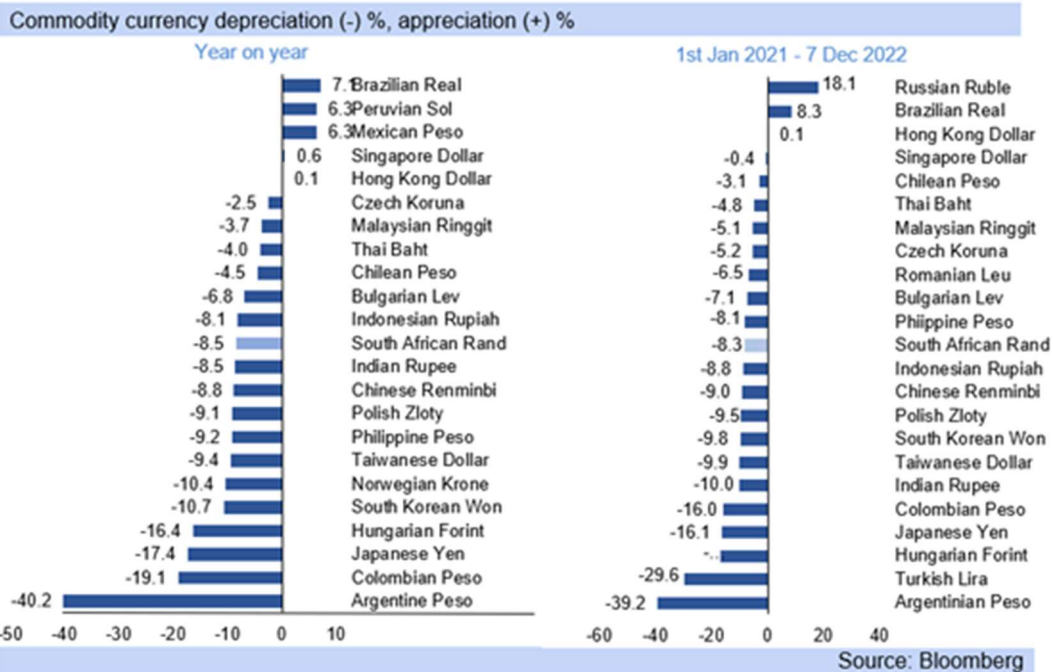


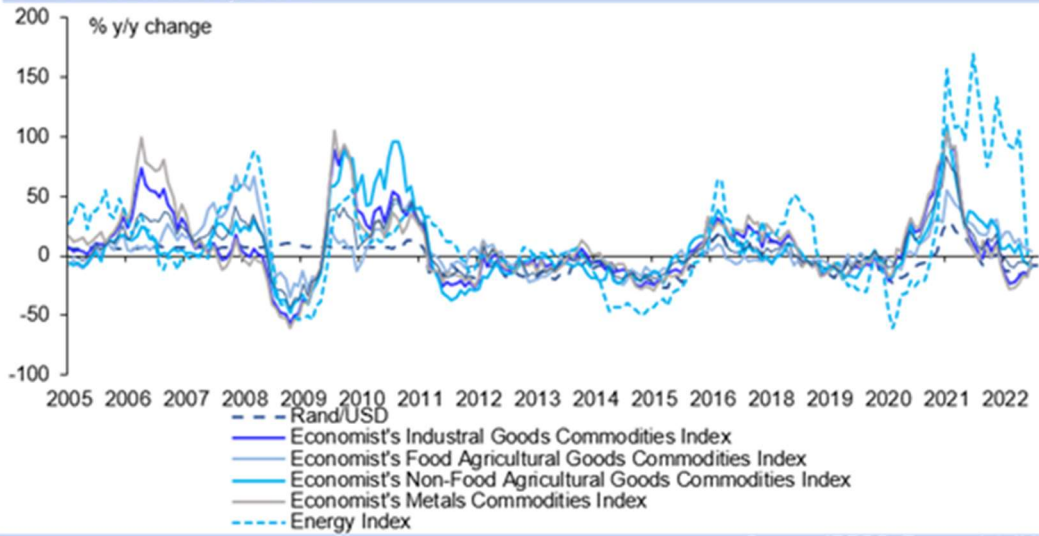


Commodity currencies: inflation could fall quicker than expected next year, taking some pressure off interest rates

