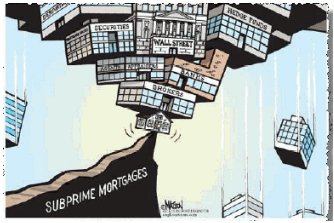


Leading through volatile economic times...

July 2022



Leadership and unintended consequences



Global financial Crisis

"Taper Tantrum"

noun *Economics*
 The dramatic increase in yields from US Treasury bills in 2013 after the Fed's announcement to 'taper' its expansionary monetary policy (that eventually backfired). The Fed had been buying treasury bills to increase money supply after the 2008 crisis but believed the economy had stabilised sufficiently to gradually stop doing so.



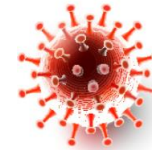
Anticipation of a fall in T-bill prices due to the Fed's actions + Fed's confidence in the economy encouraging investment by private players in riskier projects →

- Demand for T-bills ↓
- Price of T-bills ↓
- Yields from T-bills ↑

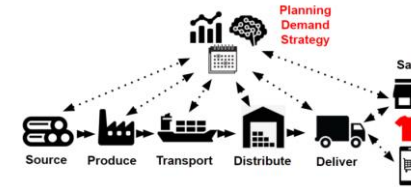
Taper tantrum



Brexit



Covid 19



Supply chain disruptions



Rampant US Inflation



Source: Investec

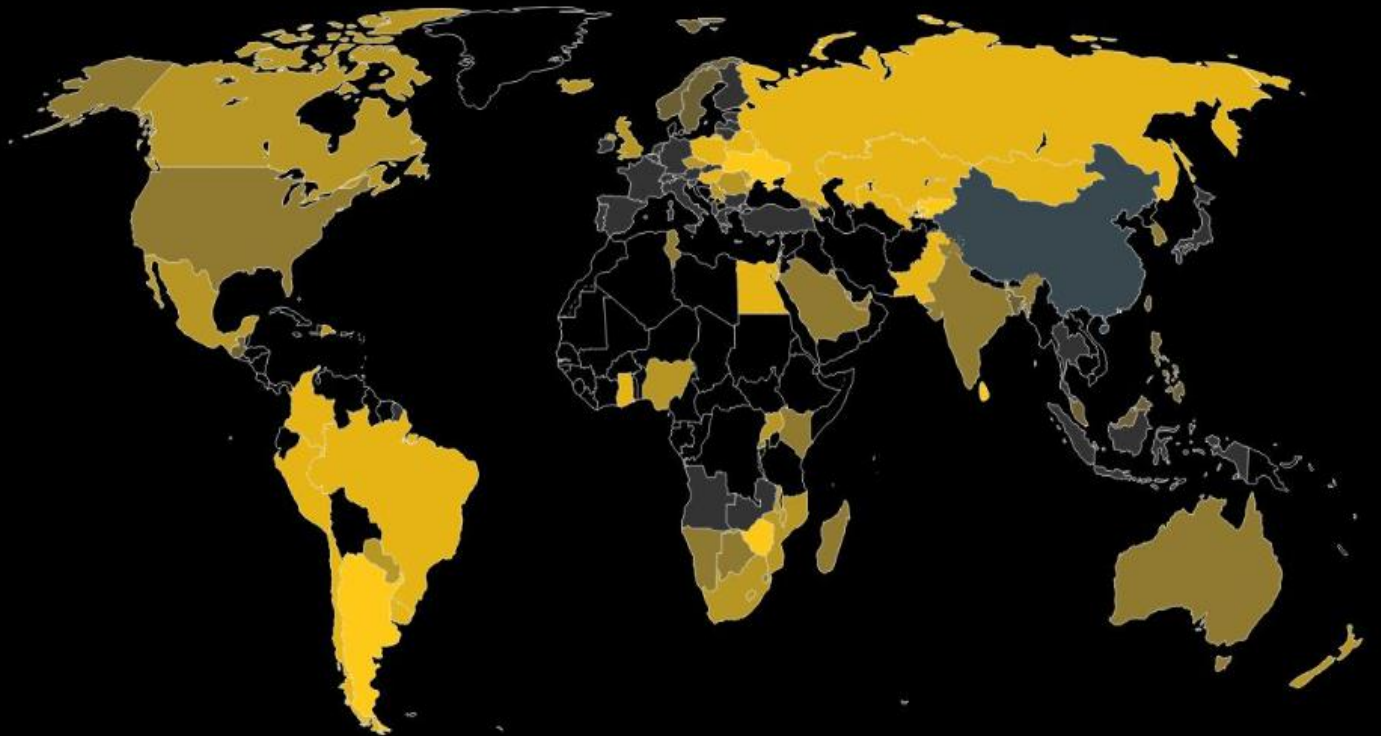
Russia/Ukraine



Global Backdrop

Hawkish Stance

More than 60 central banks have hiked interest rates this year



Source: Bloomberg

Note: Mapped data show change in interest rates in basis points for distinct central banks since the start of 2022.



