proceedings against President Trump. This followed a continuation in political upheaval in Hong Kong (even after the announcement of a formal withdrawal of the extradition bill), a thickening of the Brexit cloud (following the courts' ruling that Prime Minister Boris Johnson acted illegally by suspending Parliament), renewed political uncertainty in Italy (when former Prime Minister Matteo Renzi undermined the ruling coalition by announcing his departure from the centre-left Democratic Party to form a new party) and a drone attack on the Saudi Aramco oil facilities.

Despite these events compounding heightened anxiety over President Trump's comments criticising China's alleged unfair trade practices, global equity markets still managed to eke out gains of 1.9% for the month. The MSCI All World Index, however, remained broadly flat (dipped 0.2%) for the quarter ended September 2019.

Although the share of investors, surveyed in the Bank of America Merrill Lynch Fund Manager Survey for September 2019, expecting a recession over the next 12 months spiked to its highest level since August 2009 at 38%, the CBOE volatility index (Vix) edged up only two points in the quarter and dipped two points in September 2019.Emerging market (EM) equities were the biggest losers in the third quarter of 2019, while the MSCI Developed Market (DM) Index inched higher.

Nevertheless, during September 2019, the MSCI DM Index underperformed EM shares. The MSCI DM Index rose 1.9% in the month (0.3% for the quarter) driven sharply higher by Japanese shares. The Nikkei 225 Index surged ahead by 5.8% in September, helping the quarter end 3.1% in the black. Japanese headline inflation dropped to 0.3% year-on-year (y/y) in August, raising expectations for further easing from the BoJ before the end of the year. Even though the BoJ stayed pat in September, it signalled its readiness to expand stimulus, which raised optimism for further monetary policy easing in the coming months.

Notwithstanding the resumption of the ECB's quantitative easing programme, the Eurostoxx 50 initially lagged the performance of the MSCI DM Index, but gained at the end of the month, ending September 2019 4.3% up (3.1% higher for the quarter). The rising prospect of new elections in Italy following the resignation of Prime Minister Giuseppe Conte in August 2019 and the formation of Renzi's new centrist party, Italia Viva, in September 2019 has arguably destabilised an already fractious government. Together with heightened political uncertainty, weak economic data initially weighed on gains in the Eurostoxx 50 Index. The purchasing managers' index for Germany fell to its worst level in more than a decade.

Though German data disappointed, the value of global negative-yielding bonds shrank by around US$3 trillion during September 2019 suggesting investor fears of a recession (previously pushing nervous investors into safe-haven assets) may have been overdone. The yield on the German 10-year government bond rose 13 basis points to end the quarter at negative 0.6%. The US 10-year government bond yield similarly sold off by 18 basis points during the month and ended 33 basis points lower than the start of the quarter.

The S&P 500 Index started on the back foot after the release of soggy manufacturing data, which showed the sector had contracted for the first time in three years. The S&P 500 Index recovered nearly 3% higher in the first half of the month before slipping again into month-end. Markets remained flat in the middle of the month following a cut in the US benchmark interest rate of 25 basis points, as underwhelmed investors continued to price in further interest rates cuts relative to an unchanged stance denoted by the Fed median dot plot. The index ended September 2019 marginally higher at 1.4% and exhibited similar gains for the quarter. The call for an impeachment inquiry into President Trump by US lawmakers dented markets late in the month. President Trump allegedly sought assistance (and withheld aid money) from Ukraine President, Volodymyr Zelensky, to smear former vice president, Joe Biden, who is a front-runner for the 2020 democratic presidential elections.

EM equities dropped 4.2% in the quarter ended September 2019, in accordance with a two-point rise in the Vix and a 1.8% fall in the Bloomberg Commodity Price Index. EM equities recovered in the last month of the quarter and headed 2.0% higher, corresponding to a 1.2% lift in commodity prices. The dollar price of gold fell 3.0% in September 2019. During the month, the price surged to its highest level since April 2013 on geopolitical angst and dovish monetary policy. The fall in the dollar price of platinum outstripped the monthly drop in the gold price at 5.2%. The international price of oil ended the month only 0.6% higher despite disruptions to 5% of the globe's oil supply earlier in the month, which caused the largest intra-month increase in Brent oil prices in percentage terms since 1988. According to media reports, Saudi succeeded in restoring half of its lost production by the middle of the month with the aim of re-establishing full output by the end of the month.

Asian stocks were the worst performers in the month (up 1.7%) and quarter (down 3.7%) on a relative basis. High-level trade talks between the US and China on 19 and 20 September 2019 were viewed as "productive" and "constructive" by China's Ministry of Commerce. A 50-basis point cut in the ratio of reserves, that Chinese commercial lenders are required to maintain, further boosted markets. The Financial Times estimates the 50-basis point cut in the reserve requirement ratio will enhance banks' ability to lend to the broader Chinese economy by around US$126 billion. Moreover, extensive cuts in the corporate tax rate in India boosted Indian shares in the month, further underpinning the performance of the MSCI Asia Index during the middle of the month, before softer gains set in before month end.

