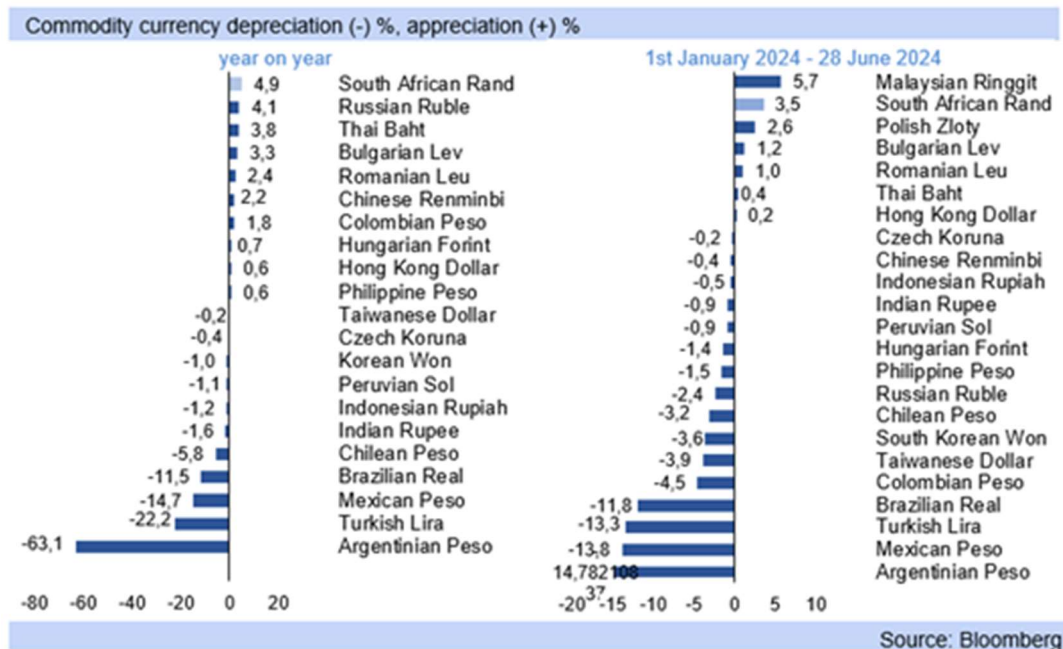


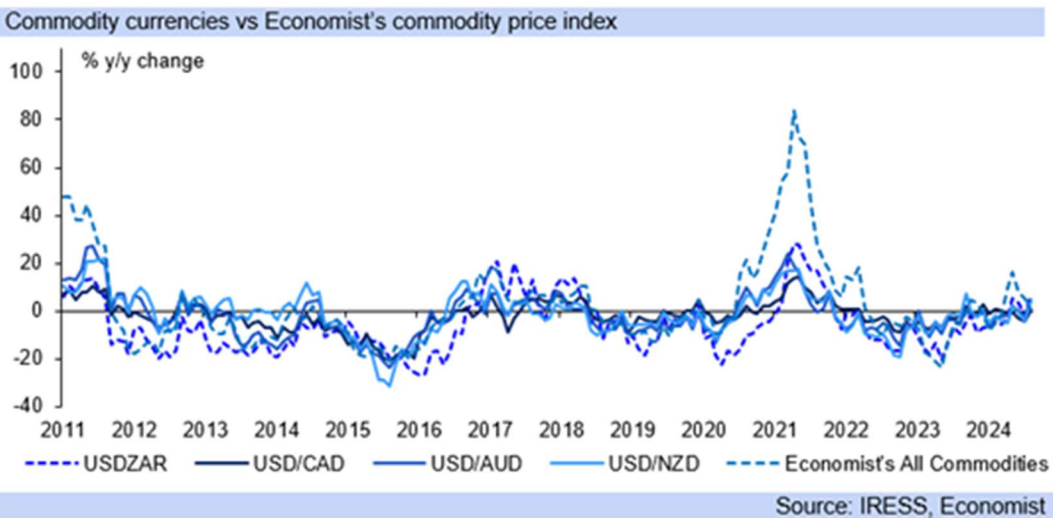
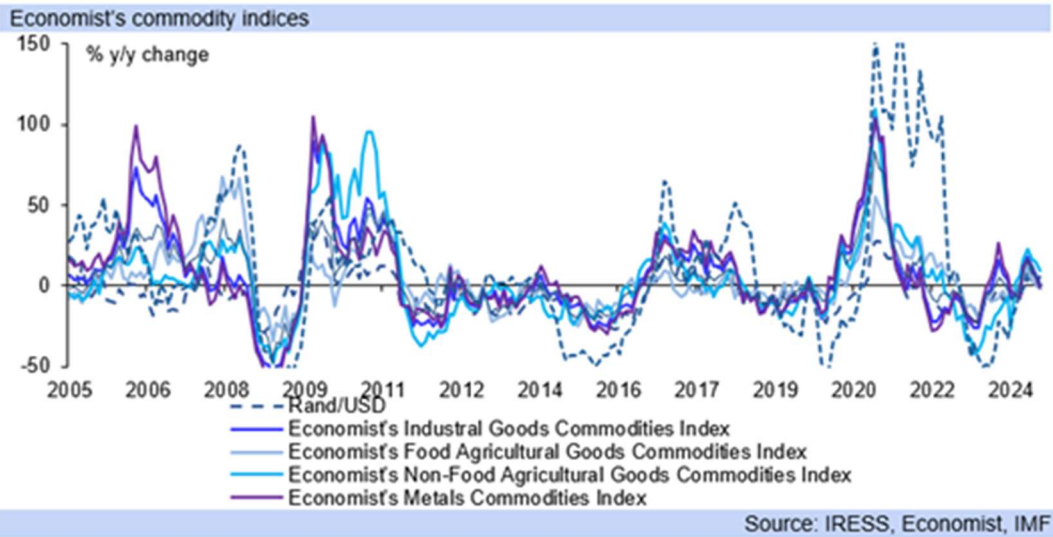
SA Economics



Commodities currencies note: commodities prices, and currencies, to benefit from the Fed interest rate cutting cycle

Wednesday 28 August 2024





- Global commodities prices have seen some volatility this year, tending stronger in H1.24 on a lift in global growth expectations, while H2.24 has seen worries on global growth, particularly US growth resume, weakening commodity prices.
- Consequently, commodity currencies have seen volatility too this year, which has added to risk aversion, with the rand afflicted by risk aversion but strengthening now as Central Bank' appetite for rate cuts increase.

- Next month, the US's monetary policy authority, the FOMC (Federal Open Market Committee), meets to decide on its interest rate stance on the 18th, and is expected to cut interest rates by -25bp, and evince a dovish tone.
- Fed Chair, Jerome Powell, highlighted at the Jackson Hole Economic Symposium that "the upside risks to inflation have diminished, and the downside risks to employment have increased." "The time has come for (monetary) policy to adjust."
- Powell added "(t)he direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks." "We will do everything we can to support a strong labour market".
- The ECB cut its benchmark deposit rate once this year in June by -25bp to 3.75%, the first time in close to five years, but highlighted at the time that price pressures remained relatively high, but it is expected to now cut again in September.
- In the UK, the Bank of England Governor, Andrew Bailey, is reported to have indicated that Britain's inflation pressure is becoming less stubborn than in recent years, adding to the positive narrative on weakening global inflation.
- Globally, commodities' prices, and commodities' currencies, benefit from a US interest rate cutting cycle, while emerging markets would be expected to see net capital inflows, with the rand both a commodity and emerging market currency.
- The rand has been volatile this year on the approaching national election and the waxing and waning of market expectations on future interest decisions, particularly in the US, and worries over global growth which has dented commodities prices.

