

Economies at a glance

The global interest rate landscape

March 2024

momentum
investments

%



Monetary policy needs to maintain a restrictive stand to ensure inflation durably aligns with central banks' targets. However, declining inflation will create some room to lower nominal policy rates. While the timing and calibration of policy rate cuts is challenging, central banks should use this room to support economic growth.

~ Organisation for Economic Co-operation and Development



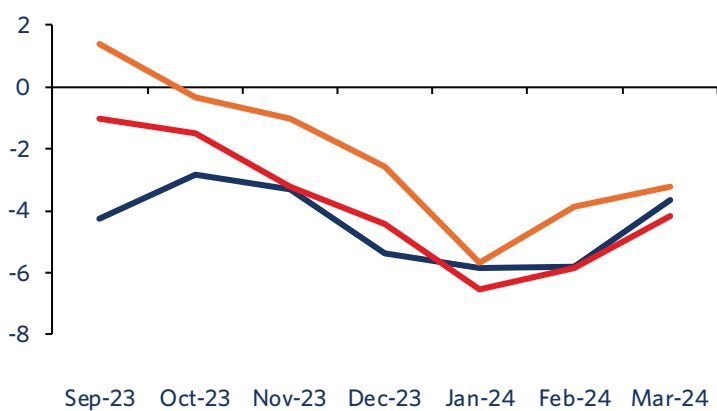
Interest rates took the elevator on the way up, but might take the stairs coming down

This cutting cycle may not be as deep given upward pressure on equilibrium (or neutral) interest rates

Underlying inflation remains sticky due to ongoing strength in the labour market keeping core services inflation high

Markets expect fewer interest rate cuts this year relative to expectations at the start of the year

Expected number of interest rate hikes (+) or cuts (-) until the end of 2024*

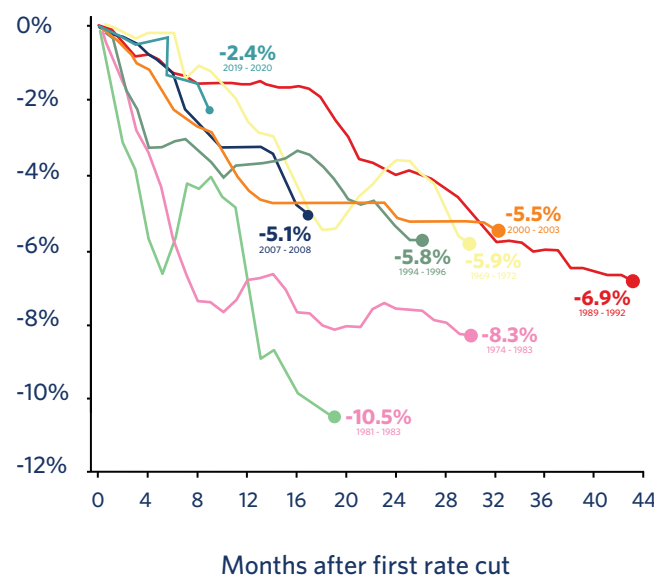


— Federal Reserve — European Central Bank — Bank of England

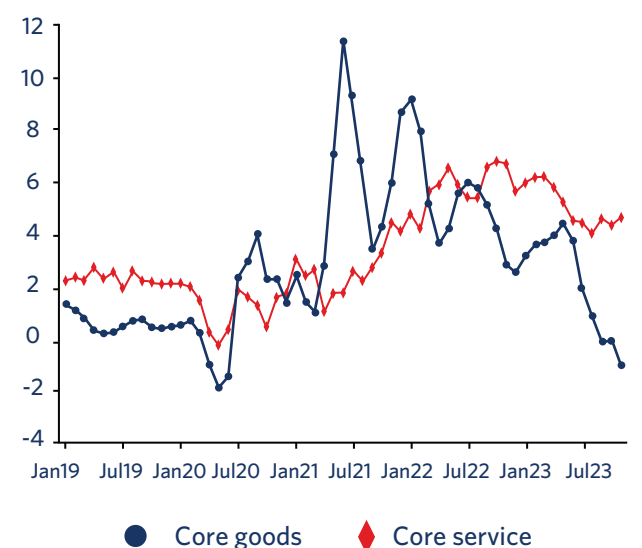
*Federal Funds Futures and Overnight Index Swap (OIS) rates used