Wednesday 7 December 2022

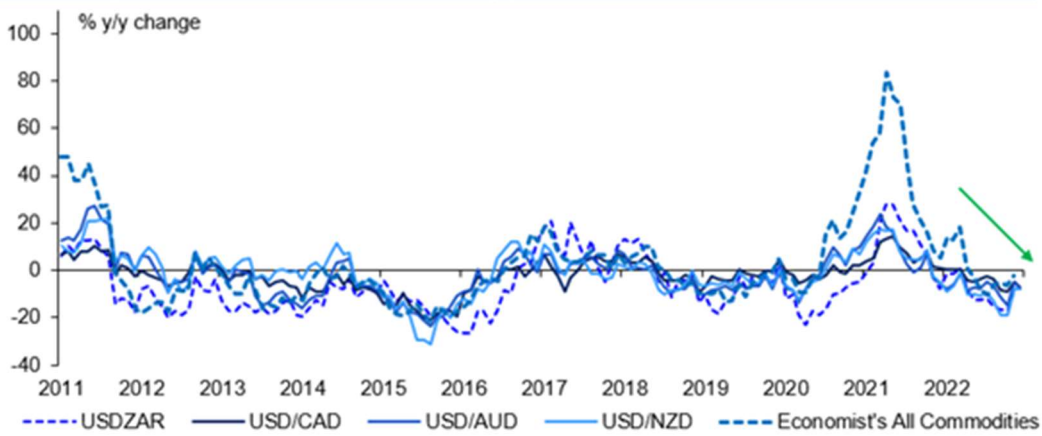


Economist's commodity indices



Source: IRESS, Economist, IMF

Commodity currencies vs Economist's commodity price index



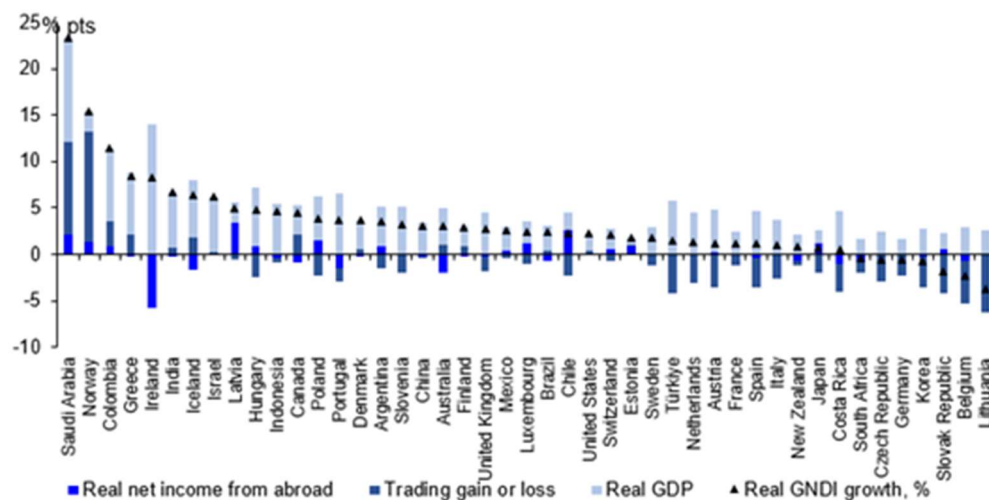
Source: IRESS, Economist

Commodity currencies vs Economist's commodity price index



Source: IRESS, Economist

Terms-of-trade losses have hit incomes in energy importing economies, especially in Europe