The MSCI Europe, Middle East and the Africa (EMEA) Index finished the month 2.0% higher, but this was not enough to prevent a 4.2% fall for the quarter as a whole. The Central Bank of Russia cut its key lending rate by 25 basis points to 7% in September 2019, buoying Russian shares. The intra-month surge in oil prices further lifted the Russian equity market.

Even after rising 3.4% in September 2019, the MSCI Latin America Index still finished the quarter 4.9% in the red. Brazilian shares ended the month higher on a positive revision of 2019 growth estimates by the Brazilian government and an affirmation of its commitment to fiscal discipline. Brazil also cut its benchmark interest rate, the selic, for the second time in two months to a record low of 5.5%, further supporting Brazilian shares. Meanwhile, inflation in Mexico dipped below the central bank's target of 3% for the first time in three years validating a cut in interest rates by the Central Bank of Mexico to 7.75%, which sent Mexican markets higher.

Sentiment moved in favour of EM bonds in September 2019. The JP Morgan EM Bond Index (EMBI) spread shed two points in the month and five points in the last quarter. The largest monthly rise in credit default swap spreads were in Peru (up 12.5%), Bulgaria (up 7.3%) and China (up 7.2%), while spreads narrowed for Turkey (down 16%) and Russia (down 14%). Similarly, the JPMorgan EM Currency Index strengthened by 0.7% in the month. Marginal losses were recorded for the Hungarian forint (1.9%), Romanian leu (1.2%) and Colombian peso (1.0%), while the Argentine peso and Turkish lira made substantial gains against the dollar in the same period (3.3% and 3.2%, respectively).

## Local markets

Returns in the local equity market were in strong contrast for the first and second halves of the month. The FTSE/JSE All-Share Index climbed 5.3% in the first 16 days of the month, riding the global wave of optimism, before plunging in the second half on elevated sensitivity to trade war rhetoric involving the US and China as well as poor business sentiment figures released locally. The index ended September 2019 a mere 0.2% higher but underperformed for the quarter at negative 4.6%. The FTSE/JSE All-Share Index also had the spinoff, Prosus, of its index heavyweight, Naspers, list in the middle of the month, which also drove local markets lower.

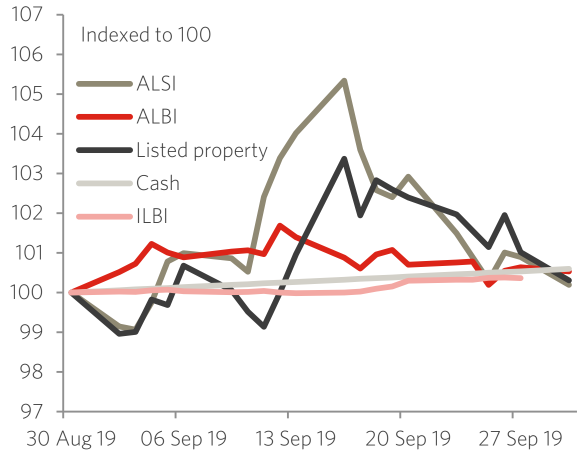
Financial shares led the performance in the overall market for the month. The FTSE/JSE Financials Index reversed its losses made in the previous month and ended September 2019 3.5% higher. A firmer rand at the start of the month, due to stronger demand for EM currencies and a better-than-expected local growth print for the second quarter of the year, supported financial shares. Bank shares soared to an intra-month high of 13.8% before disappointing in the second half of the month. The FTSE/JSE Financials Index was the worst performer for the third quarter of the year, ending 6.8% in the red.

Resource shares followed suit, finished the quarter 6.4% weaker. Losses for the month were limited to 1.1% with a rise in the international price of gold and platinum helping the performance of the index during the month.

The FTSE/JSE Industrials Index slid 0.7% lower in September 2019 and ended the quarter 2.5% lower. Retail shares picked up in the first half of the month, but softened in the second half on a steady interest rate decision by the SA Reserve Bank (Sarb) and a slowdown in retail sales growth from 2.4% y/y in June to 2% y/y in July 2019.

The SA 10-year government bond yield sold off 9 basis points by the end of the month to 8.9%. The JSE ASSA All Bond Index stabilised (up 0.5%) in the month and gained 0.8% in the quarter, while the JSE ASSA Government Inflation-linked Bond Index (ILBI) edged 0.4% higher in the month and inched up 0.1% during the quarter. The FTSE/JSE SA Listed Property Index dove 4.4% in the quarter but ended September 2019 slightly firmer (up 0.3%).