Source: Bloomberg, Investec

Global **Where does capital flow to?**

Investec

Policy rate



1.75%



-0.50%



1.25%



4.75%

Inflation rate

8.60%

8.60%

9.00%

6.50%

Real interest rate

-6.85%

-9.10%

-7.75%

-1.75%

Zimbabwe's inflation doubles in two months to 191% bit.ly/3nohUNT



USA

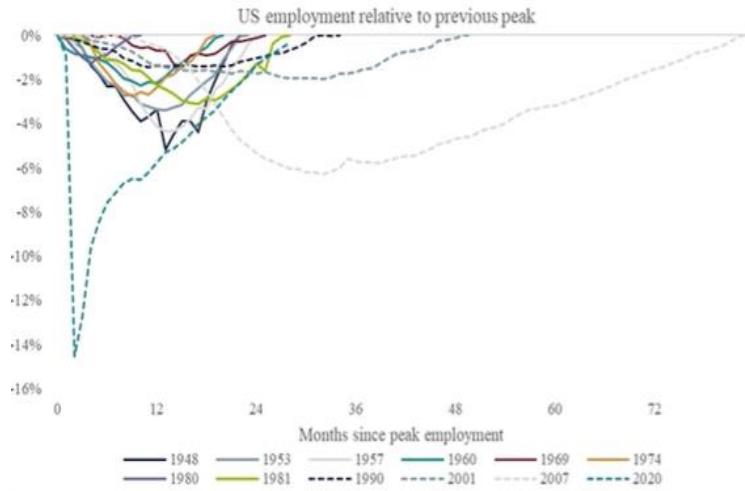


US US inflation rises to a new 41-year high of 8.6% (YoY)

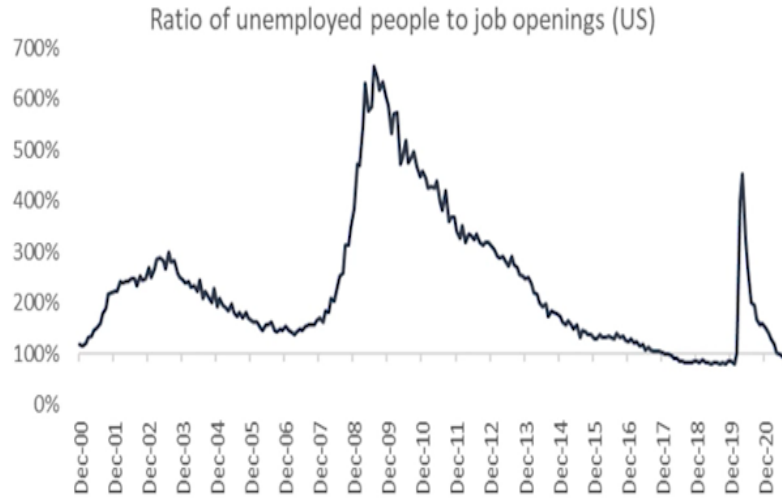


- **US CPI inflation increased by 8.6% in May** from 8.3% in the previous.
- The outcome was well above market expectations of 8.3% and the highest annual rate of increase since December 1981.
- The **main contributors** were:
 1. Shelter,
 2. Gasoline
 3. Food
- **Over 12 months: Energy Price Inflation**
 - Is 34.6% Higher
 - Has reached the highest level since September 2005.
- **Over 12 months: Food Price Inflation**
 - Increased by 10.1% year-on-year.
 - 1st double digit increase since March 1981.

