Capricorn Asset Management
a member of Capricorn Group

The Monthly Economic Overview

Global Economic Growth

The global economic conditions remain fairly firm. It seems that the much signaled global recession has missed its bus and will now arrive later. USA banks' earnings have been significantly boosted by the higher interest rate environment and the rising expectations that the Fed is done with their hiking cycle, lifted sentiment. Labour markets remain tight, as unemployment is low in most Developed Markets (DM's). Nevertheless, forward looking indicators remain naggingly negative. The US leading indicator, as well as the "recession predictor" (inverted yield curve) are deeply in negative territory. China's recovery is currently stop-start and patchy and appears to be in need of policy support, which is what the markets expect. All-in-all, a "growth recession" is still on the cards.

Domestic Economic Growth

- The **SA** economy seems to be slipping into a recession. Expectations for growth in 2023 are only marginally positive, and as such the South African Reserve Bank (SARB) cut its expectation for growth in 2023 to 0.3%, largely due to load shedding. The International Monetary Fund (IMF) has also lowered its growth forecast for 2023 to just 0.1%. Growth expectations remain in the 2%-or-less region for the next several years, which is really flirting with a contraction in economic activity.
- The **Namibian** economy however, expanded strongly in 1Q23, largely due to the continued surge in mining activity. The latter expanded by 34% y-o-y in real terms in 1Q23. However, most other sectors also expanded, while construction stopped contracting. Finance and Government were the only notable contractions. For the following several years, Namibia ought to achieve growth of 3.0%+.
- The **Botswana** economy surged by 12% in 2021, followed by 5.8% in 2022. Real growth of 4% to 5% can be expected in 2023 and 2024, with a healthy contribution by the non-mining sectors. The IMF expects growth of only 3.8% and 4.3% in 2023 and 2024, respectively and then somewhat lower than average for several years, due to expected pressure on the diamond market from weakening global conditions.

Global Inflation

In our view, global inflation trends have largely peaked, with a stabilisation in the energy markets. It is now a question of degrees, in other words, by what extent and how fast inflation is likely to decline further.

- In the **USA**, inflation has dropped from a peak of 9.1% to 3.0%. We expect it to end the year at current levels after ticking up somewhat in 1Q23, to an average of 4.0% for the year. The latest readings for the PCE (Personal Consumption Expenditure Price Index) deflator and for PPI (Producer Price Index) inflation are 3.8% and 0.1% respectively.
- In **Europe**, consumer inflation is still quite high, in the 6% to 7% region, but is down sharply from its peak in double digits, that is 10%+.
- Recent downward movements in energy and grains prices, as well as negative PPI inflation in **China** of -5.4%, should have a disinflationary impact on global inflation.

Domestic Inflation

- In **SA**, the reading of 5.4% in June, constitutes a 240bp decline from the peak of 7.8% in July '22. We expect inflation to gradually decline further to the mid-point of the target range of 4.5% by year end, resulting in an average of 5.7% for 2023.
- In **Namibia**, the latest reading of 5.3% in June, was a tad lower than our expectation of 5.4%. Inflation trends so far this year had been largely in line with our expectations. The food price "run" regionally and domestically is losing steam and should reach single digits y-o-y, sooner than previously expected. This combined with sharply falling transport inflation, gives us comfort that our year-end target of 4.5% will be reached. The oil market under the auspices of OPEC+, however, continues as a long-standing risk to inflation.
- In **Botswana**, the latest reading of 4.6% for June, confirmed our long-held view that inflation will drop sharply. In fact, we expect rates of below 3.0% in 3Q23, before an up-tick to reach 3.6% by year end, resulting in an average of 5.4% for 2023. Food inflation in Botswana should also gradually decline to single digits, y-o-y, which combined with soon-to-be reached negative transport inflation, are the main drivers, in our view.
- Seasonal factors (food), geopolitics (oil and grains) and residential property markets (rentals) are the main factors currently shaping the inflation outlooks for the domestic markets. The withdrawal by Russia from the Ukraine grain deal, has increased the risk to grains prices.

Commodity Markets

Energy prices have experienced dramatic swings over the past 18 to 24 months.

- **Natural gas** prices are down by 90% from the eye watering levels it reached last year.
- **Oil prices** are down 40% in USD from its March 2022 peak and are trading around its long term average in the mid-70's to low 80's. In NAD, oil is down 30% from its peak, and -25% y-o-y. Fuel prices in the USA are also down significantly from their peaks.

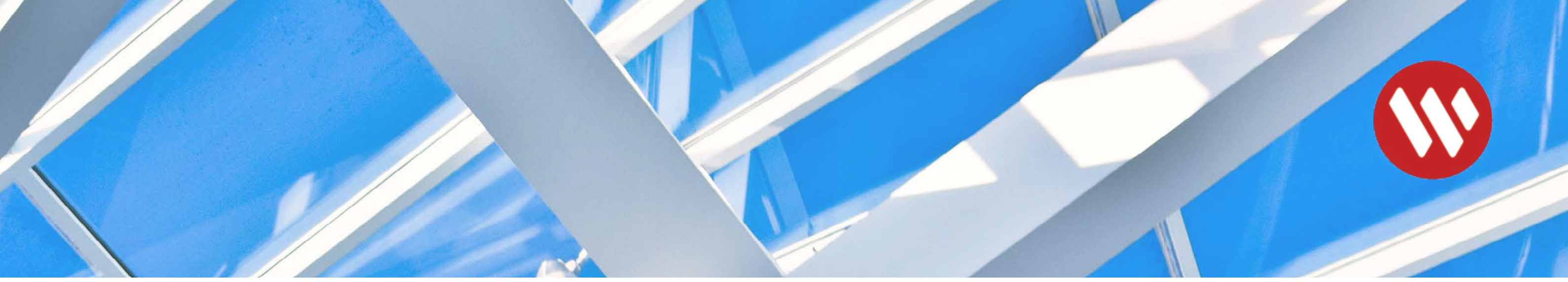
Global maize is down 25% from its April peak, but flat y-o-y. Global wheat is down 50% from its peak and -17% y-o-y. SA yellow maize, white maize and wheat prices are down by between 17% and 19% y-o-y, which provides relief for food prices.

