Newsletter | August 2024

Capricorn Asset Management
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Economic Update

August started with a bang. US labour numbers shocked the market out of its complacency. It was a shot across the bow, serving as a reminder that the world's developed economies are facing a down-cycle. The questions and doubts are about whether policy makers will be able to engineer a "soft landing", or whether it will be a "hard landing".

The first shudder came when the US unemployment rate rose, triggering the so-called Sahm rule that forebodes a recession. The second shudder came with the Bank of Japan lifting rates, sending the yen soaring, shaking out the carry trade and crashing the Nikkei. These two combined with a mixed earnings season for the third shudder sent markets into sharp risk-off mode. However, in our view, it was a huge knee-jerk overreaction, which soon tapered off. Basic economic fundamentals have been slowing and cooling for several months already, combined with a general expectation of monetary policy loosening. It is unlikely that one number, albeit an important one, will change the outlook overnight to a "hard landing" scenario.

The global economy is faring relatively well, all things considered. The US economy is not crashing, and most economies appear to be facing positive growth, albeit below par. Growth of under 3% for the world economy, constitutes a "growth recession", as was the case in 2019 and 2020. This rarely happens and for the moment, forecasts are for 3.0%+ for the next four years. It might still be a case of "the recession that never was". However, economics do not move in smooth or straight lines and there is bound to be patchiness, or unevenness, which are pockets of strength and weakness.

Global unemployment rates remain low with the US at 4.3%, UK 4.2%, EU 6.5% China 5.1% and Japan 2.5%.

The outlook for the SA economy is improving gradually, albeit marginally. Forecasts of 1% per annum (pa) for the next several years are turning into 2% pa. This is still nowhere near enough, but it is a start. The Namibian economy is likely to grow a bit slower this year than the 4%+ foreseen, largely due to the recent drought affecting the agricultural sector. Our "two phases" frame of reference still stands:

1. a period of "influx" over several years,
2. followed by a "boom" period when the megaprojects, green hydrogen, oil and gas start to produce around the end of the decade.

One global patch of weakness that emerged is the diamond market, leading to a contraction in the Botswana economy in 1Q24 and clouding the outlook significantly – the International Monetary Fund (IMF) lowered its real growth forecast for 2024 to 1%.

US inflation measures have, generally, become stuck somewhat with CPI at 2.9% yoy, the PCE deflator at 2.5% yoy and PPI at 2.6% yoy. US inflation is now likely to reach 2% by February 2025. Developed Markets, as well as Chinese inflation, are expected to reach 2% on average, starting in 2025. Currently, China's PPI is at -0.7% yoy and CPI at 0.5% yoy. Progress in the EU and the UK prompted the ECB and BOE to lower rates.

Inflation in Namibia registered 4.6% yoy for a second consecutive month in July, due mainly to slower price increases in Recreation & Culture and Housing. Inflation is likely to reach 4.3% in August. The upshot is our increasing sense of conviction that inflation will drift down to below 4.0% by year-end (ye) 2024, followed by a gradual uptrend to 5% by 2H25.

In SA, July inflation broke through 5% and registered at 4.6%. In our view, the likelihood is high that in 2H24 it will resume its downtrend to below 4% by ye 2024.

In Botswana, inflation reached 3.7% in July, in line with our expectations, largely due to slower transport and housing inflation. We anticipate a rising trend in 3Q24, but it should also be below 4% by ye. Geopolitics (another oil shock) and climate conditions (El Nino) remain the main risks to the relatively benign inflation outlook.

Following a sharp climb to above U$10,000, Copper has dropped to U$8,500, which fits the narrative of a cooling global economy. Oil in NAD terms is down -10% yoy, but +4.5% ytd and flat mtd. Namibian fuel prices are virtually flat, on average, ytd, but up 13% yoy, following the cut of 3% in July. Global grains (maize -21% yoy and wheat -11% yoy) are keeping a lid on global food inflation, while domestic prices are mixed with White maize +46%, Yellow maize +14% and Wheat -5% yoy. El Nino has started to have its impact on harvests.

