

Weekly Economic Update

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This week brings good news for South Africa – **not so good in global markets.**

Brexit first draft approved by UK Cabinet



The UK and European Union reached agreement on first draft of withdrawal proceedings in Brexit negotiations.



UK Prime Minister Theresa May and Cabinet backed the draft agreement, resulting in six resignations by British Conservative MPs.



The Cabinet, parliament and country are divided; Brexit supporters push for a vote of no confidence in PM May.



Vote for parliamentary approval due to take place in December.



UK equities and the pound were down on speculation of the collapse of PM May's government.

Brexit implications

A good Brexit process

Improved economic growth and a stronger GBP with negative impact on UK equities (only 30% of their revenues derived from within the UK).

A protracted Brexit process

Increased uncertainty, poor economic growth, a weaker GBP and unclear impact on UK equities.

Global markets



European Commission unlikely to approve Italy's budget resubmission, meaning greater oversight of the budget and possible sanctions.



Trade tensions with the US lead to contraction in Germany and Japan's growth rates and a slowdown in China's economic activity.

Survey in the US



US banks will increase borrowing costs if the US yield curve inverts, should the Fed hike rates in December and next year.

On the local front



Oil prices down 18% in the past month which points to a R1.50 cut in petrol prices next month. The strength of the rand against the US dollar contributes about 12 cents to the potential petrol price cut.



This will likely lead to an improvement in CPI inflation outlook, of which the October print is expected to slightly edge up to 5.0%/y.



South African Reserve Bank Monetary Policy Committee expected to keep the repo rate unchanged at **6.5%** at next week's meeting.



The Forward Rate Agreement market prices in 60% probability of a 25bp hike on 22 November.

GDP growth

South Africa's recession projected to end in Q3 2018



Technical recession will come to an end.

GDP growth
1.5% q/q

seasonally adjusted and annualised in
Q3 2018

up from
-0.7% and -2.6% in Q2 2018 and Q1 2018

Quarterly growth in retail sales, wholesale sales and manufacturing production offset the contraction in mining production.



Land reform



The review committee on land reform recommends that parliament amend the constitution to explicitly allow for land expropriation without compensation.

[Click here to watch the video or to listen to the podcast.](#)