Chart 6: Returns from local asset classes (%)




*Source: Iress, Momentum Investments, data up to 30 September 2019*

The SA rand strengthened by 0.3% against the US dollar and 1.2% against the euro in spite of mounting concerns over the conflict between the US and China (triggered by accusations by President Trump that China was using massive market barriers and was guilty of currency manipulation and intellectual property theft) as well as a confirmation by the Sarb that the local economy had entered month 70 of the current economic downturn.

Despite a politically turbulent month in Britain (which included the failure of the prime minister to call a general election, the blocking of a no-deal Brexit by British MPs and the announcement that the prime minister's brother would stand down at the next election), the rand still weakened by 0.8% against the sterling in September 2019. SA's five-year credit default swap spread widened by 14 points (7%) in the month, but remains 29 points lower than at the beginning of 2019.

# Indices summary for September 2019

| | One month | Three months | One year | Three years | Four years | Five years | Six years | Seven years | Ten years |
|---|---|---|---|---|---|---|---|---|---|
| **Equity indices** | | | | | | | | | |
| FTSE/JSE All-Share Index (ALSI) | 0.19% | -4.57% | 1.86% | 5.07% | 5.45% | 5.32% | 6.94% | 9.59% | 11.48% |
| FTSE/JSE Shareholder Weighted Index (SWIX) | 0.37% | -4.31% | 0.19% | 2.64% | 4.20% | 4.57% | 6.70% | 9.17% | 11.53% |
| FTSE/JSE Capped SWIX All Share index | 0.67% | -5.11% | -2.44% | 1.05% | 2.71% | 3.36% | 5.67% | 8.27% | |
| FTSE/JSE All Share Top 40 Index | 0.01% | -5.22% | 1.88% | 5.58% | 5.18% | 5.12% | 6.75% | 9.67% | 11.33% |
| FTSE/JSE Mid Cap Index | -0.17% | -1.81% | 5.11% | 0.07% | 5.27% | 4.84% | 6.65% | 7.82% | 11.36% |
| FTSE/JSE Small Cap Index | 2.21% | -3.22% | -11.80% | -5.57% | -0.85% | 0.71% | 3.34% | 6.94% | 9.88% |
| FTSE/JSE Resources Index | -1.05% | -6.40% | 7.85% | 14.99% | 13.66% | 0.99% | 2.11% | 2.73% | 3.57% |
| FTSE/JSE Financials Index | 3.54% | -6.76% | -4.17% | 3.48% | 2.36% | 5.51% | 8.21% | 10.14% | 12.66% |
| FTSE/JSE Industrials Index | -0.75% | -2.54% | 1.83% | 1.58% | 2.30% | 4.86% | 6.71% | 11.17% | 14.77% |
| FTSE/JSE Research Affiliates Fundamental Indices 40 Index (RAFI) | -0.18% | -6.58% | 0.00% | 6.61% | 8.11% | 5.28% | 6.82% | 8.98% | 10.82% |
| FTSE/JSE Research Affiliates Fundamental Indices All Share Index | -0.02% | -6.27% | -0.46% | 6.13% | 7.62% | 4.99% | 6.38% | 8.59% | 10.49% |
| FTSE/JSE SA Listed Property Index (SAPY) | 0.30% | -4.44% | -2.70% | -3.51% | -1.74% | 3.24% | 5.13% | 5.85% | 11.21% |
| **Interest-bearing indices** | | | | | | | | | |
| JSE ASSA All Bond Index (ALBI) | 0.51% | 0.74% | 11.42% | 8.90% | 8.59% | 8.28% | 7.86% | 7.17% | 8.78% |
| JSE ASSA All Bond Index 1-3 years (ALBI) | 0.43% | 1.22% | 10.23% | 8.70% | 8.52% | 8.25% | 7.74% | 7.24% | 7.73% |
| JSE ASSA SA Government ILB Index | 0.39% | 0.11% | 3.70% | 1.67% | 3.26% | 3.60% | 4.91% | 4.70% | 6.97% |
| Short-term Fixed Interest Composite Index (SteFI) | 0.59% | 1.79% | 7.34% | 7.41% | 7.34% | 7.15% | 6.90% | 6.65% | 6.53% |
| **Commodities** | | | | | | | | | |
| NewGold Exchange-Traded Fund | -3.05% | 13.27% | 33.49% | 7.02% | 9.50% | 10.04% | 8.62% | 5.76% | 11.09% |
| Gold price (in rands) | -3.34% | 13.15% | 33.97% | 7.09% | 9.87% | 10.41% | 9.09% | 6.32% | 11.71% |
| Platinum Exchange-Traded Fund | -4.51% | 16.30% | 16.60% | -1.89% | 1.61% | -1.95% | -1.15% | | |
| Platinum price (in rands) | -0.37% | 19.93% | 22.49% | 0.01% | 2.96% | -0.83% | -0.62% | -1.64% | 0.54% |
| **Currency movements** | | | | | | | | | |
| Rand/euro movements | -1.11% | 2.91% | 0.61% | 2.25% | 1.74% | 2.98% | 3.28% | 6.53% | 4.08% |
| Rand/dollar movements | -0.11% | 7.49% | 7.24% | 3.38% | 2.34% | 6.08% | 7.07% | 9.08% | 7.18% |
| **Inflation index** | | | | | | | | | |
| Consumer Price Index (CPI) | | | 4.34% | 4.67% | 4.98% | 4.91% | 5.16% | 5.33% | 5.12% |

