Capricorn Asset Management
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A new year, a new economic outlook

At the outset of the new year, there is a positive sentiment in the markets. Even though 2023 is likely to be a soggy year with low growth and negative news flow, investors are looking through to 2024 with hope.

However, it may get worse before it gets better. In the USA, the "recession predictor" (inverted yield curve) has not relented and continues to reflect expectations of a recession 12 months out. The latest big institution to sound on growth, the World Bank, cut its growth outlook for 2023 to 1.7% from 3.0% six months ago. The IMF forecast of 2.7% in its October World Economic Outlook (WEO) is likely to be revised down further during 2023. The global economy is set to experience a "growth recession", which is growth overall, but far below par. These recessionary conditions continue to carry the risk of rising socioeconomic unrest. RSA growth expectations remain in the 2%-or-less region for the next couple of years, which is flirting with a contraction in economic activity.

We estimate that the Namibian economy will have registered 4.5%+ growth in 2022, possibly cooling to 2% in 2023 off the higher-than-expected base, before accelerating to 3%+ over the next several years. Third quarter GDP in 2022 registered growth of 4.3% yoy, which brings the 4-quarter growth momentum to 5.3%. For some of the sectors it amounts to the following:

- Agriculture +0.8% (+7% previously),
- Mining +28% (+32%),
- Manufacturing +7% (+5%),
- Wholesale & Retail Trade +5% (+3%),
- Tourism +2% (+7%),
- Finance +6% (+8%),
- Real Estate & Business Services +2% (+2%),
- Healthcare +7% (+6%) and
- Indirect Taxes +16% (+16%), which augurs well for Government revenue.
- Fiscal consolidation is evident in the sector Public Administration & Defence at -3% (-2%) in real terms.
- The biggest detractor remains Construction at -10% (-25%) yoy and 4-quarter momentum at -15% (-20%).

Trends in commodities remain the best hope for inflation to cool. Otherwise, the monetary straight jacket is unlikely to be loosened. Natural gas prices are still nearly three times the long term average but have fallen by 78% from the peak in August and is down 26% yoy. Oil prices are down 38% in US$ from its March peak and trading around its long term average in the low 80's. In NAD, oil is down 33% from its peak. Gasoline (fuel) prices in the USA are down 34% from their June peak. With China opening, we expect commodity prices in general, to bounce in the short term, but continue to fade over the next 12 to 18 months and for China to export disinflation with its negative PPI. Copper is now down 7% yoy, following its recent rise. The global maize price is down 17% from its April peak, but up 13% yoy. Wheat is down 41% from its peak. However, SA maize prices are still up 21% yoy and wheat 24%.

As far as inflation goes, in SA, the latest reading of 7.2% in December, confirms the peak of 7.8% in July, resulting in an average of 6.9% for 2022. By year-end 2023, we expect 3.7%, resulting in an average of 5.2% for 2023. In Namibia, the latest reading of 6.9% in December, means that it peaked at 7.3% in August. The average for 2022 amounts to 6.1% and for 2023 we expect 5.4% as it drifts down to 4.1% by year-end. Food inflation will continue to run at 12%+ at least for 1Q23. Transport inflation is down to 15% yoy from its peak of 23% in August and should continue to drift down as oil and fuel decline. Overall, Namibian inflation should pick up again in early 2023 as many of the once-off surveys are done in January, such as rentals, furnishings, health, education, as well as miscellaneous goods and services. We will have 7%+ inflation in 1Q23, but it should drift down through the course of the year.

The USD juggernaut pulled in its horns of late and the bull trend appears to be over. The USDNAD hit our year-end target of 17.60 several times through the course of December and ended at 17.01. We expect the tailwinds for the ZAR off high commodity prices and Balance of Payment (BoP) surpluses to fade. We pencil in USDZAR at 18.00 and 18.50 at year-end '23 and '24.

Private Sector Credit Extension (PSCE) and Money supply growth are running at +4.5% and -0.6% in Namibia and +8.3% and +8.8% in RSA. Demand for credit in Namibia remains anaemic but should pick up somewhat in a "normalising" economic environment. However, it is likely to remain far below par.

The outlook for fiscal policy remains one of consolidation, meaning that deficit spending will reduce, being a drag on growth. Most countries have very little fiscal space to work with. The recent "mini-budgets" of SA and Namibia painted a picture of improved fiscal trajectories, in Namibia much more so than in SA. Namibia has potentially large revenue overruns over the next couple of years. SACU revenue alone could be as much as N$8bn better than previously budgeted for FY24 and FY25. Note that the total deficit is of the order of N$11bn. The steep yield curve at relatively high levels, continues to represent the concerns of lenders to the Government as they question the political will to contain spending, especially in the light of upcoming elections.

The end of monetary policy tightening is in view. In its latest meeting, the MPC of the SARB hiked the repo rate by 25bp to 7.25%. This brings the rate to its highest level since August 2009, which, together with a declining outlook for inflation, leads us to believe that the SARB is possibly done. Similarly, the Fed is, in our view, close to ending its rate hiking cycle. USA inflation is likely to decline to 4.7% by March, from the current 6.5%.

We foresee one more hike of 25bp by the Fed to 4.75% on the 1st of February, after which they will likely be done, (with the BOE and the ECB following on the 2nd with hikes of 50bp), but do not expect cuts in 2023. Factors that will remain in place to keep rates up are:

1. a tight labour market;
2. strong economic and inflation momentum, which is expected to fade throughout 2023;
3. an "end" to Covid-19;
4. appetite for bank credit;
5. market expectations;
6. consumer inflation being too high for comfort.