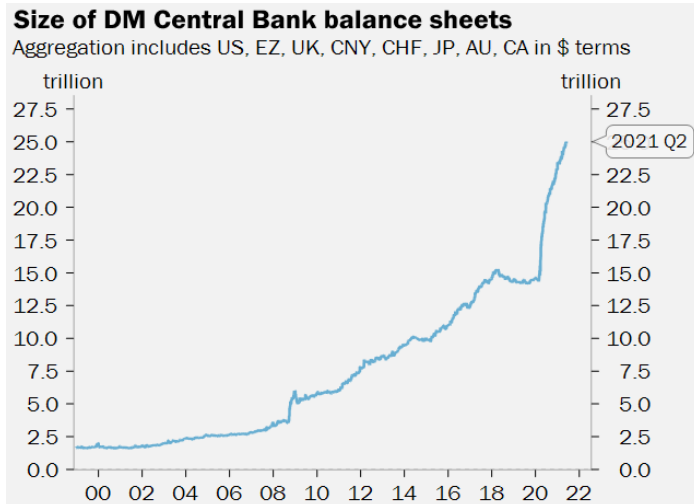
USA Labour Recovery



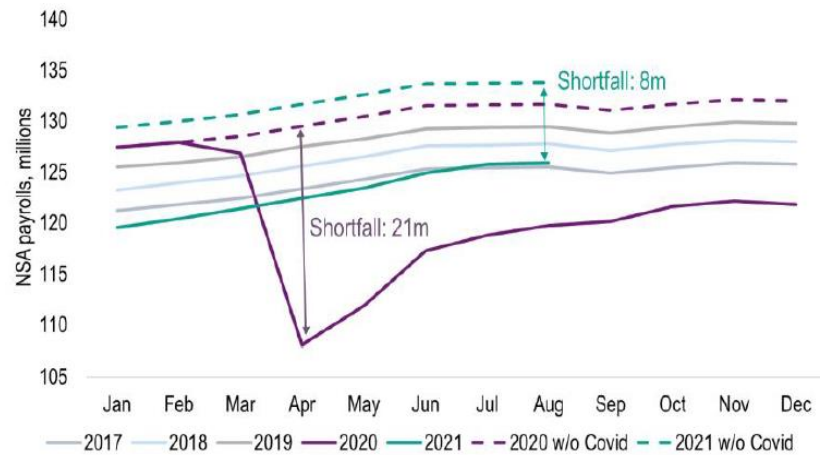
Source: Bloomberg, Investec



Source: Bloomberg, Investec



Source: Macrobond



Source: Macrobond, Investec



US US 2 year vs 10 year Treasury Yields – Signs of a Recession coming?



Why the 2 year (3.20%) vs 10 year (3.22%) US Treasury Spread matters:

- The 2yr vs 10 yr Treasury Yield Spread is the difference between the 10 year treasury rate and the 2 year treasury rate.
- A negative 2yr vs 10 yr yield spread has historically been **viewed as a precursor to a recessionary period.**

Loss of confidence
in leadership...

“extraordinary
scenes are a
product of a man-
made disaster”



Eurozone



EU European Central Bank confirms July rate hike plans, raises inflation projections significantly

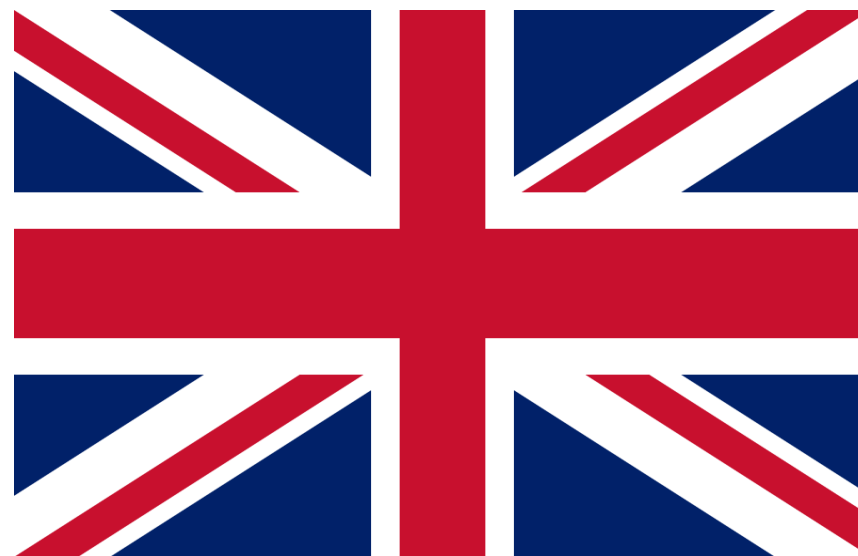
- Economists have been torn on whether to expect hikes of 25 bps or 50 bps at the July and September meetings.
- The ECB broadly expected to **climb out of negative rate territory by the end of September** from its current historic low of -0.5%.