Past interest rate easing cycles in the United States

Extent of interest rate cuts per easing cycle



Global core CPI (ex-China and Türkiye)



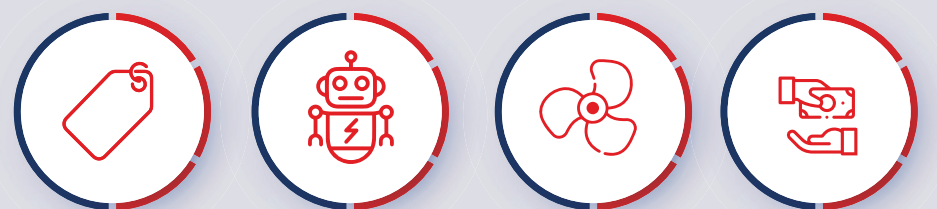
Higher public debt levels could keep the neutral rate of interest (not stimulatory or expansionary for the economy) higher

Factors supporting a lower neutral rate of interest



Ageing populations Technology driving inflation lower Weaker trend growth Global savings glut

Factors supporting a higher neutral rate of interest



Structurally higher inflation Recovery in productivity Higher risk appetite Government debt burden

Source: Bloomberg, Brookings Institution

March 2024

UNITED STATES

The biggest change in the United States (US) Federal Reserve's (Fed) economic projections, between its December meeting last year and March this year, was the more upbeat views on economic growth. The Federal Open Market Committee (FOMC) participants increased their median projection for real growth this year from 1.4% to 2.1%. Meanwhile, inflation is expected to remain sticky, with core PCE predicted at 2.4% by the end of the year, unchanged from the previous set of assumptions. The Fed dot plot which is in broad agreement with the Fed Futures curve, both signal 75 basis points of interest rate cuts by the end of the year. A tight labour market, sticky wage inflation and strong economic data have kept the higher-for-longer debate going with a growing number of market participants arguing for no move in interest rates this year, signalling a significant paring back in easing interest rate assumptions.

Forecast 2024:

GDP: 0.5%

HICP Inflation: 2.3%

Forecast 2025:

GDP: 1.2%

HICP Inflation: 2%

Forecast 2024:

GDP: 2.3%

Core PCE Inflation: 2.6%

Forecast 2025:

GDP: 1.6%

Core PCE Inflation: 2.2%

EUROZONE

Pressure is building for the European Central Bank to break with tradition and cut interest rates before the US Fed pulls the trigger. Unlike in the US, activity in the Eurozone has trailed. The European Commission (EC) downwardly revised its growth estimates three times since May 2023 and now expects the Euro Area to grow at 0.8% in 2024 and 1.5% in 2025. According to the EC, bruised growth is a function of "falling household purchasing power, collapsing external demand, (previous) forceful monetary tightening and a partial withdrawal of fiscal support". Meanwhile, on inflation, the EC lowered its forecasts for 2024 by 0.5% to 2.7%. It nevertheless warns that "a faster recovery in consumption, higher-than-expected wage growth and a lower-than-anticipated fall in profit margins" could slow the pace of disinflation. Money markets are pricing in a 90% chance of a cut in interest rates by June, with 90 basis points of cuts expected by the end of the year.

Forecast 2024:

GDP: 0.3%

Inflation: 2.3%

Forecast 2025:

GDP: 1%

Inflation: 2%

UNITED KINGDOM

In an eight-to-one vote, the Bank of England's (BoE) Monetary Policy Committee members agreed to keep the bank rate at 5.25%. The minutes of the meeting nevertheless revealed a wide range of views about the persistence of inflation, particularly in light of wage and services inflation. The BoE has aligned its position with that of the Fed and the ECB, suggesting that inflation has progressed as desired, yet it remains cautious about the risk of prices surging once more. Traders are pricing in three interest rate cuts of 25 basis points each by the end of the year. Signals from the labour market are pointing to less robust conditions in the coming quarters, however private sector wage inflation at 6.1% remains significantly higher than the central bank's 2% inflation target. Moreover, the BoE's Survey of Chief Financial Officers shows that firms expect to set wage increases at 5% or higher in the next year, which could keep services inflation higher for longer.

