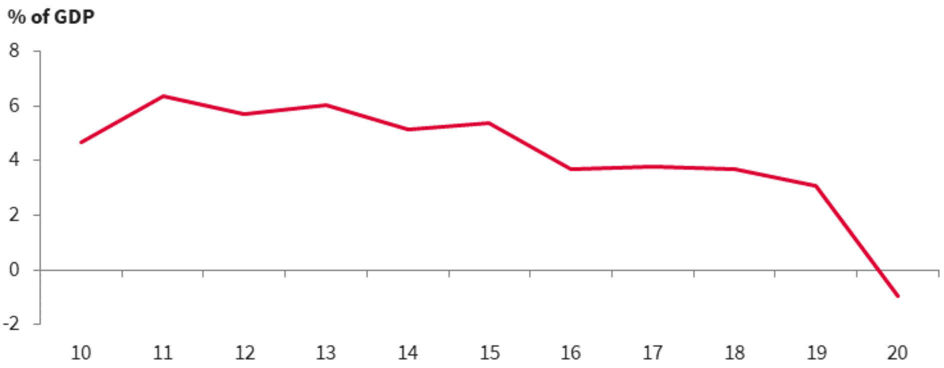
South Africa Morning Sheet

- **As expected, the MPC hiked the repo rate by 25bp to 4.25%**
- **Yesterday, at the South Africa Investment Conference, companies pledged an additional R332bn in new investment, spanning 83 projects**
- **Terms of trade fell by 3.0% m/m in January**

Yesterday, the SARB MPC voted 3:2 to hike by 25bp to 4.25%, in line with economists' expectations. However, 2 of the 5 committee members voted for a 50bp hike, which reveals increasing concern in the committee about the inflation outlook. The tenor of the MPC statement also strikes a hawkish signal, with big concern about upside inflation risks and a materially higher core CPI inflation forecast. Perhaps surprisingly, the MPC has also become more optimistic about GDP growth, with a faster projected narrowing of the output gap, despite higher oil prices and weaker global growth. We maintain our view that the MPC will hike by 25bp at each of the next four MPC meetings.

The fourth South Africa Investment Conference concluded yesterday with investment pledges covering 83 projects amounting to R332bn in total. Some of the industrial sectors involved were renewable energy, mining, agriculture, health and pharmaceuticals, and car manufacturing, although it has to be acknowledged that some of the pledged projects were previously announced. Nonetheless, the new pledges bring the total promised investment spend over the lifetime of these conferences to just shy of the original target of R1.2tn. Not all pledges have yet translated into spending however. President Ramaphosa said that of the total projects totalling R774bn announced in previous iterations of this conference, only 45 projects had been completed, while 57 were still under construction and 15 were on hold. It is hard to determine how many of these projects represent replacement of depreciated capital versus a real expansion of the capital stock and productive capacity of the economy. South Africa's gross domestic fixed investment ratio, according to the latest national accounts data, stood at just 13.2% of GDP (as of Q3 21). South Africa's net capital formation (after accounting for depreciation or consumption of fixed capital at its replacement value) has been stagnant for several years, and in fact turned negative in the pandemic year of 2020 (Figure 1). The SARB will publish updated 2021 data on this with the Quarterly Bulletin next week.

Figure 1: Net capital formation was sliding even before COVID-19 arrived



Source: SARB, Absa Research

South Africa Research
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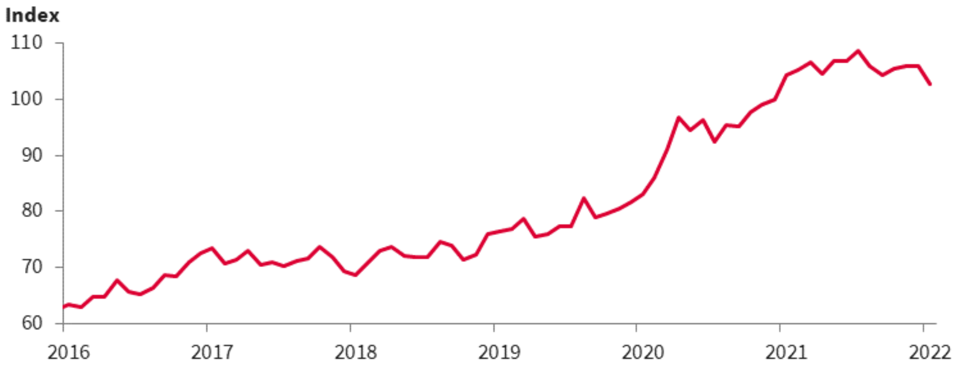
Terms of trade fell in January as export prices fell more than import prices. Yesterday, Stats SA reported that the export unit value index (UVI) fell by 3.2% m/m in January mainly due to lower prices of metal, machinery and equipment products and, to a lesser extent, 'other' transportable goods. The import UVI also fell but at a slower rate of 0.2% m/m. Higher import prices of 'other' transportable goods were fully offset by lower prices in three other categories. Meanwhile, crude petroleum import prices were unchanged on a m/m basis. Due to the export UVI falling steeper than the import UVI, the ratio of the export to import UVI (which is a proxy for terms of trade) fell by 3.0% m/m in January (Figure 2). We believe that higher export commodity prices in February and March specifically should be supportive of terms of trade. However, the higher Brent crude oil price will likely mitigate the support.

Figure 2: Terms of trade had a dismal start to 2022



Source: Stats SA, Absa Research

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