

# Economies at a glance

February 2024

momentum investments

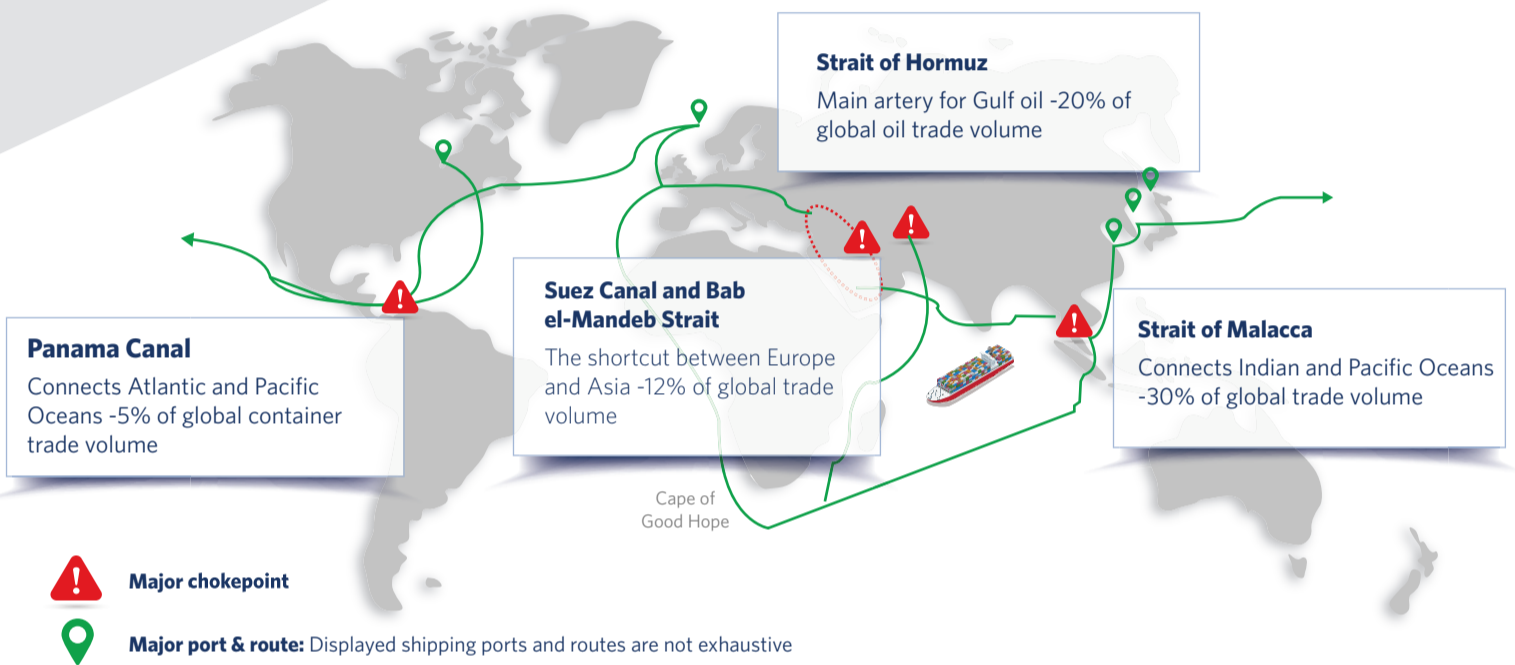
## Why is the world worried about global maritime trade?

- Over 50% of worldwide maritime trade faces potential disruption in four critical regions across the globe. While the Red Sea conflict has dominated headlines, three additional maritime routes are vulnerable to becoming chokepoints due to geopolitical or environmental factors.
- Conflict in the Red Sea has led to a resurgence in ocean freight prices. Despite having returned to pre-pandemic levels following a surge during COVID-19, container shipping lines now face increased fuel costs when forced to adopt longer delivery routes.
- Delays in traded goods and supplies, as traffic is rerouted, can also affect insurance risk premiums for sailing, the availability of electronics and car spares as well as other aspects of global trade.
- J.P. Morgan Research estimates the disruptions could add 0.7 percentage points to global core goods inflation and 0.3 percentage points to overall core inflation, during the first half of 2024.



## These four chokepoints account for more than half of global trade

Recent droughts and conflict highlight maritime hotspots, with many more locations vulnerable to disruption



**Suez Canal and Bab el-Mandeb Strait**

More than **470** container vessels have been rerouted around the Cape of Good Hope, which adds **30%** to transit times.

**Strait of Hormuz**

**20% - 30%** of global oil trade passes through this strait. Risk: If Iran becomes drawn more directly into the Middle Eastern conflict.