**Important notes**

1. Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
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. 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).
4. The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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# September 2019

## Economies at a glance

## 01 United States

The economy is in a late-cycle phase, however, further anticipated interest rate easing should help cushion the slowdown and extend the expansion. Although growth and employment remain robust, trade war uncertainty is undermining confidence and makes the case for additional interest rate easing. Policy rates are expected to be cut by another 25 basis points in the near term, before reaching higher in the longer term in response to an eventual recovery in growth and inflation outcomes.

**Forecast 2019:**
GDP: 2.3%
Inflation: 1.7%
**Forecast 2020:**
GDP: 1.7%
Inflation: 2.1%

## 02 Eurozone

Despite falling unemployment and rising wages, growth remains constrained. A turbulent external environment has suppressed investment spending and exports. Even with ultra-accommodative monetary policy, core inflation measures remain below target and inflation expectations have softened further.  With policy rates already close to their lower bound, the European Central Bank had little choice but to announce an extension of its asset purchases to combat slow growth and muted inflation.

**Forecast 2019:**
GDP: 1.1%
Inflation: 1.2%
**Forecast 2020:**
GDP: 1.1%
Inflation: 1.4%

## 03 Emerging markets

Softer global demand and heightened trade conflict are expected to weigh negatively on emerging markets (EMs). However, a continuation of an accommodative policy stance by developed markets (DMs) should provide a partial offset. If global growth holds and interest rate policy remains low in developed markets, there should not be a significant cause for concern for growth in EMs, but vulnerabilities do exist. The expectation of more accommodative monetary policy in developed economies, contained inflation pressures and downside risks to growth have created space for EMs to stimulate their economies through further interest rate cuts.

**Forecast 2019:**
GDP: 4.6%
Inflation: 3.6%
**Forecast 2020:**
GDP: 4.5%
Inflation: 3.6%

## 04 South Africa

South Africa (SA) is in its longest economic downturn in history, but fractious politics are stymying the pace of reform. The economy is likely to muddle along at moribund levels and will remain reliant on positive global factors to provide interim growth boosts. Moody's methodology does not warrant a junk rating for SA yet, but the risks are rising and we could see SA losing its stable outlook later this year. There is little sign of demand-pull inflation pressure, providing space for an additional rate cut, but reforms are urgently needed to drive growth higher.

**Forecast 2019:**
GDP: 0.6%
Inflation: 4.3%
**Forecast 2020:**
GDP: 1.2%
Inflation: 4.8%

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*Your goal is our benchmark*

# Economies at a glance: United States

- The Federal Reserve (Fed) has cut interest rates by 50 basis points since the middle of the year.
- Banks' lending standards have become less stringent in the past quarter. On average, banks are still reporting weak demand for loans, but less so than that of previous quarters, particularly for mortgages.
- Auto sales have yet to recover strongly in the wake of looser monetary policy and still above-average consumer sentiment.

**Chart 1: Fed funds rate loosening**

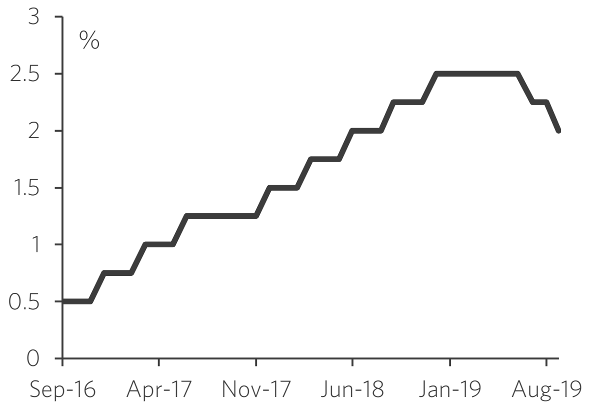
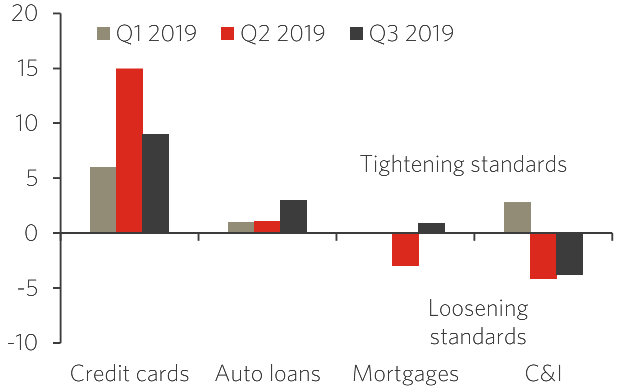