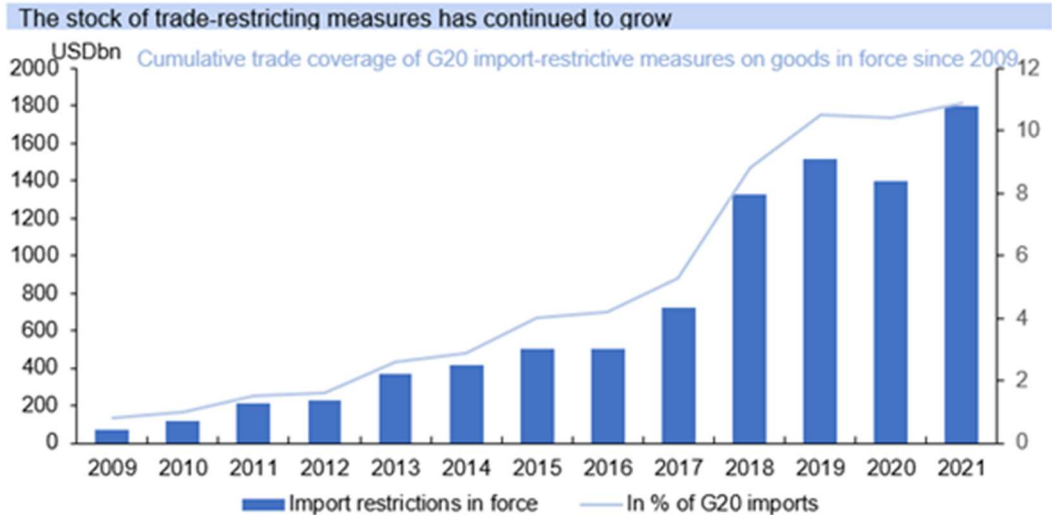


Source: OECD Economic Outlook November 2022

- The rand has settled above R17.00/USD, after tumbling on Thursday last week on the release of the Phala Phala report to above R18.00/USD from R16.80/USD, and so lost out on strengthening on Thursday as the Fed's Governor reduced his hawkish tone.
- Commodities prices have dropped since May, on both a year on year and month on month basis (Economist commodities price index), and this will likely continue until at least the second quarter of next year on an annual basis as high base effects fall out of the system.
- Global growth has slowed this year, weakening commodity prices overall. This has dulled the exchange rates of commodity exporting countries, although international food prices are bucking the trend, causing some pressure on inflation still, on an annual basis.
- On a monthly basis, food prices are volatile, causing some volatility in inflation numbers, which in South Africa's case, and typically in developing countries and EMs, sees food relatively highly weighted in the inflation basket .
- The high cost of living has had a marked effect on real wages (wages less the inflation rate), with International Labour Organization (ILO) annual report on remuneration finding that globally H1.22's real average monthly wage rate fell -0.9% y/y, the first drop in 15 years.
- The U.N. agency's report said there was little indication of wage increases driving inflation, and instead the fall in average real wages represents the first drop in worldwide living standards in the data's history.
- Furthermore, advanced economies were the worst affected among the G20 economies and the U.N.'s ILO report calculated that real wages had dropped by 2.2% y/y. Additionally, there was evidence of productivity outpacing wages in certain cases.

- This adds to a disinflationary (falling inflation) environment, with the UN calling on countries to protect workers from the current cost of living crisis, as falling real wages mean this would not have an inflationary (but rather a disinflationary) effect, while alleviating harsh conditions.
- Higher food prices, which are up 54% this year to end November, versus the same period in 2020, are driving food crises in poor countries, while key food exporters benefit from terms of trade and so typically their currencies, although oil importers have faced a suppressing effect.