In recent statements, Fed Governors are generally insisting that the Fed Fund rate will peak at 5%+, but with market expectations leaning against this, as well as increasing expectations for cuts late in 2023. A 25bp "compromise" hike will buy the Fed time to March. Note that this will mean that the Fed has hiked interest rates by 4.5% within a period of 11 months, one of the most aggressive tightening cycles on record. Typical of an approaching turning point, the uncertainty about the timing of the last hike is high. The Fed is likely to pause at 4.75% for much of 2023 until early 2024. Then start to lower rates gradually as low inflation and slow growth becomes evident.

Starting in late-2021, the SARB has already hiked seven times in increasing increments, lifting the repo rate by 375bp from 3.5% to 7.25%. We see the latest hike as a last nail in the coffin, with the SARB MPC continuing to emphasize inflation risks and expectations that are to the upside, over risks to the economy that is to the downside. This will be the highest the rate has been since June 2009, when rates were lowered in the wake of the Great Credit Crisis. We expect BoN to lift its rate to 7.00% on the 15th of February. This means that the Prime Rate will be 10.75% in both SA and Namibia by then.

The steep fuel price cuts in January of around 10%, on average, will ensure that inflation remains firmly on a downward path. We have been incorporating stiff electricity price increases all along. Nevertheless, SA inflation should fall to below 4% by year end 2023.

The markets have become hypersensitive to each number being released and it appears that Central Banks have also become more and more short-sighted under this pressure. The key theme for the year will be the extent to which Central Banks react to the evolving growth outlook, that is the real economy, as opposed to the focus in the recent past on inflation, which is now past its peak.

Proof of Source of Funds requirements

As per the Financial Intelligence Act 13 of 2012, Section 24 (1(b), 2(a), we are required to conduct ongoing transactional monitoring and due diligence, which includes determining the source of funds for deposits made. We thus require documentary proof of source of funds substantiating the origin of the funds invested. **Please note that no cash deposits are allowed.**

"Source of Funds"

- Means the origin of the funds involved in a business relationship or a single transaction. It includes the activity that generated the funds used in the business relationship (i.e. the client's salary, occupation, business activities, proceeds of sale, corporate dividends, inheritance, savings etc.), as well as the means through which the client's funds were transferred to the "CAM on behalf of Clients" account.

Below are guidelines to the source of funds types and the minimum documents required. In some instances additional proof may be required.

Source of Funds Type	Documentary proof requirements
Savings	• Statement of saving account reflecting the accumulated savings. The savings history on the bank statement should reflect at least three months data. If the amount was transferred from another bank account less than three months ago, the client must also submit a statement for the bank account from which the funds were transferred.
Salary/Bonus/Income	• A salary/bonus/income slip not older than three months or a letter from the client's employer confirming the payment.
Investments	• For Namibian and South African banking payments, a statement or letter confirming an investment which is not older than three months or a statement that reflects the disinvestment with proof of payment into the client's bank account. • International banking payments from another financial services providers, a statement showing the value and a bank statement reflecting proof of payment into the client's bank account is required.

Source of Funds Type	Documentary proof requirements
Sale of a property or asset	**Property sold** • Copy of the sales contract, transfer letter from the transfer agent (lawyer/ conveyancer). • If the property is in the name of a third party (e.g. a trust or a company), the third party must provide a resolution confirming that the amount in question was paid to the client and why the amount was paid to the client. **Sale of an asset** • Sales agreement or on affidavit confirming the sale of the asset.
Company Sale/ Shares sold	• Copy of the company's sales agreement • Copy of the company's shares sales agreement. • Copy of the Contract Note (if listed shares)
Company Profits/ Business Income	• Copy of the company's latest audited financial statements or latest management accounts.
Inheritance, gift or donation	**Inheritance** • Extract from the will/testament or copy of the distribution account or confirmation from the life insurance provider ie Old Mutual /Sanlam/Momentum **Gift or Donation** • If the gift or donation was made by a living person, an affidavit made by the donor explaining the nature of the donation or; • Proof of payment made by the donor.
Trust donor	• A declaration by trust donor and copy of proof of payment of the donation amount to the client.
Winnings	• A copy of the ticket/slip/receipt indicating winnings and date of winnings. • A bank statement indicating the amount won if the amount was deposited into a bank account.
Employers Pension Fund	• A copy of the letter/statement from employer's pension fund indicating amount due and payable to the client.
Retirement Annuity	• A copy of the letter/statement from the retirement fund indicating amount due and payable to the client.
Preservation Fund	• A copy of the letter/statement preservation fund indicating the amount due and payable to the client.
Passive income	**Rental** • Copy of property rental agreements. **Dividends** • Share certificates or a dividend distribution letter signed by the company secretary/director.
Insurance Payments	• A copy of the letter on the insurer's letterhead indicating a valid insurance claim and amount due and payable to the client. • A copy of a bank statement indicating receipt of insurance payment.
Child/Spousal Support Payments	• A copy of the court order for the support payment and banks statements reflecting payments.
Tax Refund	• A copy of the current tax return certificate reflecting tax refund, less than 12 months old.
Loan Repayment	• A copy of the loan agreement. In the absence of a formal loan agreement the client should provide and affidavit.
Other Third Party	• Other third-party source with details on third party source of wealth and funds.
Other	• Relevant official documentation evidencing source of wealth and funds.