**Chart 2: Net % of banks tightening loan standards**




*Commercial and Industrial (C&I)

**Chart 3: Net % of banks reporting stronger demand**

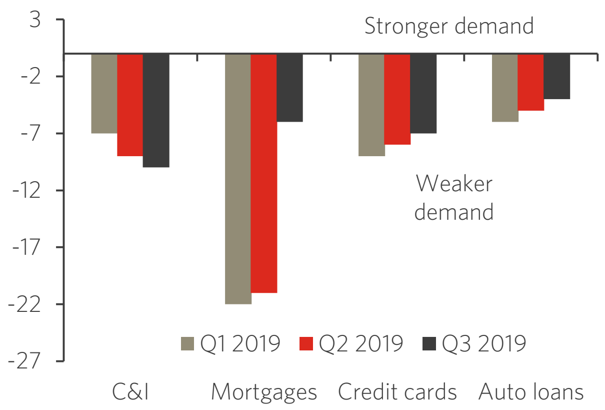
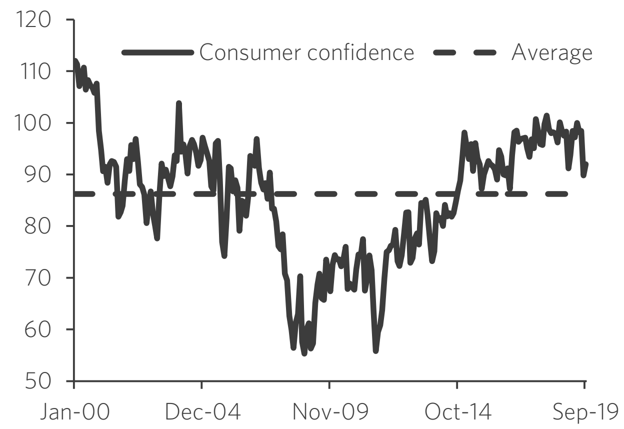



**Chart 4: Net % of banks increasing loan spread**


**Chart 5: Lower interest rates yet to filter into more robust car sales**


**Chart 6: Consumer confidence ticked up in September 2019 on another interest rate cut**




*Source: Federal Reserve Bank, Bloomberg, Momentum Investments*

# Economies at a glance: Eurozone

- The Purchasing Manager's Index (PMI), an indicator of manufacturing sentiment, continued its weakening streak for a number of economies, but more so in the Eurozone, which has seen persistent declines in the last few months.
- The weakness in the PMI has manifested in weaker capacity utilisation, alongside a slowdown in surveyed industrial production.
- Germany has been more vulnerable to the effects of the trade disputes, which is reflected in the deterioration of industrial production. However, confidence in the current business climate has deteriorated at a slower pace.