Investec

- Annual consumer price inflation across the 19-member euro area hit a fresh record high in May.
- **Currently**, inflation in Europe is **8.6%** (target is 2%).
- Last week, ECB confirmed is keeping policy rates on hold for now.
- Deposit rate remaining at -0.50%, the Main Refinancing rate at 0% and the Marginal Lending rate at +0.25%
- They are **ending asset purchasing** under the Asset Purchase Program, originally initiated in 2014, as of **1 July**
- **Expect 25bp interest rate hike** at their next policy meeting on the **21st of July**.
- **Expect further hike in September.**

UK



UK The race to succeed Boris heats up



Investec

The number of Tory candidates who have so far declared their intention to run in the Conservative Party leadership contest to succeed Boris Johnson has reached ten and includes names such as Rishi Sunak, Penny Mordaunt, Jeremy Hunt, Liz Truss and Sajid Javid.

Defence Secretary Ben Wallace, has ruled himself out, stating his priority focusing on defence given the backdrop of the war in Ukraine.

Given the backdrop of significant headwinds to the economy, tax cuts have been a primary campaigning tool of several candidates.

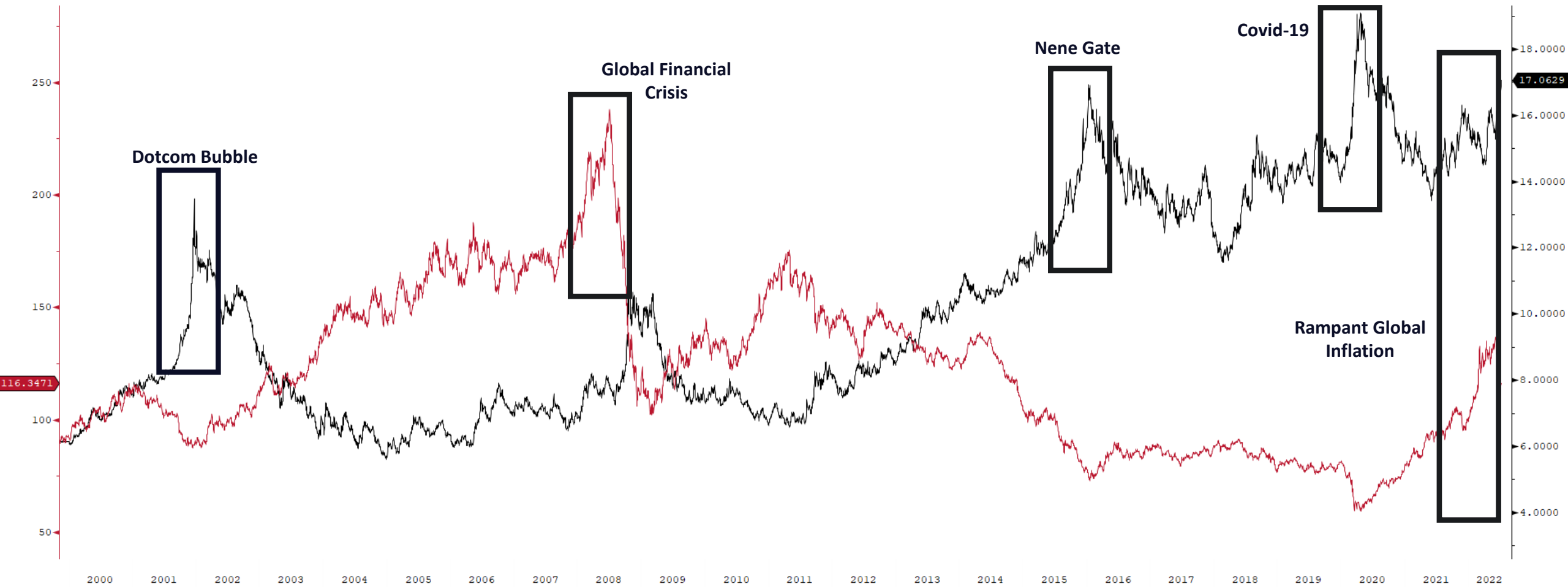


64%

46%

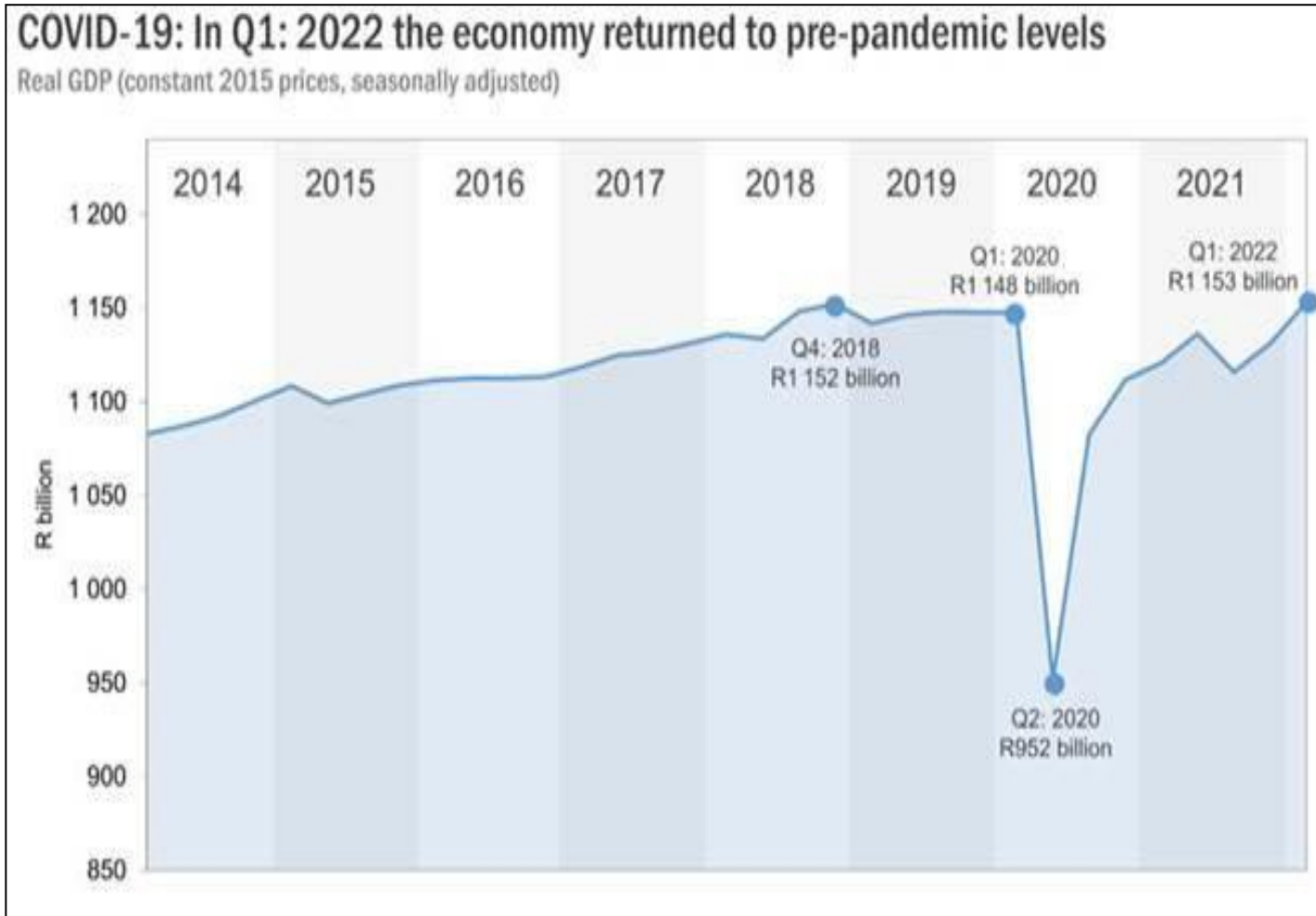
35%

SA Commodity Prices (red) vs. USD-ZAR: feeding into SA Revenue and Positive SA GDP



SA SA GDP Surprised on the upside at 1.90% vs. consensus of 1.2%.