Forecast 2024:

GDP: 0.6%

Inflation: 2.4%

Forecast 2025:

GDP: 1%

Inflation: 1.9%

JAPAN

For the first time in 17 years, the Bank of Japan (BoJ) voted seven-to-two on a pivotal decision to increase the cost of borrowing. This comes in a context where wages have sharply increased, with companies agreeing to a remarkable 5.3% raise in March, marking the highest increase in over three decades. The BoJ's decision to lift the key interest rate from negative 0.1% to a new range between 0% and 0.1% ended the world's nearly 12-year-long experiment with negative interest rates. While the BoJ decided to discontinue its yield curve control policy, which involves buying government bonds to regulate interest rates, it indicated it would continue purchasing government bonds in similar volumes as before. Moreover, it remains ready to increase these purchases should yields rise sharply. Despite the BoJ showing its resolve to normalise policy, it nonetheless maintained a dovish tone, resulting in a weakening in the yen.



CHINA

Forecast 2024:

GDP: 4.6%
Inflation: 0.8%

Forecast 2025:

GDP: 4.5%
Inflation: 1.6%

Economic activity benefited from a holiday spending boom in January and February, while infrastructure rose on the back of state expenditure on factories, roads and power grids. Firmer factory output was likely driven by strong Chinese exports, which expanded by 7.1% over the same period. At the China Development Forum held in March, China's central bank governor, Pan Gongsheng, suggested that China's property market was showing positive signs and noted that continued efforts by government to open the financial sector would allow for more stable growth further out. Targeted measures have been used to stabilise the real estate market, including city-level financing coordination mechanisms and the relaxation of curbs on property buying. Following comments by the deputy governor of the People's Bank of China, the Bloomberg median consensus now expects 50 basis points of easing in the reserve requirement rate in the second half of the year.

Forecast 2024:

GDP: 4.1%
Inflation: 7.5%

Forecast 2025:

GDP: 4.1%
Inflation: 4.2%

EMERGING MARKETS

The worst of the price rises appears to be over in emerging markets (EM). Inflation for the composite dropped from 9.8% in 2022 to 8.4% at the end of last year. Many EMs have already commenced with their respective interest rate easing cycles including Brazil, Mexico and Hungary. Others, including India, South Africa (SA) and the Philippines have nonetheless refrained from cutting, demonstrating their vigilance as they await additional signs of inflation abating. Countries such as Türkiye, Nigeria, Malawi, Egypt and Kenya, have, in contrast, continued to raise interest rates this year due to chronic forex shortages, sharp currency depreciations and soaring inflation. The majority of EM central banks started raising interest rates at an early stage in the inflation process, allowing them to benefit from credible monetary policy intervention. As such, we should see inflation continue to drift towards target in many jurisdictions. Nevertheless, country-specific issues will continue to leave countries such as Argentina, Türkiye, Nigeria, Ghana, Pakistan and Egypt as outliers to this view.

Forecast 2024:

GDP: 1%
Inflation: 5.4%

Forecast 2025:

GDP: 1.7%
Inflation: 4.5%

SOUTH AFRICA

In an unsurprising move, particularly given the sharp turnaround in interest rate expectations globally, the SA Reserve Bank's (SARB) Monetary Policy Committee kept interest rates on hold for the fifth consecutive meeting at 8.25%. Even though the SARB's baseline forecast is for global and local inflation to gradually moderate further, the SARB retained a cautious tone, noting that the SA economy had joined its global counterparts in the make-up of inflation pressures, which are now more skewed towards price pressures in services rather than in goods. Looser fiscal policy and continued upside threats to the inflation trajectory in SA will likely prolong the higher-for-longer environment for interest rates. Although many countries in Latin America have already cut interest rates, the governor squared this circle by noting that many of these countries had hiked interest rates sooner than SA did and to a greater extent, which brought inflation down quicker. As such, real policy rates remain higher in these jurisdictions, advocating for earlier and more aggressive easing than in countries such as SA. In line with the Quarterly Projection Model forecasting a lesser 50 basis points worth of easing by the end of the year, risks are tilted to a shallower interest rate cutting cycle, likely starting in the second half of this year. This is in line with the rhetoric from key global central banks, which have acknowledged the drop in inflation but remain cautious on potential policy errors in an environment where geopolitical pressures remain an upside threat to inflation outcomes.