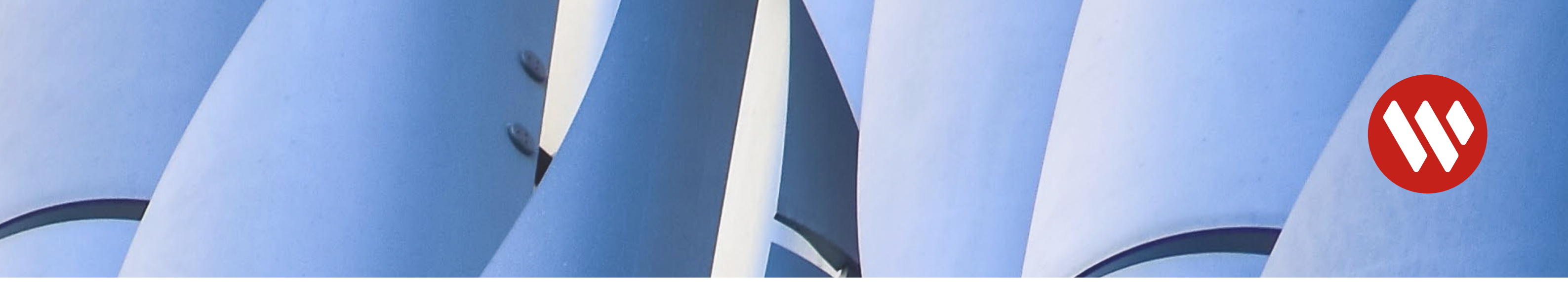
Gold has begun to climb again, breaking through U$2,400, following a surge on the back of buying out of China, both by retail investors and the central bank, the PBoC. It Is now up 32% yoy and 21% ytd, indicating worries in the markets. Uranium is up 62% yoy, breathing new life into this sector of the Namibian mining industry.

Trading around 17.80, the Namibia dollar is stronger by 3% ytd versus the US dollar. We anticipate that it ought to remain fairly firm from here, as the shudders mentioned above had little effect. The USD is behaving much like we anticipated at the outset of the year, benefiting from safe haven demand, economic outperformance, capital inflows, and favourable anticipated interest rate differentials, depreciating by 0.2% versus the euro ytd.

Growth in Namibian Private Sector Credit Extension (PSCE) sagged again in June, growing by 1.7% yoy. Firms repaid credit of N$1.7bn in the month. Mortgage loans of firms contracted -3.5% yoy, while that of households grew by 1.9% yoy, resulting in no growth in 50% of the banks' books. Foreign assets contracted by N$4.3bn in the month. PSCE growth rates in SA and Botswana have slowed to 4.3% and 6.2% yoy, respectively. Money supply growth rates are running at 9.3% (Namibia), 4.2% (SA), and 16% (Botswana).

The fiscal trend of increasing "daylight" between Namibia and South Africa continues, with the former improving and the latter slipping. The supplementary Budgets are due in October, where we expect these trends to be further cemented, on the back of economic growth to the order of 4%+ for Namibia and 1%+ for SA. SA is faced with a negative fiscal spiral. It remains plagued by a surging interest bill, Eskom, Transnet, local authorities, the NHI, and immense pressure to increase social spending. Debt-to-GDP ratios are diverging. For Namibia, Botswana and SA, by next year, these ratios are expected at 57%, 19% and 75%, respectively. Relative degrees of creditworthiness are likely to reflect this over the coming years. The IMF advised Botswana that some fiscal loosening is in order.

A lowering of rates by the Fed in September is now all but cemented in. This is likely to constitute a last push for the SARB to follow suit on the day



following the FOMC's meeting. The BoN pre-emptively cut on the 14th of August.

The main feature of elections thus far this year, ranging, amongst others, from India and Europe to SA, is the loss of support for incumbents – a clear message from voters that they are dissatisfied. Much hope is put in the government of national unity (GNU) of SA. They now need to get down to business. The next market moving election is that of the US in November. Meanwhile, there appears to be some escalation in the current hot wars in the Middle East and Eastern Europe, which only serves as a reminder that there is still a long worry list to keep an eye on.

