



FG ASSET MANAGEMENT

ECONOMIC EXPRESS

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February was marked by the unpredictable and volatile manner with which US tariff policy were being communicated and implemented. This turbulent manner with which decisions were made and then retracted again created uncertainty but also unsettled the market as it is still unclear the extent of the tariff effects on either inflation or growth. The US tariff policy have far reaching global effects, as it not only affects trading partner competitiveness relative to domestic producers but the growth and inflation implications feeds through the global risk free rate (US treasury bond yields) and the US dollar value.

At the start of the month the US President Trump announced 25% tariffs on Canadian and Mexican imports and 10% on Chinese imports. After the initial announcement the Canadian and Mexican tariffs were postponed by a month with only a day to spare before they were meant to be imposed. The Chinese 10% tariff was however still implemented to which the Chinese government retaliated with their own set of tariffs against the US. Canada responded with promises of retaliatory measures, increasing the risk of a trade war. In addition, Trump also announced a 25% tariff on imports of steel and aluminium from all countries to come into effect on the 12th of March.

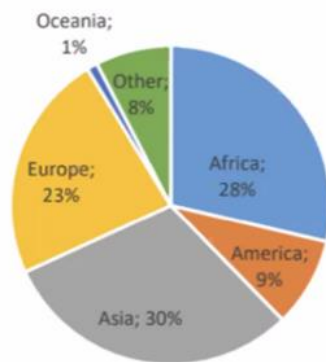
On the macro-economic side, the US labour market remains solid with the unemployment rate falling back to 4% from 4.1% the lowest level since May last year. Wage growth however increased to 4.1% which adds the inflation concerns again. Headline US inflation came out at 3%, slightly higher from than forecasts and the previous month's 2.9%. Confirming that the fight to lower inflation to its 2% target remains ongoing. Core inflation, which excludes energy and food increased from 3.1% to 3.3%.

Over the month there were also a number of US leading indicators that pointed to some weakness in the economy, raising concerns of a slowdown. Consumer sentiment fell to its lowest level in seven months and inflation expectations for the next 12 months increased to over 4%. Consumer confidence is important given that a significant portion of US GDP comes from consumer spending.



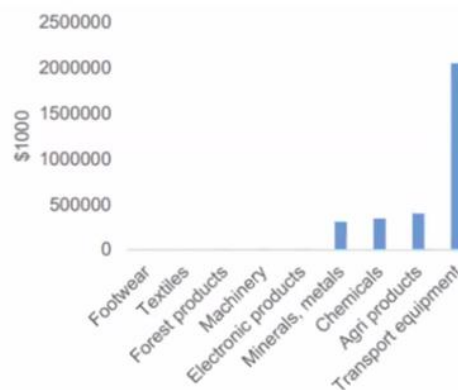
Locally the month got off to a shaky start as President Trump issued executive orders halting all aid to South Africa citing the Expropriation Act that was published at the start of this year. A significant part of the US aid funding went to the control of HIV. There is also speculation that the AGOA (African Growth and Opportunity Act) trade agreement between the US and South Africa could also not be renewed when it expires in September. The AGOA trade agreement allows for duty free access of certain South African products into the US market. Products include transport equipment, agricultural products, chemicals and minerals.

Figure 1: SA Export destinations



Source: SARS, Standard Bank Research, Rezco

Figure 2: SA Exports to the US benefitting from AGOA



Source: AGOA, Standard Bank Research, Rezco

Local inflation released showed that prices increased by 3.2% from a year earlier, in line with expectations. Increases in food prices and financial services contributed the most to inflation on the month. Fuel inflation remains a negative contributor, falling -4.5% from a year earlier, however its negative contribution is declining and therefore will be less of an offset going forward. StatsSA also reweighted their basket of goods and services which they use to make up the inflation index. This is done every couple of years in order to ensure that the basket remains relevant. There was no Monetary Policy Committee (MPC) meeting held over the month.

The South African budget was due to be released on the 19th of February, however due to non-consensus within the GNU over a proposed 2% VAT increase, it was postponed to the 12th of March. The VAT increase would have pushed the VAT rate to 17%, a level which Treasury still considers to be lower than many other countries. Treasury expected the increase would result in an annual increase of R60bn in government revenues. It remains unclear what alternative avenues can be used to source this revenue from now.



Index	Asset Class	FEBRUARY 2025
STEFI Composite Index	Local Cash	0.59%
FTSE/JSE All Bond (Total Return)	Local Bonds	0.07%
FTSE/JSE SA Listed Property (Total Return)	Local Property	-0.29%
FTSE/JSE Africa All Share (Total Return)	Local Equities	-0.01%
Bloomberg Global Aggregate (USD)	Global Bonds	1.43%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	2.59%
MSCI AC World (USD)	Global Equities	-0.57%

Source: Morningstar