**Straits of Malacca and Taiwan**

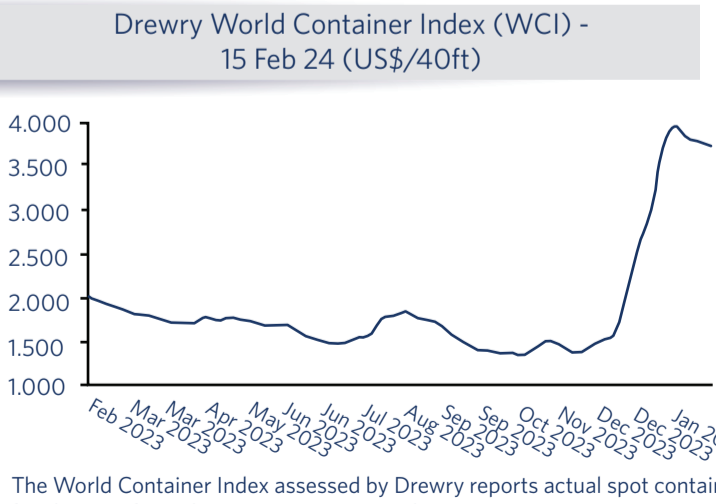
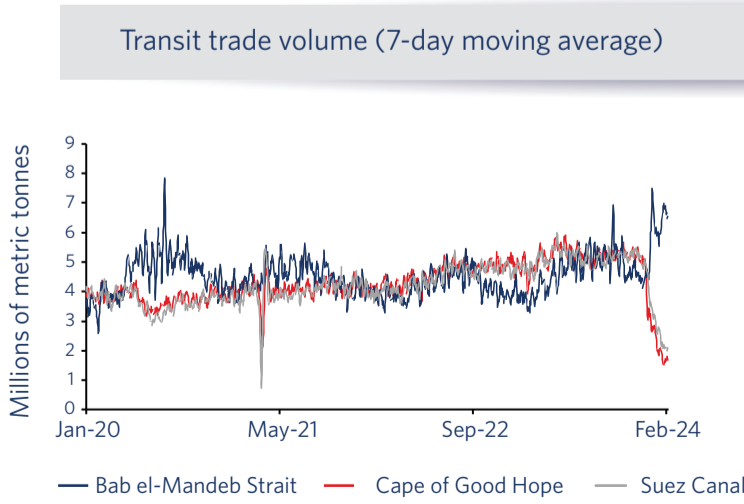
Two-thirds of China's trade (including **80%** of its energy imports) passes through the strait of Malacca each year, while **40%** of the world's container fleet passes through the strait of Taiwan. Risk: Territorial dispute in the South China Sea.

**Panama Canal**

Accounts for **46%** of the trade from the United States East Coast to East Asia. Risk: Worsening El Niño-related drought conditions.

### Traffic rerouted away from the Red Sea

### Container freight rates affected by rerouting



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## UNITED STATES

The United States' (US) approach to the conflict in the Red Sea should be measured, given that a more aggressive approach could deepen domestic divisions rather than create a 'rally-around-the-flag' effect. Falling inflation has contributed to a rise in consumer sentiment. However, disruptions in the Red Sea could put a brake on the progress made against inflation which has been a source of encouragement for Democrats. Shippers are using alternative routes, which add to shipping times and costs, but this allows for an alternative resulting in fewer supply disruptions compared to the pandemic. Freightos, a shipping logistics company, notes that shipping costs from Asia to the US's West Coast have risen 74% since the middle of December last year. Fitch Ratings calculates higher shipping costs will add 0.4 percentage points (pp) to core inflation in the US by the end of 2024.

**Forecast 2024:**

GDP: 1.9%  
Core PCE Inflation: 2.4%

**Forecast 2025:**

GDP: 1.5%  
Core PCE Inflation: 2.2%

## EUROZONE

In a significant move towards bolstering common European defense, the deployment of Naval Force Operation Aspides was announced, aimed at safeguarding cargo ships in the Red Sea. Acknowledging the impact of the Red Sea's security situation on trade, the European Union's (EU) Economy Commissioner has observed that the redirection of shipping routes has led to a 10 to 15-day increase in delivery times for shipments between Asia and the EU and a c.400% rise in shipment costs. *Euronews* has reported that maritime transport is pivotal for EU-China trade, accounting for 90% of their bilateral exchange. The repercussions are more pronounced for imports than exports, with close to a quarter of the goods entering Europe being transported by sea from Asia, whereas this route only represents 10% of Europe's exports. Allianz Trade forecasts that these disruptions could potentially contribute to an additional 0.7pp in inflation for Europe.

