Mid-Year Economic Review

Risk-On-Risk-Off (RORO):
During the second quarter of 2024 we perceived a distinct sense of relief in the macroeconomic landscape, which manifested in "risk-on" sentiment in the financial markets. Since May, we've been writing about the following:

- The conflicts have not escalated.
- The USA economy is doing well.
- China is muddling through.
- Europe appears to gradually improve.
- The ECB started to lower interest rates.
- RSA elections did not result in economic disaster.
- The Namibian economy surprised to the upside.
- Stock markets are making new highs.
- Namibian and South African bond markets are on a tear.
- Copper is up and oil is under control.
- Markets are expecting crucial relief of a different kind, that is from the Fed.

Nevertheless, we are likely facing a period of increased volatility until the end of the year as markets and economies ebb and flow between "risk off" & "risk on" phases.

Economic Growth
Most key economies are set for positive growth over the next eighteen months. The expectation for Developed Markets (DM's) is at +1.7%, mainly driven by the USA at +2.7%. Growth of +4.2% is likely in Emerging Markets (EM's), including the BRICs, with Brazil +2.2%, Russia +3.2%, India +6.8% and China +4.2%. We reiterate our view that there are two phases facing the Namibian economy over the medium-term:

1. The "influx" of capital, human and otherwise, a build-up phase.
2. A "boom" period when the planned mega-projects start to produce green hydrogen, oil and gas by the end of the decade.

The Future of SA Payments

The new regulation on cross-border payments (PSD-9), to and from South Africa, will come into effect on 30 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.

Significant macroeconomic changes will come, expected and unexpected, ranging from growth, inflation, income, and fiscal-, monetary- and exchange rate policy. The SA economy appears to be finding a "bottom" and the outlook is improving, albeit marginally. The Botswana economy contracted in 1Q24 mainly due to weakness in the global diamond market and is facing several years of sub-par growth.

Inflation

US inflation measures have, generally, become stuck somewhat with CPI at 3.0% yoy, the PCE deflator at 2.6% yoy and PPI at 2.6% yoy. US inflation should reach the Fed's 2% target by February next year. DM and Chinese inflation rates are expected to reach 2%, on average, starting in 2025. Currently, China is flirting with deflation, with PPI at -0.8% yoy and CPI at 0.2% yoy. Progress in the EU and the UK gave the ECB enough comfort to lower rates. The BOE is next. Inflation in Namibia unexpectedly edged down to 4.6% in June, mainly due to slower price increases in Food, Alcohol & Tobacco and Transport. These three constitute 43% of the basket. The upshot is an 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, inflation remained stuck above 5.0%, registering 5.1% in June. 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 2.8% in June. We anticipate a rising trend in 3Q24, but it should also be below 4% by ye. Geopolitics (oil) and climate conditions (El Nino) remain the main risks to the relatively benign inflation outlook.

Commodity Markets

Following a sharp climb, the copper price has lost steam, trading at around U$9,000, registering 7% ytd. Oil in NAD terms is now up 6% ytd, but down 5% in July. Namibian fuel prices are now virtually flat, on average, ytd, but up 13% yoy, following the cut of 3% in July. Global grains (maize -24% yoy and wheat -21% yoy) are keeping a lid on global food inflation, while domestic prices are mixed with White maize +50%, Yellow maize +14% and Wheat -11% yoy. El Nino has started to have a negative impact on harvests. Gold has stabilised around 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 22% yoy. Uranium is up 63% yoy to U$82, having peaked at U$106 earlier this year.

Currency

The NAD (ZAR) currency is virtually flat against the USD so far this year. We anticipate that it ought to remain fairly firm. We maintain our targets as follows: USDNAD 19.00 and 19.20, and EURNAD 20.70 and 21.90 at ye 2024 and 2025, respectively. The US dollar 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, appreciating by 2% versus the euro ytd.

Credit Growth

Growth in Namibian PSCE perked up in May to 3.6% yoy, due to firms taking up credit of N$1.5bn in the month, largely in the form of "other loans and advances" and "installment and leasing". Growth in "mortgage loans" continues to lag, with firms contracting by -3.8% yoy and households growing only 1.5% yoy. These

two together constitute 50% of the banks' book. Therefore, total PSCE is likely to grow only if and when the property market swings up. The surge in foreign assets started to stabilise and is down -4.1% yoy. PSCE growth rates in SA and Botswana have slowed to 4.3% and 7.9% yoy, respectively. Money supply growth rates are running at 8.4% (Namibia), 4.7% (RSA), and 13.1% (Botswana).

Fiscal Policy

The narrative around fiscal trajectories remains largely unchanged: an improving outlook for Namibia and a worsening outlook for SA. This increasing "daylight" is largely due to trailing and expected economic growth differentials with the order of magnitude in the region 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 to be 57%, 19% and 75%, respectively, with the latter yet to stabilise. Relative degrees of creditworthiness are likely to reflect this over the next few years.

Interest Rates

The MPC of the SARB kept its rate unchanged at 8.25% in their latest meeting on 18 July. The Governor of the SARB is adamant that it does not have to wait for the Fed before it acts. In the same vein, the BoN does not necessarily have to wait for the SARB, but they probably will. Until now, we anticipated the earliest cut by the Fed in July, but September now appears more likely. If so, the SARB will also cut in September and the BoN in October. The uncertain probability and timing of a new, lower, 3.5% midpoint inflation targeting regime by the SARB, casts a shadow of continued uncertainty over the outlook. A more demanding target will mean higher for longer interest rates.

Geo-Politics

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 of SA. They now need to get down to business. The outlook for the remainder of 2024 is still to be shaped by global geopolitical flash points as well as domestic elections in many countries, not least of which is the USA in November. Risks remain that more regional or ethnic conflicts could flare up, aside from the current flash points of the Ukraine (Europe) and Israel (Middle East), Taiwan (Asia Pacific) and the Sahel (Africa), not to mention the ever-present threat of international terrorism.

Contagion risks, such as can be identified, are:

1. renewed supply chain disruptions;
2. an oil shock;
3. contraction in global aggregate demand;
4. severe risk-off sentiment resulting in a weak currency and a spike in domestic yields and
5. socioeconomic unrest (Bangladesh & Kenya).

Our base case is still a "muddle through scenario" wherein conventional policy (Fiscal and Monetary) measures are effective in staving off a global financial crisis.

Asset Classes

The major asset classes have, generally, provided good returns thus far this year, and the outlook remains fairly positive, albeit volatile. The following are the 12-month returns to June, with the 10-year averages in brackets, in Namibia dollar terms of the various gauges of the main asset classes.

Global Equities	16.7%	(18.3%)	MSCI World
Domestic Equities JSE	9.1%	(12.0%)	JSE All Share
Domestic Equities NSX	11.0%	(13.0%)	NSX Local Index
Domestic Property	26.0%	(3.2%)	JSE Sapy Index
Domestic Bonds RSA	13.6%	(7.8%)	Reuters All Bond
Domestic Bonds NAM	14.8%	(10.4%	IJG Namibian ALBI
Domestic Cash RSA	8.5%	(6.6%)	RSA STEFI
Domestic Cash NAM	9.2%	(7.9%)	Capricorn Enhanced Cash Fund