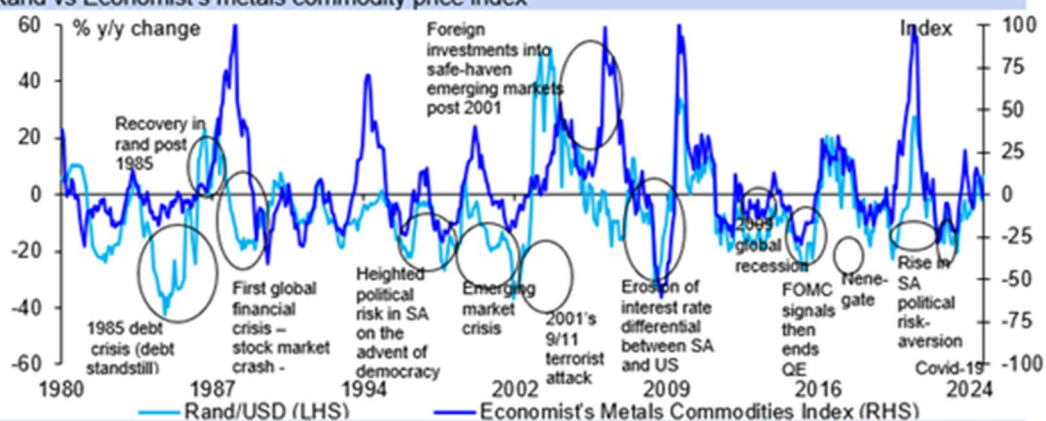
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Commodity prices

Commodity	% y/y	% m/m
Energy		
NYM WTI crude	-5.64%	-2.10%
ICE Brent crude	-5.70%	-1.8%
ICE ARA Gasoil	-25.76%	-4.58%
NYM NYH Gasoline	-20.10%	-9.21%
NYM NYH heating oil	-28.76%	-5.67%
NYM HH Nat gas	-26.25%	-5.18%
ICE NBP Nat gas	+11.25%	+19.13%
Metals		
LME Aluminum	+18.55%	+11.38%
LME Copper	+13.08%	+3.70%
LME Nickel	-17.60%	+8.50%
DCE Iron ore	-12.65%	+0.98%
SHF Steel Rebar	-11.16%	+3.49%
Spot Gold	+30.82%	+5.33%
Spot Silver	+23.12%	+7.10%
Agriculture		
CME Live cattle	+2.49%	-1.80%
ICE Coffee	+70.94%	+12.66%
CBT Corn	-23.51%	-7.22%
ICE Cotton	-19.99%	+5.98%
CBT Soybeans	-30.91%	-10.53%
ICE sugar	-21.06%	+6.41%
CBT SRW Wheat	-13.86%	-3.10%