Please scroll down to the second section below

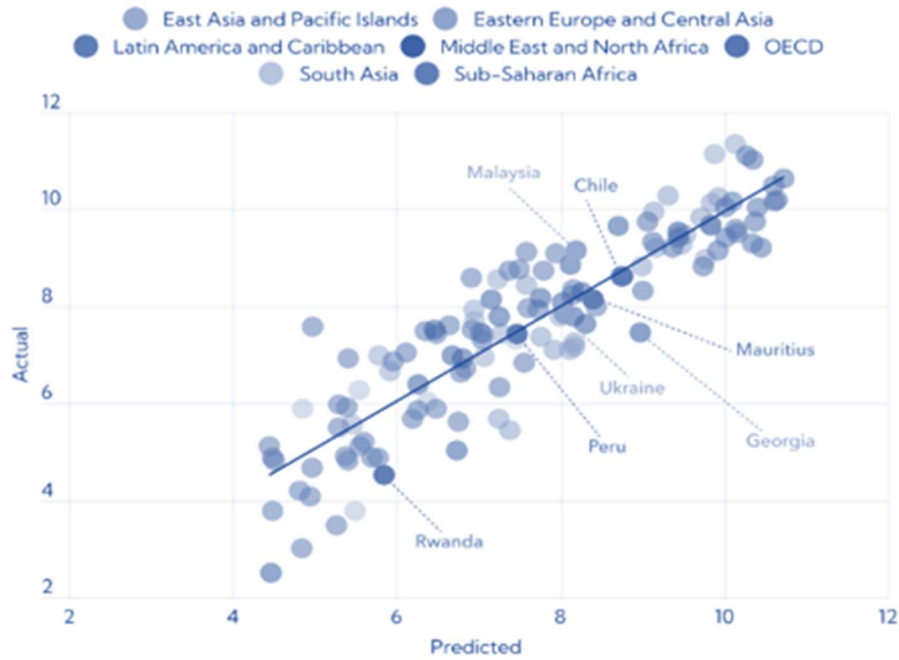


Source: OECD Economic Outlook November 2022

Note: Cumulative trade coverage based on information available on import measures recorded since 2009 and considered to have a trade restrictive effect. The estimates include import measures for which HS codes were available. The figures do not include trade remedy measures. The import values were sourced from the UN Comtrade database.

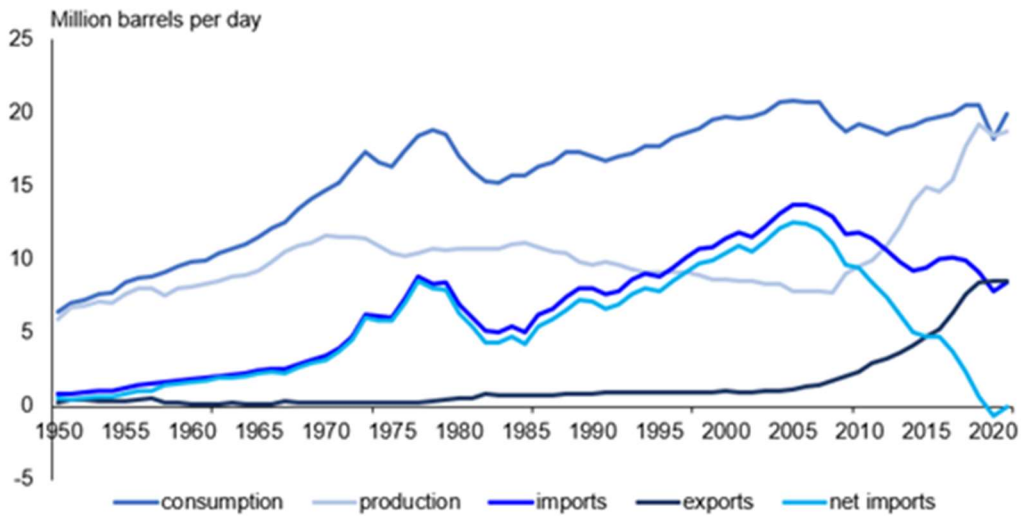
The backbone of exports

The statistical fit between actual and predicted exports shows that 80% of the cross-country variation in export levels is linked to proximity and four policy variables – governance, education, infrastructure, and trade policy openness. (Actual vs predicted non-commodity exports by country*)



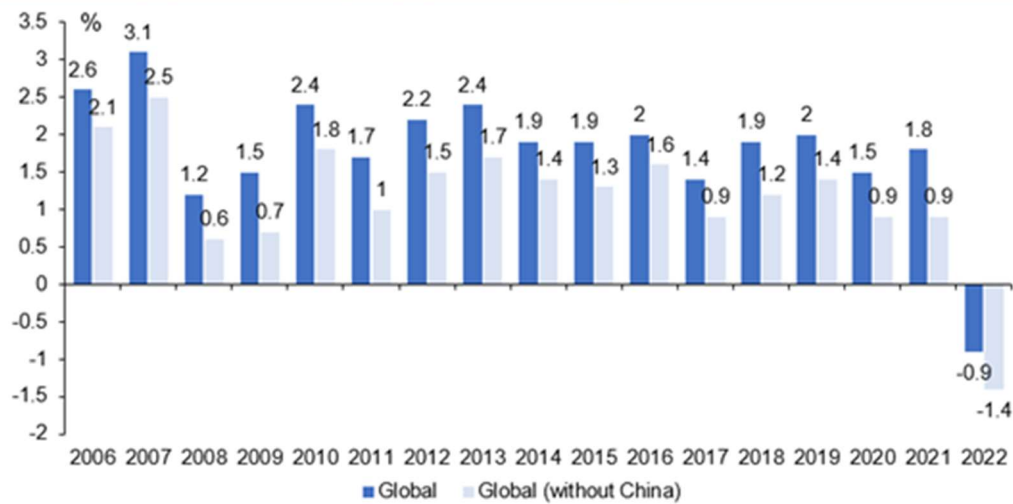
Source: IMF

US petroleum consumption, production, imports, exports and net imports, 1950-2021