By the end of July, the returns of the major asset classes year-to-date, for seven months, in Namibia dollar terms, were as follows:

Global Equities	13.4%	MSCI World
Domestic Equities JSE	9.9%	JSE All Share
Domestic Equities NSX	6.0%	NSX Local Index
Domestic Property	12.6%	JSE SAPY Index
Domestic Bonds RSA	10.5%	Reuters All Bond
Domestic Bonds NAM	8.4%	IJG Namibian ALBI
Domestic Cash RSA	4.9%	RSA STEFI
Domestic Cash NAM	5.4%	Capricorn Enhanced Cash Fund
Commodities: Gold	16.7%	Bloomberg Gold Total Return Index
Commodities: Overall	0.4%	Bloomberg Commodity Total Return Index

Namibia Interest Rate Cut:
A timely relief amid economic challenges

Last week, the Bank of Namibia (BoN) announced its first repo rate cut in over two years, reducing the rate by 25 basis points (0.25%) to 7.50%. This decision follows six consecutive monetary policy committee meetings where rates were left unchanged. The rate cut, which led to a reduction in commercial banks' prime lending rates from 11.50% to 11.25%, comes as a welcome relief to businesses and households that have been under significant financial pressure due to the prolonged period of high-interest rates.

The high-interest rate environment, exacerbated by a 4% increase in rates during 2022 and 2023, severely impacted disposable income and curtailed spending, with adverse effects rippling through the broader economy. The BoN's decision to cut rates, although slightly ahead of expectations, aligns with the broader anticipation of a rate-cutting cycle designed to boost economic activity and provide relief to consumers. The recent repo rate reduction marks the beginning of this cycle, with market expectations pointing to further cuts amounting to 100 basis points over the next few months.

With inflation trending towards target levels, the BoN found the current environment accommodating enough to initiate the rate-cutting cycle, which is expected to provide the necessary stimulus for economic growth.

As money market rates adjusted to the new repo rate, they repriced lower by more than 25 basis points, reflecting the anticipation of further rate cuts. Treasury bill rates, which have been declining since May, continued this trend as investors moved to lock in higher yields ahead of deeper rate cuts. The forward rate agreement (FRA) curve, which represents market expectations for future interest rates, suggests that the BoN may implement further 25 basis point cuts at each of the next four MPC meetings.

Namibia's economic growth, which is projected to slow to 3.1% in 2024. The rate cuts should help revive private sector credit extension, acting as a catalyst for increased economic activity. However, this shift also implies slightly lower returns on conservative, interest-bearing investments such as money markets.

In summary, the Bank of Namibia's recent rate cut is a proactive measure aimed at supporting the country's economy during a period of subdued

growth. While the move comes with certain trade-offs, such as lower returns on conservative investments, the overall sentiment is that it was a necessary step to stimulate economic activity and provide much-needed relief to Namibian consumers and businesses. The expectation of further rate cuts adds to the optimism that the economy may soon experience a much-needed boost.

The future of SA payments

The new regulation on cross-border payments (PSD-9), to and from South Africa, will now come into effect on **10 September 2024**. **This will directly impact our South African clients.**

The impact on your investment portfolio with us will result in the following changes:

- **Debit orders**
  We will no longer be able to collect funds from your South African bank account via a debit order. Instead, you will need to initiate a credit payment on your end and notify us of such a payment by sending the proof of payment to cam.service@capricorn.com.na
- **Monthly income distribution and/or standing recurring payments**
  Payments to South African bank accounts will be treated as international cross-border payments and as such will attract a SWIFT fee.

Please inform us if you would like to amend your **monthly income distribution** payment to either capitalize on your investment or payout to your Namibian bank account and/or if you would like to amend your **standing recurring payment** to pay out to your Namibian bank account.

If you only have a South African bank account, please note that we will need to pay your monthly income distribution, and/or standing recurring payments via our Bank's International Business Services Department. This will result in additional charges, currently set at N$33.85. This fee will be deducted from your investment portfolio. Please further allow for extra time for payments to reflect on your South African bank account, which may take up to three business days.

Please Be Vigilant
Fraudsters may attempt to take advantage of these changes and employ various tactics to gain unauthorized access to your financial and sensitive information. Please note that we will not ask for your personal information and we request you to not divulge any personal information to anyone.

Should you have any questions please contact us at cam.service@capricorn.com.na

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