Source: Bloomberg

Rand vs Economist's metals commodity price index



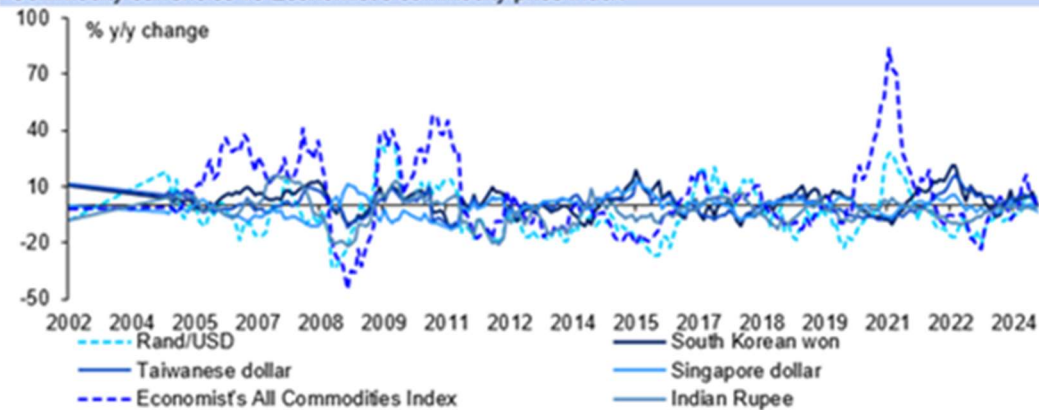
Source: IRESS, Investec



- The rand has strengthened to R17.65/USD this week, and currently is trading just below R17.80/USD, at an average for the quarter of R18.18/USD to date with almost two months completed, versus our forecast of R18.00/USD average for Q3.24.
- With the rand averaging R17.70/USD for September, this would then result in the Q3.24 outcome at R18.00/USD (quarter average). While the domestic currency has pierced the key resistance level of R17.70/USD it has battled to remain below it.
- From a supply side, there is little on the shortage side and price pressures that differs from the long run average, with S&P Global PMI Commodity Price and Supply Indicators report also finding supply chain pressures muted.
- S&P Global's Flash PMI survey finds that while its PMI's showed strengthening in advanced economies, this was mainly driven by services as opposed to manufacturing, subduing commodities price pressures.
- S&P Global further surveys reduced business optimism, and weakening order books, also highlighting that sustaining economic growth in advanced economies will be dependent on interest rate cutting cycles looking forward.
- In August "the G4 largest developed economies, output growth accelerated to the second fastest seen over the past 15 months to signal a solid GDP expansion in the third quarter providing September's data remains close to levels seen in recent months."
- "Beneath the surface, however, the PMI data send some warning signals that growth is not as healthy as it seems. First, manufacturing is looking increasingly weak, as output fell sharply across the G4 as a whole amid slumping trade flows".

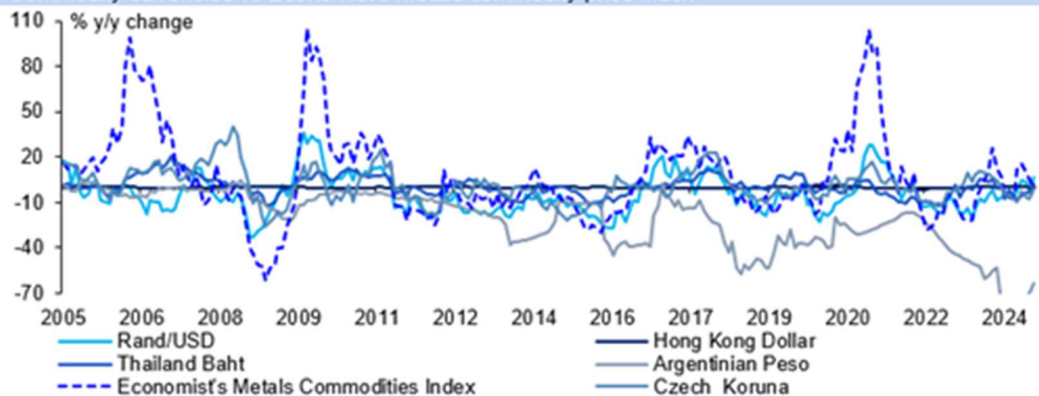
- “Factory production fell across the G4 for a third month, dropping at the sharpest rate since January to hint that the all-too-brief upturn seen in May has faltered. At the same time, new export orders fell across G4 manufacturers.”
- Markets remain cautious about risks to global, and US growth, with the US rate cut eagerly anticipated. However, muted commodity prices remain positive for SA’s inflation outlook and so for its interest rate cutting cycle beginning this year.

Commodity currencies vs Economist's commodity price index



Source: IRESS, Economist

Commodity currencies vs Economist's metals commodity price index



Source: IRESS, Economist

Gold price US\$ vs Rand value



Source: IRESS