



## WEEKLY INSIGHTS

### FED hawkish on rates. Rand and equities suffer. What will the MPC do on Thursday?

Equity markets on the JSE continued their sharp contraction last week. The current more bearish movement is mostly due to global market sentiment that the U.S. Federal Reserve (FED) is unlikely to lower its bank rate during its first two meetings, ending on 30 January and 20 March 2024. The stickiness of the U.S. core inflation and the strong employment and U.S. retail sales, which rose more than expected in November, indicate that the U.S. economy is still on solid ground and that the risk for even higher inflation has increased. These sentiments boosted the U.S. dollar against most emerging market currencies, putting the Rand under renewed pressure. The currency had depreciated last week by forty-one cents from R18.64/\$ to R19.05/\$. This puts pressure not only on domestic petrol prices but also on total imports, especially food. In this regard, domestic inflation will be under renewed pressure in months to come. It will also play a negative role towards the Monetary Policy Committee (MPC) decision on the repo rate at its next meeting, starting this coming Tuesday, 23 January, with the decision to be announced at a press conference this Thursday, 25 January. Given the current risks to the inflation rate and the much weaker Rand, the MPC is expected to keep its repo rate at the current level of 8.25%.

On the JSE, the ALSI lost a further -1.7 % last week and traded -5.7 % down for the year to date and -9.0 % lower than a year ago. The Industrial board moved -1.1% lower over last week and is trading -3.6% off for the year so far. Resources remain under pressure and were down by -2.2% the previous seven days and tumbled by -11.2% for the first two weeks in January. On the back of the much weaker Rand, Financials also took a hiding last week. The FIN15 decreased by -2.0% during the week and is now -4.5% lower than the beginning of the year.

In the U.S., share prices continue to increase, given the unexpectedly resilient economy and better prospects for company earnings as the earnings season kicks off. The Dow Jones Industrial index steadily increased last week by 0.6% and traded 0.4% higher since the beginning of the year. The S&P500 ended last week 1.1% higher and gained 2.04% over the year-to-date (YTD). The tech-rich NASDAQ Composite Index shot up by 2.03% last week and is now 3.7% higher over the first three weeks of 2024. The yield on the 10-year U.S. Treasury note jumped to 4.1% on Friday, its highest in over a month, driven by strong economic data, which reduced the likelihood of immediate interest rate cuts by the Federal Reserve.

This coming week, local markets will await the interest rate decision by the Monetary Policy Committee (MPC) on Thursday. The release by Stats SA of South Africa's inflation rate for December on Wednesday will be important. The increase in the CPI during the last month of last year was expected to be 5.3% (YTD), against the annual rate of 5.5% recorded in November. This will give an average inflation rate for the whole of 2023 of 5.9%, which is below the upper level of the inflation target. Stats SA will announce the latest producer price inflation data (PPI) on Thursday. It is expected that prices at the factory gate will increase by 4,3% in December (YoY), lower than the 4.5% recorded in November (YoY). On Thursday, the European Central Bank (ECB) will also announce its interest rate decision on global markets. On Thursday, the U.S. will publish its durable goods orders for December and its preliminary estimate of the US GDP growth rate in Q4 2023. It is expected that the U.S. economy will grow by 2.3% in Q4, proving that the U.S. economy is currently resilient and not approaching a recession. On Friday, the U.S. will release December's important income and spending figures.



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