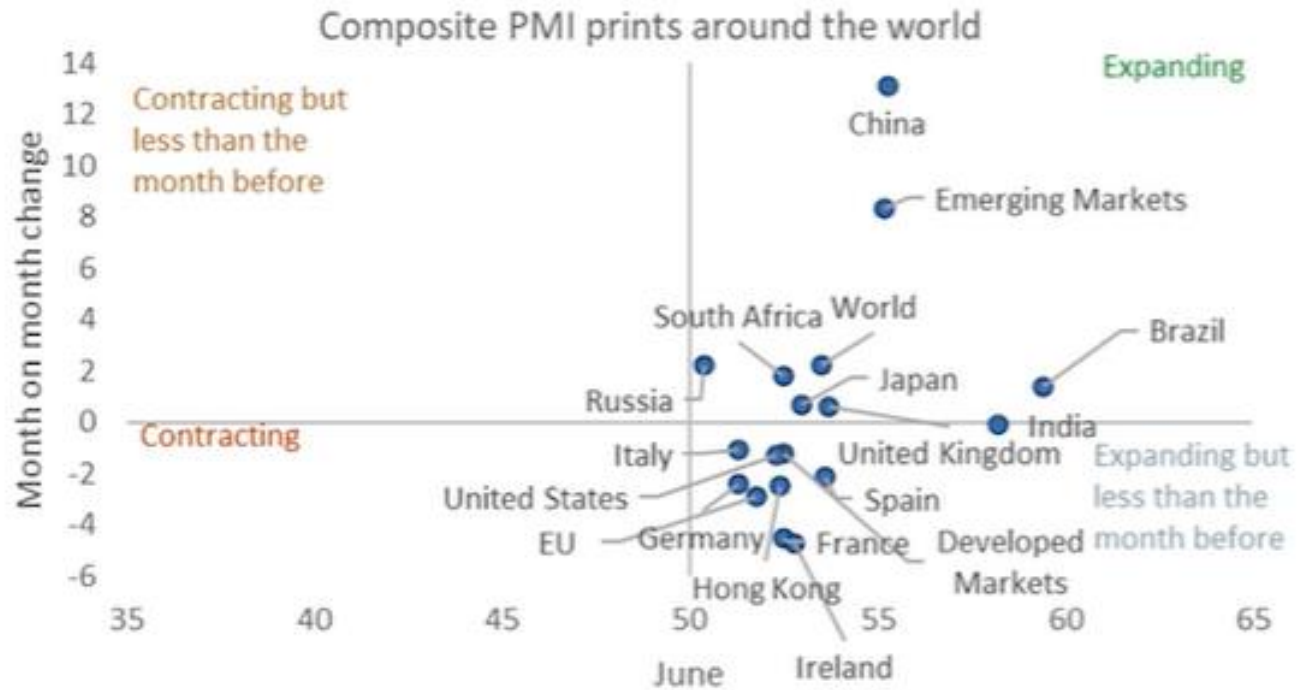
- SA GDP has returned to pre-Covid levels in 1Q 22.
- This is ahead of the SARBs forecast of this being realized towards the end of 2022.



Surprise drivers in GDP related to:

- **Production side:**
 - Positive growth in **agriculture** of 0.8%.
 - Better **outcome for tertiary/services** sector:
 - Trade, catering and accommodation 3.1%
 - Transport, storage and communication 1.8%.
 - Personal services are better, owing to an increase in economic activity reported for the community and other producers.

