Newsletter | June 2023

Capricorn Asset Management
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## Monthly Economic Overview

Global economic activity is holding up quite well, which has been better than expected. However, over the past 18 months, we have seen a sharp, synchronised global monetary policy tightening campaign that is aimed at bringing inflation down. It was largely successful on the inflation front, albeit incomplete. However, its full effect is still to be felt in the real economy, which is slower growth. Forward-looking indicators are painting a picture of weakening economic activity in the foreseeable future.

The leading indicator of the USA is firmly in negative territory, as is the "recession predictor" that is derived from the bond market in the form of the inverted yield curve. Purchasing manager indices (PMI's) in most countries are indicating weakness in the manufacturing sectors and the leading indicator in SA is ringing the alarm bell that a recession is imminent.

Central banks (CB's) are aware that, in most developed economies, labour markets remain tight. As noted in last month's update, this means that unemployment is low and that wages are growing at a decent clip. Therefore, CB's remain concerned that the cost-push inflation that was driven by the energy crisis of 2022, could morph into a demand-pull inflation that is driven by wage growth and services inflation, as opposed to goods inflation.

Nevertheless, in most instances, we continue to observe a decline in inflation. USA consumer prices rose by 4.0% yoy in May, having peaked at 9.1% in June last year, while producer inflation reached 1.1%, having peaked at 11.7%. In SA and Namibia, consumer inflation reached 6.3%, and in Botswana to 5.7% in May. The latter peaked at a hefty 14.6% in August last year, due to a transport heavy CPI basket.

We remain of the view that lower inflation and a weaker growth outlook have brought the peak in policy rates into view. The Fed paused their hiking cycle on the 14th of June, albeit still warning that more hikes might be necessary. On the same day, the Monetary Policy Committee (MPC) of the Bank of Namibia (BoN) lifted its rate by 50bp to 7.75%, resulting in a prime rate of 11.50%. This ought to be the peak of the current hiking cycle in Namibia. The South African Reserve Bank (SARB) deliberates on the 20th of July when they are likely to pause.

The latest move by the SARB was a hike of 50bp to 8.25%. It brings the number of hikes over the past 19 months to 10 for a total of 475bp, from the Covid-19 low of 3.50%. The primary concerns of the SARB MPC are inflation and the expectations surrounding it, as well as credit growth, which is the demand for capital, which has been quite strong, despite the weak economy.

Trends in the commodity markets are playing a particularly important role in the unfolding inflation trajectory, especially in energy and grains. Energy prices have come off the boil significantly following the shocks of 2022. The result is that Namibian petrol and diesel prices are down 1% and 17% respectively, over the first six months of the year and in SA down 4% and 20%. Global grains prices, in general, have declined quite sharply, compared to a year ago. Also, in SA, yellow maize, white maize and wheat are all down around 16% yoy. Namib Mills announced price cuts of up to 14% for some of its products. These trends should contribute to the lowering of price pressures in the food producing value chain.

All things considered, our view is that inflation in SA and Namibia will continue to decline to close to the 4.5% mid-point of the target range by the end of the year, while in Botswana it should be even lower. In the USA, we expect consumer inflation to be close to 3% by year's end. This means that by that time, prompted by a slowing economy and, possibly, further banking stresses, the Fed ought to be able to lower rates and ease global financial conditions, even though inflation should reach the official 2% target only late in 2024.

Our views largely remain the same. We do not expect interest rate cuts during 2023. But with the Fed in easing mode by early 2024 and inflation dipping, the SARB and the BoN should be able to also take their foot off the brakes and lower rates gradually over the course of 2024.

## How to make a deposit on your Unit Trust Account

**Simply submit your deposit instruction via the following digital platforms**

- Capricorn Online
- Bank Windhoek Mobile App
- Bank Windhoek Internet Banking Platform (3rd party payment, Account Name: CAM obo Clients)

**A few tips for EFT transfers**

- Always use your Entity and Account Number as reference (E*******A*****).
- Always send your Proof of Payment to cam.service@capricorn.com.na
- Always double check the account details before making deposits.

Should you need any assistance to make a deposit, please contact our service team at cam.service@capricorn.com.na or 061-299 1950.