**Chart 1: PMI contracts further below 50 neutral mark**

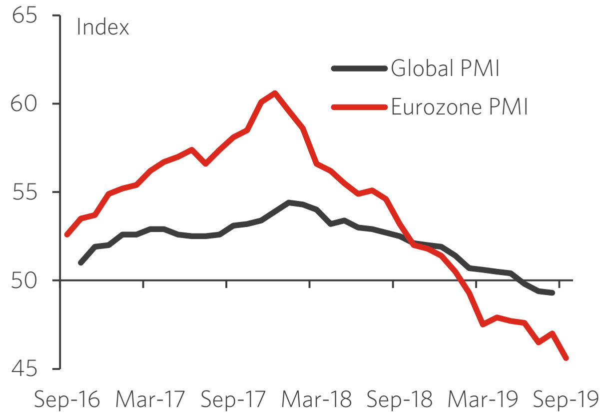



**Chart 2: Eurozone manufacturing sentiment looks poor on a comparative basis**

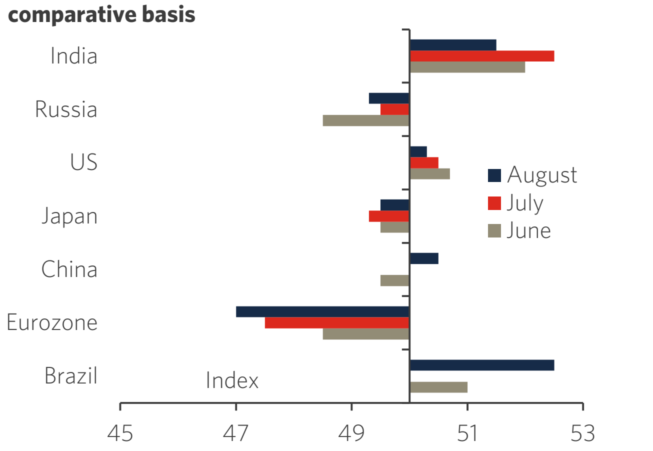



**Chart 3: Capacity utilisation rolls over from recent peak**

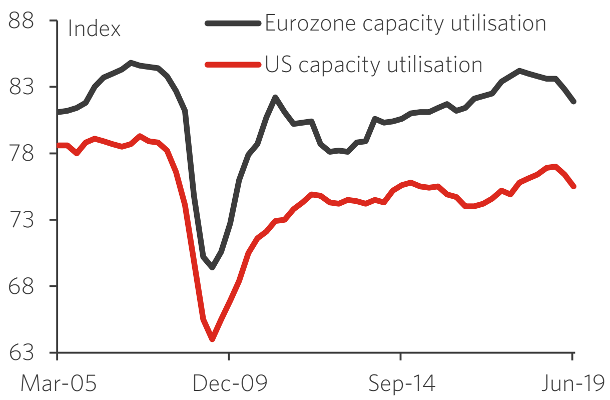



**Chart 4: Downward trajectory in Eurozone industrial production deepens**


**Chart 5: Industrial production in Germany has slumped the most**

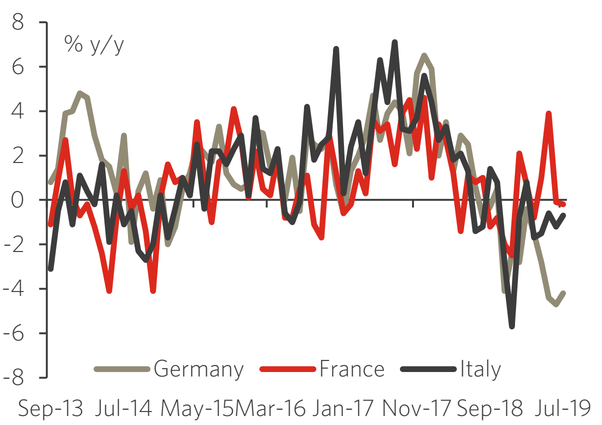
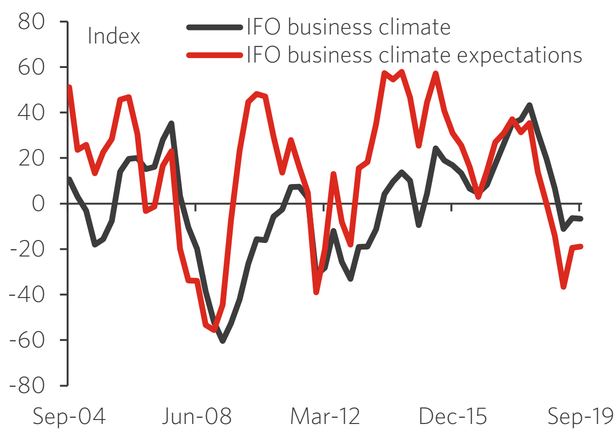



**Chart 6: Although the business climate continues to weaken, the momentum has slowed**




*Source: Bloomberg, Momentum Investments*

# Economies at a glance: EMs

- Oil-exporting EMs are likely to see growth lift moderately into 2020 amid resilient trade, in spite of a continuation of the trade dispute.
- The fiscal balances for these EMs are however not well buffered for the looming global slowdown, while their current account balances remain well insulated.
- The composite exchange rate index has dipped in the current uncertain environment. Credit default swap (CDS) spreads of oil-exporting EMs are widely dispersed, underpinned by fundamental differences in these countries.