Source: EIA

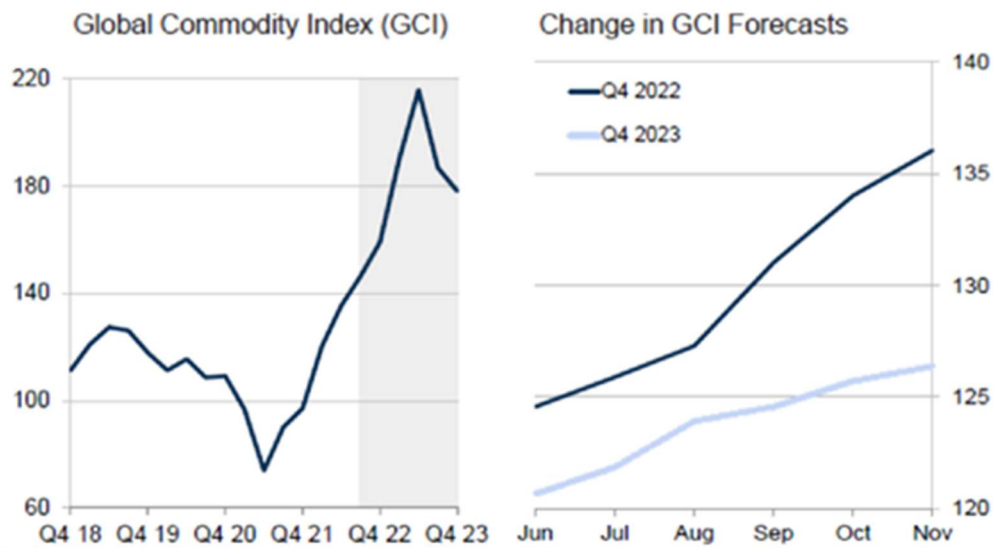
Annual average global real monthly wage growth, 2006-22 (%)



Source: International Labour

Note: Wage growth for 2022 was estimated by comparing the first two quarters of 2022 with the corresponding period in 2021

The Global Commodity Index and change in forecasts

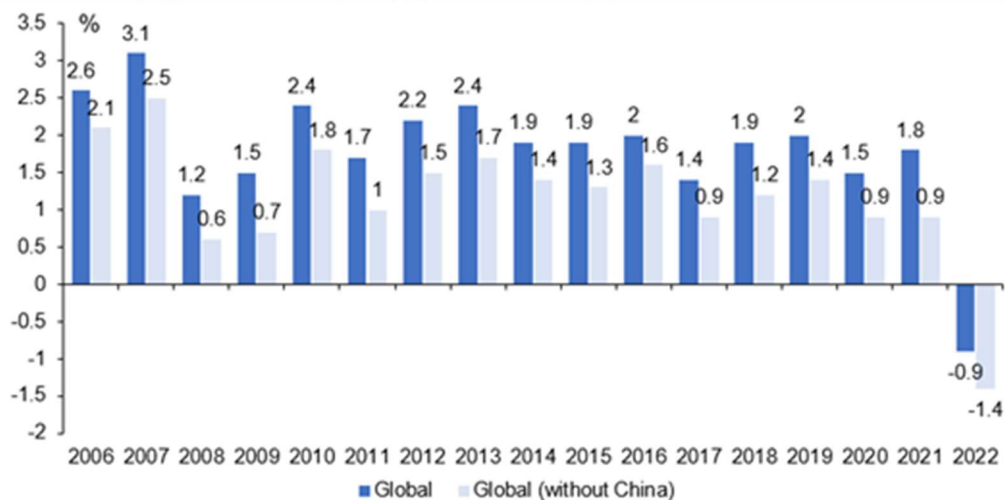


Source: Focus Economics

- South Africa's terms of trade rose in Q3.22 slightly over Q2.22, but Q4.22 saw a sharp plunge in October, as exports weakened notably, with imports experiencing only a slight dip, and the fourth quarter of the year often seeing a run-up in imports ahead of Christmas.
- SA's largest import, oil prices dropped in September, affecting October's oil import costs, while exports recovered sharply in SA in Q3.22, particularly bulk exports such as mineral and metals, vegetable products and paper products, as tallied by Statistics SA.