**Forecast 2024:**

GDP: 0.3%  
Inflation: 2.4%

**Forecast 2025:**

GDP: 1%  
Inflation: 2%

## UNITED KINGDOM

Survey results, for 1 087 respondents assessed between 15 January and 9 February, from the British Chambers of Commerce Insights Unit showed that 55% of exporters surveyed reported a disruption to operations given the conflict in the Red Sea. In addition, 53% of manufacturers and business-to-consumer service firms reported disruption. Some companies indicated that expenses for container hires had increased fourfold, while others encountered delivery delays lasting three to four weeks, alongside challenges related to cash flow and shortages of parts. These survey results were corroborated by the S&P Global Purchasing Managers' Index (PMI) results for February, which flagged the highest degree of supply chain delays in one-and-a-half years and the second-highest reading (outside of the pandemic) for suppliers' delivery times in 13 years. The PMI Output Prices Index suggests headline inflation will remain sticky at around 4% in the coming months.

**Forecast 2024:**

GDP: 0.6%  
Inflation: 2.4%

**Forecast 2025:**

GDP: 1%  
Inflation: 1.8%

## JAPAN

A number of Japanese shipping firms temporarily halted the passage of all their operated ships through the Red Sea. According to the European Commission, Japan is the EU's second-biggest trading partner in Asia after China. Meanwhile, Japan is the seventh largest partner for EU exports and imports of goods. Top imports from Japan to the EU include machinery, motor vehicles, chemicals and plastics. EU exports to Japan are dominated by chemicals, vehicles, machinery and food and beverages. Japan, together with China and South Korea are pivotal manufacturing hubs for automotive components. Around 70% of components in the European automotive sector rely on transport via the Red Sea waters from Asia. Consequently, *Reuters* reported a temporary halt in car production at Tesla's German facility and Volvo's European production lines.



## CHINA

**Forecast 2024:**

GDP: 4.6%  
Inflation: 0.9%

**Forecast 2025:**

GDP: 4.5%  
Inflation: 1.6%

Despite China's mediation of a peace agreement between Saudi Arabia and Iran in March 2023, highlighting its growing influence in the Middle East, Chinese diplomacy has been notably absent as the region descends into turmoil. Houthi attacks on Red Sea shipping have impacted Chinese trade and begun to strangle some of its regional partners. China's dependency on the Middle East has long been a vulnerability, with roughly half of its imported oil originating from the region over the past two decades. Additionally, the Middle East hosts three crucial shipping chokepoints through which many Chinese containers destined for Africa, Europe and the US's East Coast pass. Despite this, the Chinese government is forging its path, distancing itself from US actions in the Middle East and even refraining from condemning the Houthis, while seeking to leverage ties with key regional actors to address the crisis.

**Forecast 2024:**

GDP: 4.1%  
Inflation: 7.5%

**Forecast 2025:**

GDP: 4.1%  
Inflation: 4.2%

## EMERGING MARKETS

The International Monetary Fund (IMF) downgraded its real growth forecast for the Middle East and North Africa (MENA) region to 2.9% in its January update from 3.4% in its October 2023 World Economic Outlook report.

Outside of the regional conflict impacting economic activity, oil production cuts and still tight monetary conditions continue to weigh on growth in the region. The IMF notes that tourism serves as a crucial economic driver in numerous MENA economies, contributing anywhere from two to 20% percent of GDP and between five and 50% percent of goods and services exports before the pandemic. As such, it functions as a significant conduit for shocks. Consequently, any escalation or spread of the conflict beyond Gaza and Israel or intensified disruptions in the Red Sea will inevitably hinder growth. Egypt is particularly at risk given that fiscal revenue from the Suez Canal amounts to 1.2% of GDP and accounts for 2.2% of GDP in Egypt's balance of payments receipts. Meanwhile talks with the IMF to boost its loan programme are progressing.

**Forecast 2024:**

GDP: 1%  
Inflation: 5.4%

**Forecast 2025:**

GDP: 1.7%  
Inflation: 4.5%

## SOUTH AFRICA

Increased activity around the Cape of Good Hope stemming from the Red Sea conflict has reignited concerns regarding South Africa's (SA) ports' capacity to manage heightened traffic. According to the World Bank's Container Port Performance Index for 2022 (released in May 2023), the Port of Cape Town ranked 344th out of 348 ports worldwide. Recently, the Department of Economic Development and Tourism hosted the Western Cape Government's fifth annual Port Stakeholder Engagement, where it was highlighted that over 55% of the country's primary agricultural exports pass through the Port of Cape Town. However, the Western Cape Premier pointed out that the Cape Town Container Terminal is presently operating at only half of its required capacity. The *Business Day* highlighted an opportunity for SA's stone fruit industry, given the struggles of its competitors in Chile and Peru to navigate the Panama Canal due to regional droughts, compounded by Houthi attacks disrupting the shipping route to Europe. During the previous season, 41% of SA's stone fruit was exported to Europe, with 26% going to the UK alone. Nevertheless, delays at the Port of Cape Town are estimated to range from two to three weeks, potentially resulting in the loss of 10% to 20% of producers' value if fruit is not shipped efficiently. Under Operation Vulindlela's direction, a new board has been appointed for the National Ports Authority to operate as an independent subsidiary of Transnet, which should improve container freight operations and lower costs.