**Chart 1: Growth in oil exporters expected to lift in 2020**

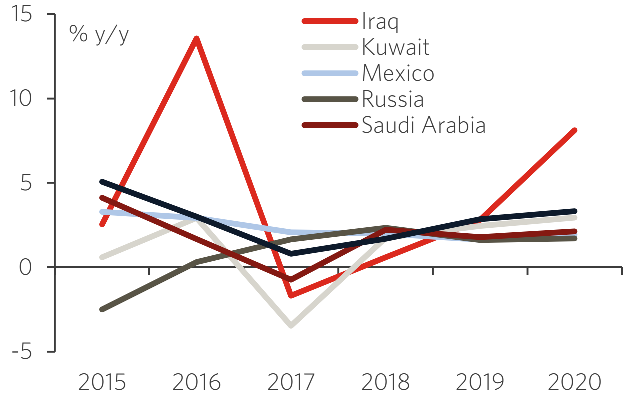



**Chart 2: Trade in EMs remains resilient**

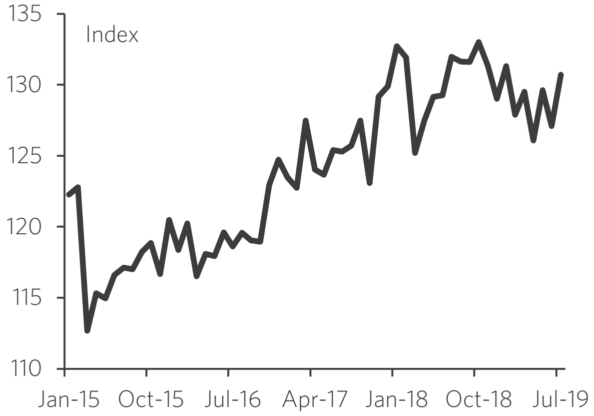



**Chart 3: Fiscal balances to weaked into 2020**

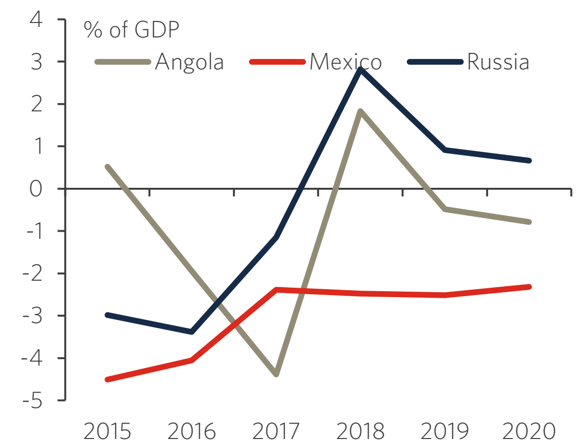



**Chart 4: Current account balances likely to stabilise in 2020**

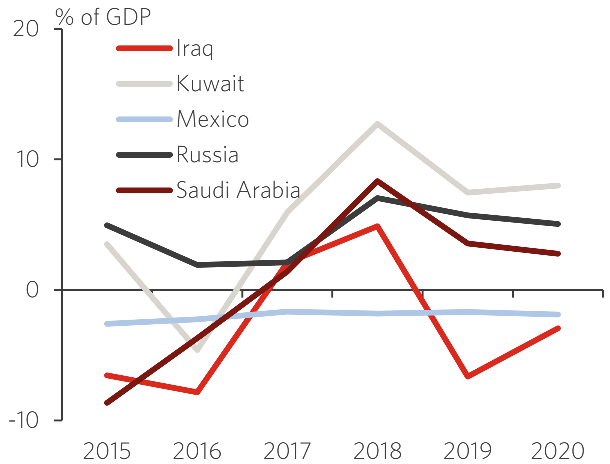
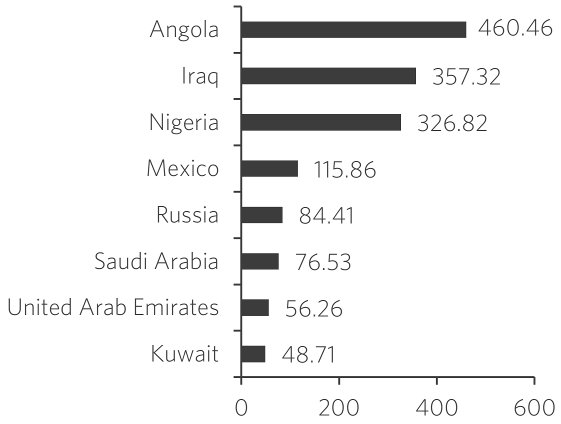



**Chart 5: Exchange rate in EM has weakened in the current geopolitically tense climate**


**Chart 6: CDS spreads in oil exporters are widely dispersed**




*Source: Bloomberg, CPB World Trade Monitor, International Monetary Fund, Momentum Investments*

# Economies at a glance: SA

- There is a global shortage of rainfall relative to per capita consumption. This is exacerbated in SA when there is a drought.
- Although SA is in the top ten ranking of countries with the most number of dams, dam levels remain below 2018 levels.
- Limpopo has a 48% water interruption rate, while 49.2% of respondents in the Eastern Cape were unhappy about the quality of water in 2018. The level of water service has declined since 2006 and since 2009 fewer people have been paying for water.