- South Africa is a food sufficient country, but the World Trade Organisation (WTO) warns on the effect of deglobalisation, as trade restrictions have accelerated, notably for food and commodities used in food production, such as biochemicals and feed.
- The WTO highlights that "(o)ut of the 78 export restrictive measures on food, feed, and fertilizers introduced since the start of the war in late February, 57 are still in place, covering roughly \$56.6b of trade".
- For Latin America and the Caribbean, the U.N. says "(t)he number of people in the region suffering from hunger increased by 13.2m to 56.5m," while moderate or severe food insecurity affected 267.7m people -- 40.6% of the region's population - - in 2021.
- Metals, industrial and non-food commodity prices were down on the year in both October and November, which impacts SA's currency, with most commodity currencies weaker y/y, and also year to date. Coal prices remain elevated, aiding SA's exports to some extent.
- Returning to wages, falling real wages negatively impact inflation and economic growth, while inflationary pressures, which have been driven from the supply side, in the main are seeing easing as commodity prices come of the high base of a year ago, impacting y/y inflation.
- There is room for global inflation to surprise on the downside in 2023, just as it surprised on the upside in 2022, with a lower than expected inflation outcome positive for reducing the severity of interest rate hike cycles, and so better for GDP outcomes.
- While risks remain, particularly increased protectionism as deglobalistaion persists, a better growth outcome for 2023 than currently expected could see commodity prices improve over 2023, aiding commodity currencies, although uncertainty is still relatively high.

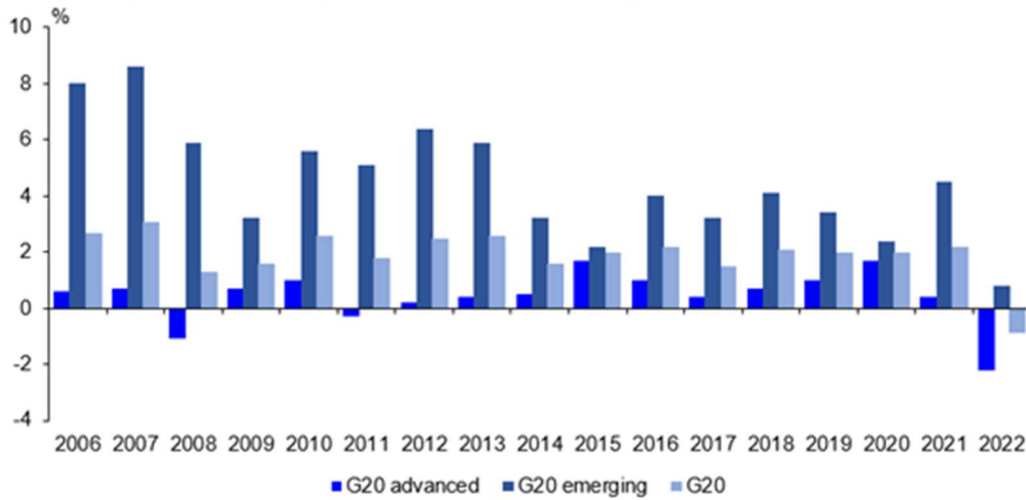
Annual average global real monthly wage growth, 2006-22 (%)



Source: International Labour

Note: Wage growth for 2022 was estimated by comparing the first two quarters of 2022 with the corresponding period in 2021

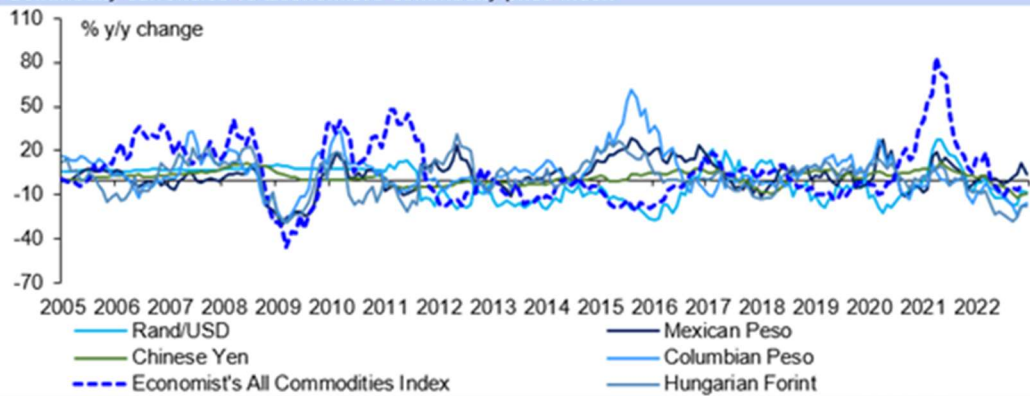
Annual average real monthly wage growth in the G20 countries, 2006-22 (%)



