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THE GRM GROUP

MARKET REPORT

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MARKET INDICATORS

inflation

Over the course of the last quarter, there has been a consistent downward trend in inflation. It started at 5.9% in October, then fell to 5.2% in November, and further decreased to 5.1% in December. This brings it close to the South African Reserve Bank's (SARB) target midpoint of 4.5%.

Looking ahead to 2024, the SARB anticipates that inflation will stay within the target range of 3% to 6%, with an expected average of 5.4%.

Interest Rates

On January 25, 2024, the SARB maintained the repo rate at 8.25%. This decision was driven by the need to strike a balance between the inflation forecast and the prospects for economic growth.

Stock Market

The All Share Index indicates that there was relative stability in the share prices in the South African stock market throughout January, with no significant upward or downward movement.

Currency

Throughout January, the value of the rand experienced minor variations. It began the month at a rate of 18.3 per USD, and by the end of January, it was at 18.8 per USD. During this period, it dipped to its lowest point at 19.22 per USD.

Consumer Spending

In 2024, household consumption in South Africa is predicted to experience a minor increase, rising to 1.1% from 0.7% the previous year. This comes after what is likely the slowest growth rate in 30 years, excluding periods of the global financial crisis and COVID-19 lockdowns.

Growth Forecast

The International Monetary Fund (IMF) has revised its economic growth projections for South Africa downward, attributing this to logistical issues. The IMF now anticipates a modest growth rate of just 1% for the current year, a significant decrease from the 1.8% it had predicted in October.

EMPLOYMENT

Recruitment Freeze at Major Hospitals in Western Cape

Healthcare professionals at Groote Schuur Hospital and Red Cross Children's Hospital in Cape Town are experiencing the repercussions of a sustained hiring freeze for essential medical staff. In the medicine department at Groote Schuur, nearly half of the medical officer positions remain unfilled, along with hundreds of other vacancies in nursing and operational roles. Similarly, critical medical posts at Red Cross Children's Hospital are not being filled. This situation is causing challenges in scheduling shifts and is negatively affecting patient care and wait times.

Job Losses in South Africa's Metals and Engineering Sector

Over the past fifteen years, South Africa's metals and engineering sector has consistently experienced significant job losses. Concerns are mounting that the ongoing economic stagnation could trigger further job losses in this sector. Currently, the sector employs 362,871 individuals, a substantial decrease from the 577,507 employees recorded in 2008. This represents a loss of 214,636 jobs over this period, averaging 40 job losses per day.

FINANCIAL SERVICES

Merges and Acquisitions

Investec anticipates a resurgence in mergers and acquisitions in South Africa this year as the economy begins to recover. It is likely that South African companies will seek expansion opportunities overseas, while foreign firms may be attracted to the competitively priced assets available in the local market.

Last year, the global deal volume fell to its lowest since 2013, at \$2.9 trillion, due to factors such as increasing interest rates and geopolitical uncertainties. In South Africa, completed M&A deals saw a drastic reduction of almost 90%, amounting to \$1.9 billion in 2023, compared to the previous year. This was largely due to infrastructure issues, including power outages, and increased borrowing costs.

Stock Market

Peter Armitage, the Chief Executive Officer of Anchor Capital, anticipates market fluctuations in the period leading up to South Africa's forthcoming national elections. This expectation stems from the uncertainties tied to the election outcomes, especially if the African National Congress (ANC) secures less than half of the total votes. The share of votes that the ANC garners could give rise to various scenarios, each carrying distinct implications for South Africa's political and economic future. Such uncertainties are projected to influence the markets until the election results are finalized.

FINANCIAL SERVICES

Sanlam announces proposed acquisition of Assupol

Sanlam Limited, via its fully owned subsidiary, Sanlam Life Insurance Limited, plans to purchase Assupol entirely. This acquisition, valued at R6.5 billion, is subject to the approval of shareholders and regulators.

Potential loss of hydroelectric power supply from Mozambique to Eskom.

According to Mozambique's forthcoming energy transition strategy, the country is considering ending its hydropower supply from the Cahora Bassa plant to Eskom, which currently exports 1,150 megawatts of power. The decision could pose significant challenges for South Africa, which is already grappling with power shortages. Eskom may be compelled to source power from alternative providers. This development underscores the complexities of energy supply management in the region.

ABSA is opening a non banking subsidiary in China

ABSA is set to establish a non-banking subsidiary in China. This move forms part of ABSA's broader commitment to extend its operations through the establishment of international representative offices in key markets. The objective is to leverage its extensive knowledge of African markets to serve its international clientele better.

RETAIL

Increase in Retail Prices

South African retailers are reducing the number of discounts and transferring the burden of escalating prices to their customers. This is happening despite a prolonged period of subdued consumer confidence, which has lasted for 18 consecutive quarters. Major retailers, including Shoprite Holdings, have reported enhanced sales and a substantial rise in full-price sales.

Globally, retailers are refraining from offering discounts as an increase in volumes could result in lower margins and decreased revenue. Since late 2019, consumer confidence in South Africa has been low, a situation exacerbated by inflation and increased interest rates.

MINING

South Africa May Miss Out on the Global 'Gold Rush'

The South African mining industry is grappling with a series of challenges attributed to governmental inefficiencies. These include a decrease in Transnet's capacity to transport resources, regulatory disarray, and delays in acquiring a new cadastral system. These complications have resulted in reduced earnings, potential job cuts, and discouraged investment in the sector.

However, the industry holds considerable potential, given South Africa's rich reserves of vital minerals and metals. Measures are being taken to rectify the situation, such as initiatives to address the licensing backlog, finalize the cadaster procurement, and potential concessions of port and rail infrastructure.

AGRICULTURE

Maize Cultivation

According to the government's Crop Estimates Committee (CEC), South African farmers are projected to increase their maize cultivation area by 2% this year compared to the previous year. The CEC anticipates a 2.36% rise in the area dedicated to white maize cultivation and a 1.47% increase for yellow maize. In total, it is expected that farmers will plant maize over an area of 2.638 million hectares in 2024, an increase from 2.586 million hectares in the previous year.