



OPPORTUNITY PRIVATE CAPITAL

Economic Snapshot February 2024

LOCAL ECONOMIC INDICATORS

- All-Share Index 28 February 2024: +- 72,400
- All-Share Index 28 February 2023: +- 77,700
- Market PE ratio: 10.6
- USD/ZAR R19.20/\$ (28 Feb)
- South Africa 10Y Government Bond yield: Current 10.13%

(Data: Bloomberg; SimplyWallSt; Tradingeconomics.; Google Finance.)

NEWS

- Some good news in the recent budget speech with no changes to VAT, corporate income tax, personal tax brackets, the general fuel levy, estate duty and capital gains tax.
- G7 Leaders issue a statement reaffirming their 'unwavering' support for Ukraine with commitment to increasing production capabilities, delivery capabilities and intensifying security assistance. They again called on Russia to cease its war of aggression and withdraw its military forces.
- Elon Musk's growing foray into the online tech space after taking over Twitter has seen him threatening to launch an email service, 'XMail', to rival Google's Gmail. We'll have to wait to see whether there is any meat to this claim by him.

Following America's Trend.

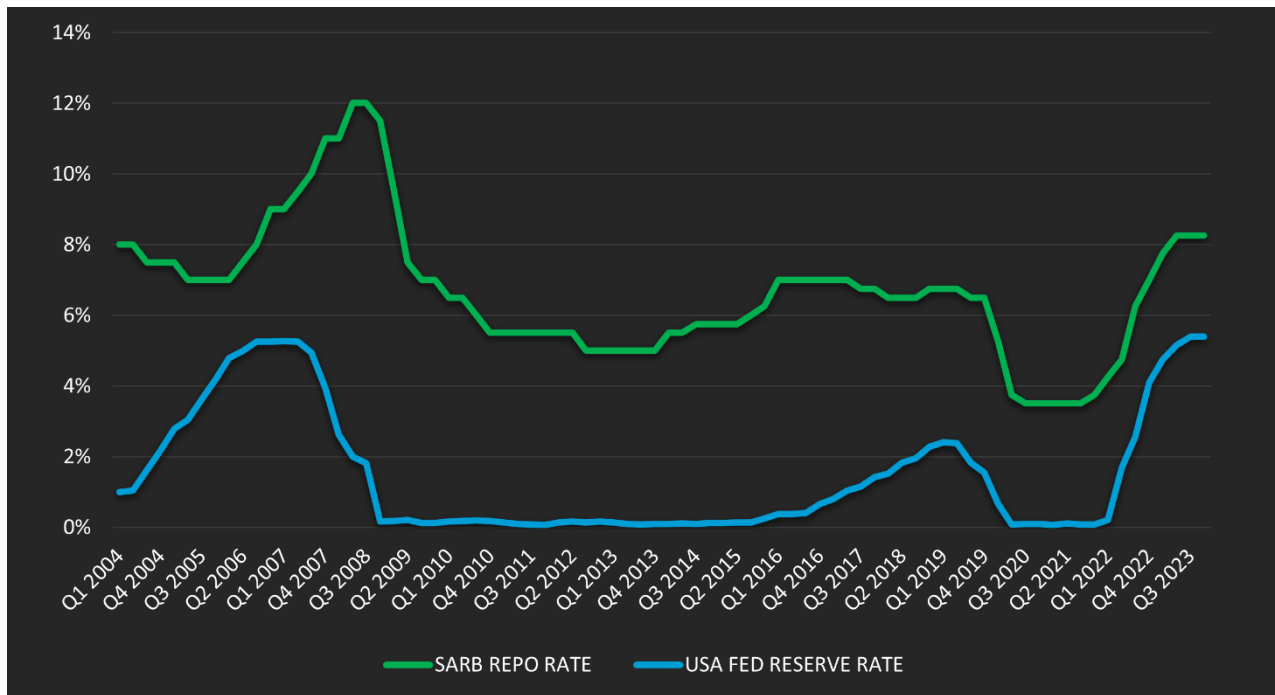
"Nobody likes high interest rates." (Chanda Kochar). Talk to the average South African on the street intent on taking on credit and this sentiment will be voiced over and over again, and the question they constantly pose is 'When will the rates be going down?' The answer is actually rather simple. See what America is doing and that should serve as a pretty decent indicator!

Interest rates and inflation have traditional ties to each other, particularly as the South African Reserve Bank (SARB) uses interest rates as an instrument as part of their Monetary Policy to influence the level of inflation. (SARB, 2023). And it's a pretty blunt instrument! Much like beating it repeatedly with a hammer! But its arguably the only real tool that SARB has in its arsenal to curb inflation. SARB acknowledges that price stability helps to protect purchasing power and sets a complimentary environment for investment. This stability is calculated through an inflation target with a range of 3-6%. (SARB, 2023). So, yes, you guessed it, when inflation starts exceeding these upper bounds, interest rates start rising. Ok, so interest rates are entirely a reaction to inflation in South Africa, and well within the control of SARB? Well, unfortunately, not entirely...

Whether we like it or not, what happens in America, does not stay in America. It happens in SA too. The monster that is the USA economy has an alarmingly strong influence on South Africa. If the interest rates in America shift, or are anticipated to move, SA will echo that trend. There is a high correlation between the movements of interest rates in the US and our own, here in SA (see Graph of the Month below).

As autonomous as we may think our own country's influence on interest rates is, think again. So, when the man on the street speculates as to when SA interest rates will be going down, it's a simple answer. 'Look at America!'. So, lets hope the USA Fed begins to lower their rates this year – the man in the streets of South Africa would like the noose around the throat loosened a bit!

GRAPH OF THE MONTH: - SA vs USA Interest Rate Trend



Source: Adapted from data courtesy of SARB and STATISTA.

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Compiled by Nick Morgan - Co-founder and Director, Opportunity Private Capital.

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