Source: International Labour

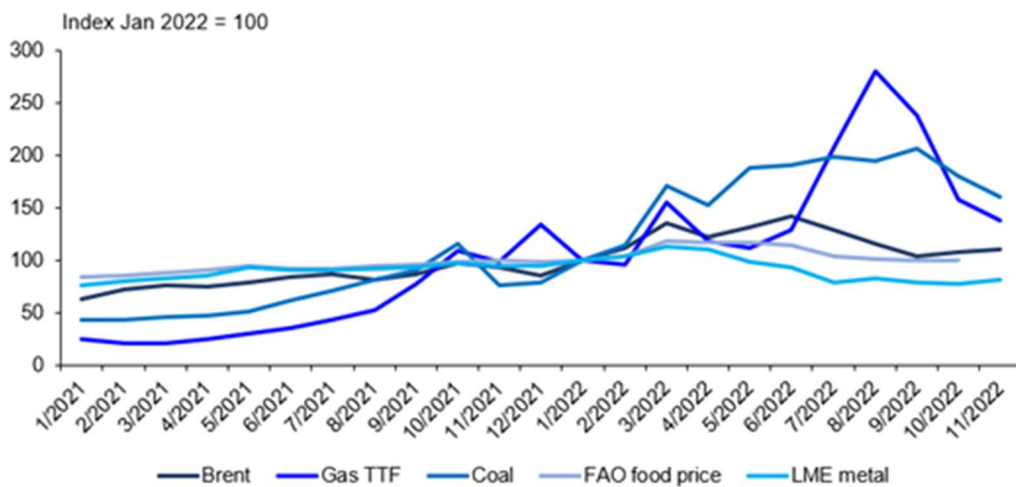
Note: The G20 comprises Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, the Republic of Korea, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the EU

Commodity currencies vs Economist's commodity price index



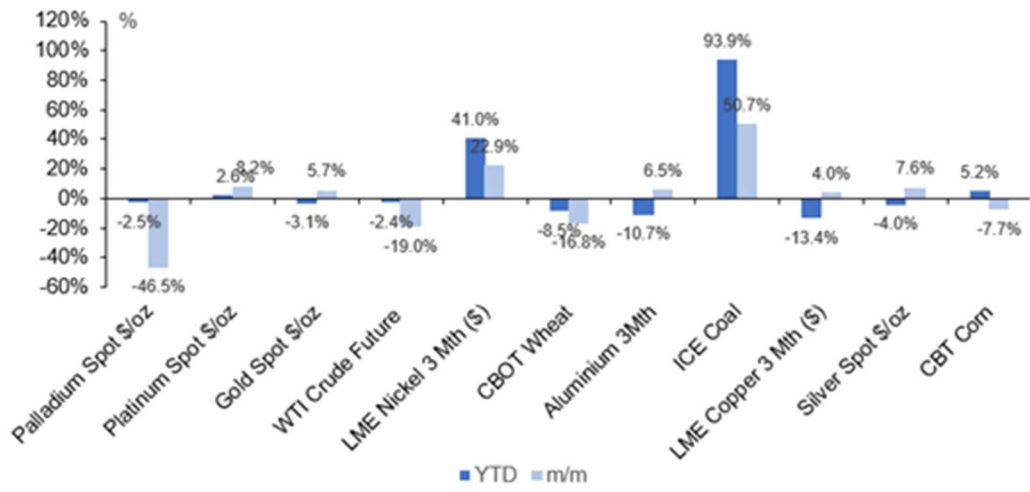
Source: IRESS, Economist

Commodity prices have diverged recently



Source: OECD Economic Outlook, November 2022

Commodity price performance



Source: Bloomberg