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.



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Indices summary for March 2024

	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)	3.23%	-2.25%	1.55%	8.11%	18.10%	9.68%	8.89%	8.99%	8.08%
FTSE/JSE Shareholder Weighted Index (Swix)	2.86%	-2.17%	2.69%	5.31%	15.34%	6.96%	5.84%	6.35%	6.57%
FTSE/JSE Capped Swix All Share index	2.89%	-2.30%	2.87%	7.48%	17.64%	7.65%	5.88%	6.18%	6.37%
FTSE/JSE All Share Top 40 Index	3.82%	-2.27%	0.27%	7.98%	18.00%	10.19%	9.51%	9.71%	8.17%
FTSE/JSE Mid Cap Index	2.31%	-3.54%	6.83%	8.21%	16.49%	5.94%	4.26%	3.98%	6.25%
FTSE/JSE Small Cap Index	-0.72%	-1.05%	9.13%	15.79%	29.15%	13.26%	7.66%	6.10%	7.80%
FTSE/JSE Resources Index	12.80%	-1.63%	-8.98%	1.64%	19.24%	10.50%	15.16%	14.48%	5.60%
FTSE/JSE Financials Index	-2.98%	-6.07%	13.02%	15.36%	20.05%	4.91%	3.04%	5.00%	6.23%
FTSE/JSE Industrials Index	2.64%	0.64%	3.30%	8.16%	14.99%	10.16%	7.71%	7.43%	8.19%
FTSE/JSE Research Affiliates Fundamental Indices									
40 Index (Rafi)	3.32%	-2.41%	-0.04%	12.57%	22.19%	9.99%	9.38%	9.95%	8.19%
FTSE/JSE Research Affiliates Fundamental Indices									
All Share Index	3.86%	-1.48%	1.24%	12.12%	21.91%	9.73%	9.01%	9.50%	7.95%
FTSE/JSE SA Listed Property Index (Sapy)	-1.02%	3.85%	20.47%	13.94%	18.75%	0.71%	-0.39%	-1.37%	3.14%
FTSE/JSE All Property Index (ALPI)	-0.58%	3.47%	20.33%	12.97%	17.93%	-0.24%	-1.39%	-2.25%	1.90%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	-1.93%	-1.80%	4.19%	7.41%	9.72%	7.05%	6.44%	7.79%	7.69%
FTSE/JSE All Bond Index 1-3 years (Albi)	0.07%	0.81%	7.52%	6.70%	7.50%	7.37%	7.53%	7.83%	7.71%
FTSE/JSE Inflation-linked Index (Ili)	0.22%	-0.47%	5.56%	7.05%	9.40%	6.34%	4.64%	5.05%	5.36%
Short-term Fixed Interest Composite Index (Stefi)	0.70%	2.06%	8.39%	6.08%	5.70%	6.00%	6.21%	6.39%	6.50%
Commodities									
NewGold Exchange-Traded Fund	6.72%	9.66%	19.49%	18.38%	9.68%	17.13%	17.43%	13.73%	11.54%
Gold price (in rands)	7.95%	10.48%	19.52%	18.68%	9.96%	17.47%	17.86%	14.45%	11.90%
Platinum Exchange-Traded Fund	1.03%	-7.27%	-2.36%	-1.00%	6.95%	6.68%	7.42%	4.14%	0.97%
Platinum price (in rands)	-0.01%	-6.86%	-4.64%	-1.58%	5.94%	5.89%	6.79%	3.63%	0.88%
Currency movements									
Rand/euro movements	-0.41%	2.18%	7.57%	6.13%	1.43%	5.06%	6.06%	5.39%	3.64%
Rand/dollar movements	-0.03%	4.61%	8.07%	9.11%	1.80%	5.85%	8.36%	5.24%	6.19%
Inflation index									
Consumer Price Index (CPI)			5.56%	6.09%	5.26%	5.13%	4.95%	4.82%	5.09%

Important notes

- Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
- Returns for periods exceeding one year are annualised.
- 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).
- The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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