## The macro research desk

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Herman van Papendorp is the head of the Momentum Investments research and insights team and takes ultimate responsibility for macro research and asset allocation. Economist, Sanisha Packirisamy, is responsible for providing a macro framework to inform investment opportunities and strategies.



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# Indices summary for February 2024

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
<b>Equity indices</b>									
FTSE/JSE All-Share Index (Alsi)	-2.44%	-3.41%	-2.86%	7.53%	13.44%	9.32%	7.55%	8.91%	7.93%
FTSE/JSE Shareholder Weighted Index (Swix)	-2.19%	-2.49%	-2.06%	5.41%	10.24%	6.62%	4.45%	6.25%	6.61%
FTSE/JSE Capped Swix All Share index	-2.27%	-2.30%	-1.97%	7.77%	11.59%	7.00%	4.68%	5.98%	6.42%
FTSE/JSE All Share Top 40 Index	-2.48%	-4.55%	-4.20%	7.10%	13.72%	9.79%	8.03%	9.64%	7.93%
FTSE/JSE Mid Cap Index	-2.99%	1.75%	-0.15%	8.58%	8.27%	5.07%	3.27%	3.63%	6.41%
FTSE/JSE Small Cap Index	-2.04%	5.65%	7.46%	18.96%	21.72%	12.80%	7.55%	6.24%	8.18%
FTSE/JSE Resources Index	-6.92%	-12.82%	-17.31%	-1.97%	11.92%	8.86%	12.48%	12.98%	4.33%
FTSE/JSE Financials Index	-0.94%	2.48%	9.24%	16.48%	10.86%	4.68%	3.02%	5.36%	7.21%
FTSE/JSE Industrials Index	-0.74%	-1.25%	-0.18%	7.88%	13.35%	10.21%	6.24%	7.66%	8.05%
FTSE/JSE Research Affiliates Fundamental Indices									
40 Index (Rafi)	-2.38%	-2.49%	-5.53%	12.15%	15.18%	9.28%	8.20%	9.86%	8.16%
FTSE/JSE Research Affiliates Fundamental Indices									
All Share Index	-2.31%	-2.03%	-4.98%	11.36%	14.66%	8.91%	7.78%	9.18%	7.85%
FTSE/JSE SA Listed Property Index (Sapy)	0.83%	15.31%	17.58%	14.80%	6.25%	0.62%	-0.37%	-1.21%	3.73%
FTSE/JSE All Property Index (ALPI)	-0.34%	14.39%	16.28%	13.77%	5.50%	-0.51%	-1.31%	-2.14%	2.24%
<b>Interest-bearing indices</b>									
FTSE/JSE All Bond Index (Albi)	-0.58%	1.62%	7.64%	7.18%	7.46%	7.75%	7.15%	8.15%	8.09%
FTSE/JSE All Bond Index 1-3 years (Albi)	-0.04%	1.85%	8.62%	6.80%	7.35%	7.52%	7.60%	7.92%	7.81%
FTSE/JSE Inflation-linked Index (Ili)	-0.77%	1.46%	6.89%	7.18%	7.30%	6.13%	5.38%	4.67%	5.61%
Short-term Fixed Interest Composite Index (Stefi)	0.65%	2.06%	8.30%	5.95%	5.67%	5.98%	6.19%	6.38%	6.48%
<b>Commodities</b>									
NewGold Exchange-Traded Fund	2.92%	1.95%	17.45%	14.20%	11.41%	15.96%	16.42%	12.92%	10.34%
Gold price (in rands)	1.25%	1.54%	16.40%	14.15%	11.47%	16.05%	16.60%	13.16%	10.60%
Platinum Exchange-Traded Fund	-1.38%	-3.06%	-2.50%	-1.80%	5.63%	6.58%	6.34%	3.12%	0.49%
Platinum price (in rands)	-3.36%	-4.04%	-3.92%	-4.00%	4.27%	5.84%	5.92%	2.82%	0.48%
<b>Currency movements</b>									
Rand/euro movements	2.64%	1.03%	6.60%	4.59%	4.96%	5.40%	6.34%	5.94%	3.45%
Rand/dollar movements	2.92%	1.51%	4.55%	8.50%	5.23%	6.41%	8.44%	5.62%	5.97%
<b>Inflation index</b>									
Consumer Price Index (CPI)			5.32%	5.97%	5.26%	5.10%	4.92%	4.84%	5.11%

## Important notes

- Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
- Returns for periods exceeding one year are annualised.
- The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
- The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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