Generally, trends in commodity prices should help inflation to cool.

Meanwhile, precious metal prices are up. Gold is up 15% y-o-y, no doubt given life by messy global geopolitics. However, it has failed to break $2,000 convincingly.

Currency

Thus far, our expectation of a weaker USD environment is playing out. From the bottom around September 2022, the US dollar is down 22% against the pound, 8% against the yen and 15% against the euro. We continue to expect the tail-winds for the ZAR of high commodity prices and Balance of Payment (BoP) surpluses to fade. Our expected year-end target, held since January, remains, thus USDZAR at 18.00 and 18.50, EURZAR at 20.55 and 21.75 at year-end 2023 and 2024.



Credit Growth

Private Sector Credit (PSCE) growth and Money Supply (Ms) growth are running at +2.1% and 7.7%, respectively, in Namibia, +6.8% and +10.3% in SA and 8.3% and 4.7% in Botswana. 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. With money supply exceeding credit demand in Namibia, the money market is likely to remain very liquid, which amounts to downward pressure on deposit rates.

Fiscal Policy

The global debt mountain remains ever-present. This means that, generally, creditworthiness is deteriorating and that most governments are following de facto contractionary fiscal policies. Therefore, the outlook for fiscal policy remains one of consolidation, meaning that deficit spending will reduce, being a drag on growth. We have seen that in 1Q23, when Government spending was small and thus down in real terms. Fiscal trajectories for Namibia, Botswana and SA remain largely unchanged, with debt-to-GDP ratios expected to peak at 70%, 20% and 75%, respectively.

Interest Rates

- We are of the view that one of the most aggressive tightening cycles by the Fed in living memory, is close to its end. The **USA Fed fund rate** has been lifted by 500bp over 15 months from 0.25% and is likely now at its peak at 5.50%. The full effect of the surge in interest rates are still to be felt in the real economy.
- The **Bank of England (BOE)** and the **European Central Bank (ECB)** are still in "catch-up" mode, although inflation is showing signs of peaking in the UK and Europe.
- The **SARB** has hiked non-stop since late-2021, equating nine times in varying increments ranging between 0.25% and 0.75%. It has now lifted the repo rate by 475bp from 3.5% to 8.25%. We expect the SARB to pause here, having established a real rate of nearly 2.0%, which by year end will be 3.75%.
- **The Bank of Namibia (BoN)** lifted its rate to 7.75% on the 14th of June which re-established a 50bp "discount" to the SA repo rate. The real prime rate will reach 7.00% in Namibia by year-end, which should give the BoN pause.
- As in the USA, so in SA and Namibia, **Central Banks (CB's)** ought to gradually lower interest rates in 2024. We do not foresee cuts this year.

Interest Claims Notice

- Funds received on our office account after 11:00 on a business day, without proof of payment ,will only be allocated the next working business day.
- For same day allocations, please provide a proof of payment before 11:00 to cam.service@capricorn.com.na
- Please note that unfortunately no interest will be received on unallocated funds.
- Please always use the correct reference for deposits, thus your Client Number and Account number as indicated on your statement. E.g. E********A*****

Updated Forms and Terms & Conditions

- We have updated all the forms for CAM as well as the Investment Platform Terms & Conditions (T&C's). Please ensure you are familiar with these T&C's.
- **The latest version of documents are easily accessible on our website:**
  - Forms
  - T&C's
- For queries, please contact our service team at cam.service@capricorn.com.na

Capricorn Private Wealth Office Relocation

We are delighted to inform you of an exciting new development at Capricorn Private Wealth that will positively impact the quality of service delivered to their esteemed clients. As from **16 August 2023**, Capricorn Private Wealth's suite in Windhoek will be relocating to **Capricorn Corner**.

The decision to move resulted from strong growth during recent years and continued commitment to deliver exceptional service and easy access to their clients. The new location provides several advantages, including enhanced client-friendly infrastructure, better accessibility, secure parking and a more collaborative environment for the team. With state-of-the art facilities and modern amenities we are confident that this move will further elevate the level of service provide to clients.

The team has diligently planned the relocation process to minimise any potential impact on their operations. Rest assured that the high standards of professionalism and responsiveness throughout this transition will be maintained.

Thank you for your continued loyalty, understanding and support. We look forward to servicing you from our new customer service suite. We will keep you updated on further developments as we get closer to the relocation date.

Here are a few key details regarding the relocation:

- **New Address:**
  2nd Floor
  Capricorn Corner
  c/o Nelson Mandela and Hofmeyer Street
  Klein Windhoek
- **Moving Date:**
  14-16 August 2023
- **Contact information:**
  All our contact numbers and email addresses will remain unchanged.

Should you have any questions kindly contact the dedicated CPW Service Desk at +264 (61) 299 1444 or send an email to service.privatewealth@capricorn.com.na