**Chart 1: Rainfall relative to water consumption remains short**

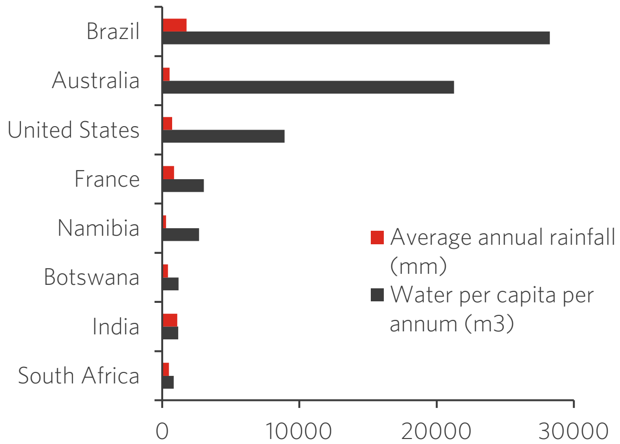



**Chart 2: SA ranks in the top ten countries with the most number of dams**

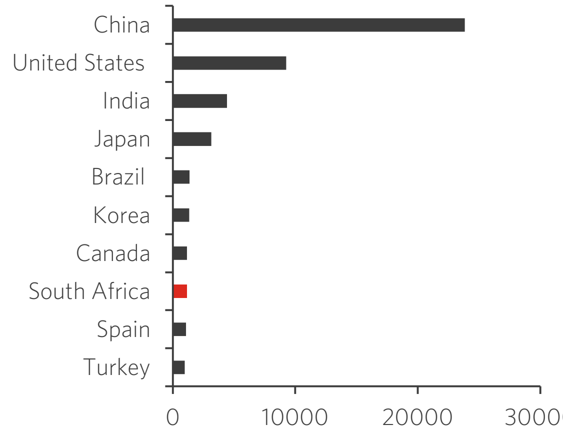



**Chart 3: Dam levels are weaker this year relative to a year ago**

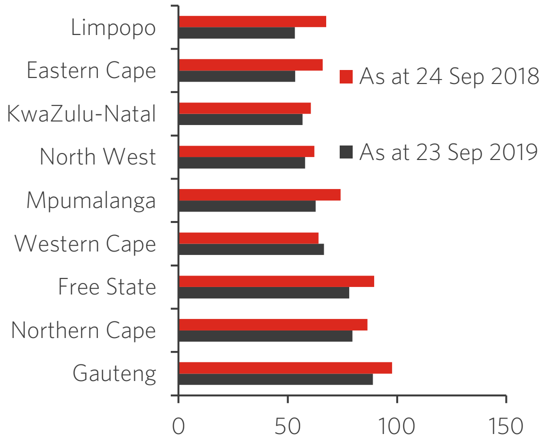



**Chart 4: High inverse correlation between the quality of water and the frequency of water interruptions**

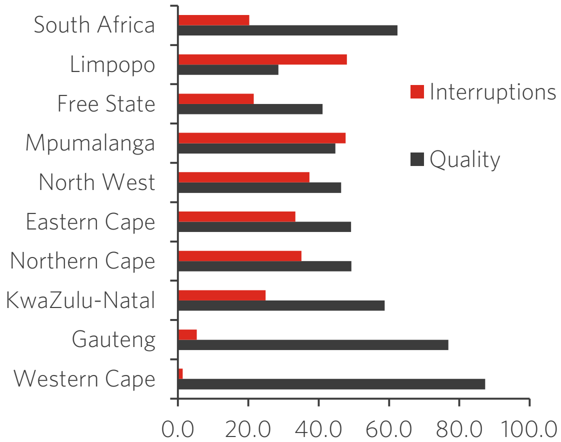



**Chart 5: Water service has deteriorated since 2006**

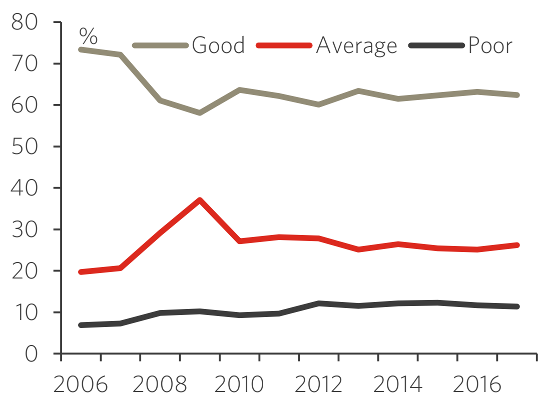
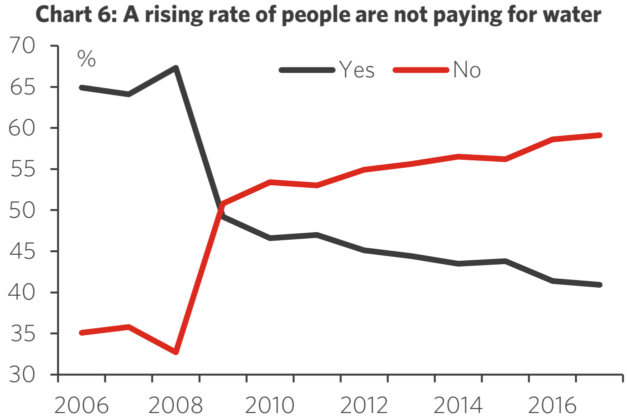



**Chart 6: A rising rate of people are not paying for water**




*Source: Stats SA, Department of Water and Sanitation, WWF, 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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*Your goal is our benchmark*