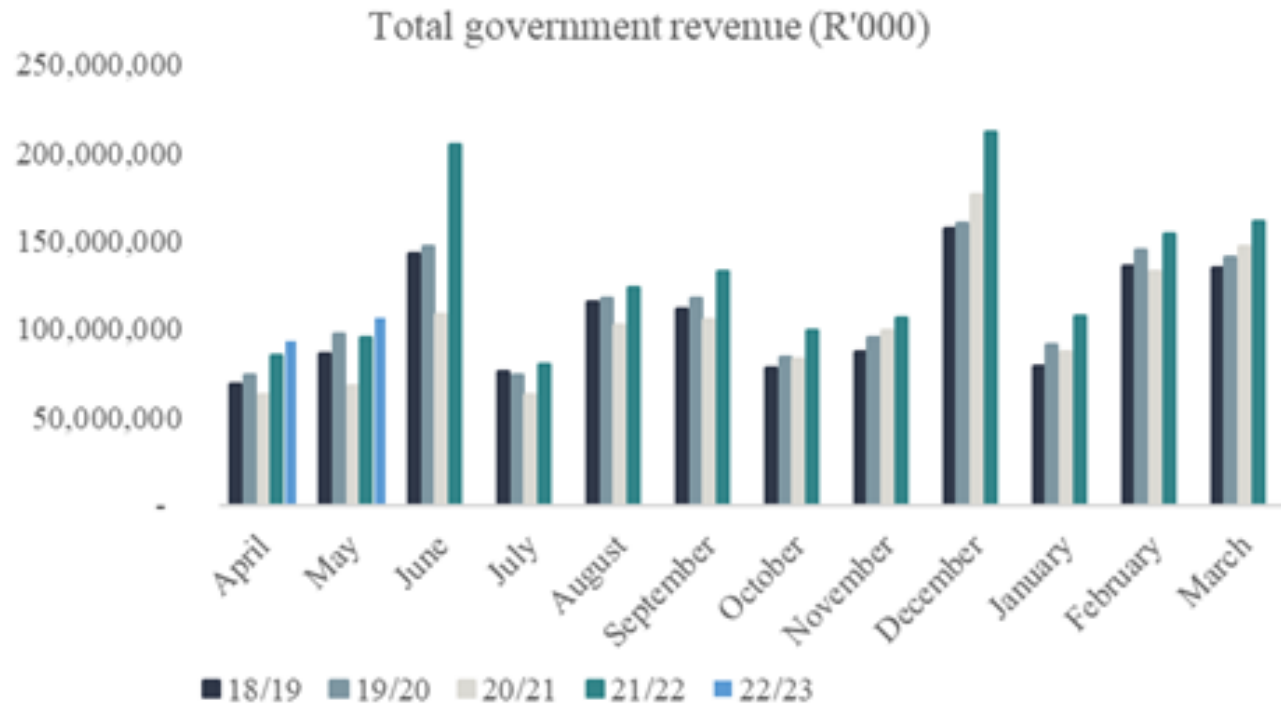
SA PMI showing above expectation growth trend in South Africa



Source: Investec



SA Government Revenue running 15% above 2019 levels



Source: National Treasury, Investec



SA Where to live?



2011 rank	2020 rank	2021 rank	Country	Safety and Security	Personal Freedom	Governance	Social Capital	Investment Environment	Enterprise Conditions	Infrastructure and Market Access	Economic Quality	Living Conditions	Health	Education	Natural Environment
3	1	1	Denmark	7	2	2	1	4	5	9	8	3	18	3	8
2	2	2	Norway	1	1	3	2	5	9	19	11	7	4	10	10
1	5	3	Sweden	10	3	6	5	8	16	6	7	5	10	14	1
4	4	4	Finland	18	4	1	3	3	11	10	19	9	14	4	2
5	3	5	Switzerland	2	10	7	9	13	2	13	1	6	13	8	7
7	6	6	Netherlands	9	5	4	7	10	7	2	6	1	9	7	35
8	7	7	Luxembourg	3	7	8	19	22	6	11	2	8	12	34	11
6	8	8	New Zealand	26	11	5	4	6	14	23	17	30	24	12	4
9	9	9	Germany	21	12	9	16	16	13	5	10	2	16	23	14
14	10	10	Iceland	6	9	11	6	23	26	18	20	12	8	15	17
12	11	11	Austria	11	14	13	12	11	18	16	22	17	25	25	6
17	12	12	Ireland	13	6	15	18	25	19	24	4	19	26	13	13
13	13	13	United Kingdom	17	17	14	20	7	12	8	18	10	31	16	22
16	15	14	Singapore	8	101	27	10	1	3	1	5	4	2	1	86
11	14	15	Canada	19	8	12	11	21	17	21	40	16	34	5	19
10	16	16	Australia	27	15	10	8	12	24	33	23	13	22	9	24
23	19	17	Estonia	24	23	17	25	18	15	26	15	21	41	19	5
15	17	18	Hong Kong	16	62	22	87	2	1	3	3	26	15	6	34
19	18	19	Japan	5	34	18	143	9	8	7	25	11	1	11	16
18	20	20	United States	69	22	23	13	15	4	4	16	27	68	20	23
78	90	85	South Africa	137	36	48	39	70	59	86	69	106	140	108	144
163	163	163	Afghanistan	166	127	144	167	157	136	159	150	151	153	158	162
167	165	164	Chad	141	134	161	159	161	163	166	148	165	165	165	95
160	164	165	Yemen	163	164	166	154	162	155	153	165	141	137	153	148
165	166	166	Central African Republic	154	143	153	163	163	162	167	122	167	167	166	94
161	167	167	South Sudan	167	160	165	164	154	149	165	155	166	166	167	121

Thank you

