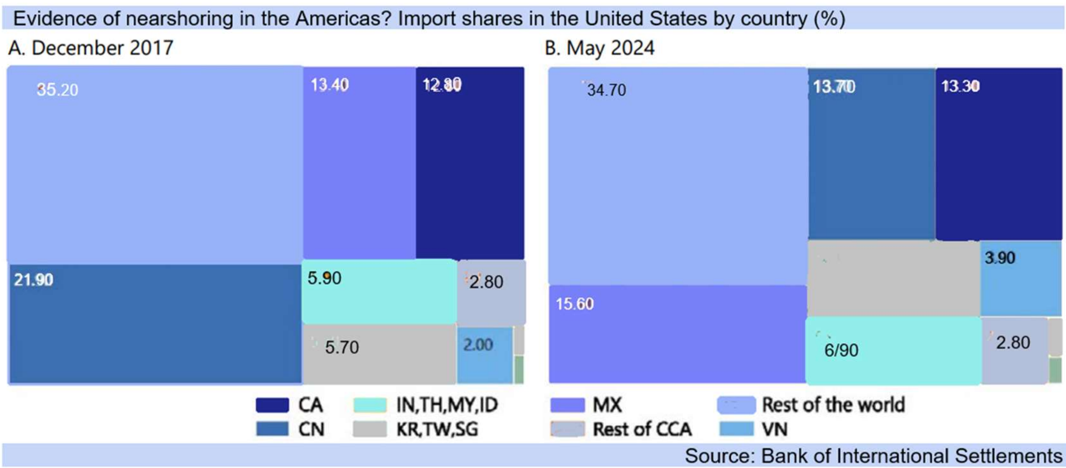
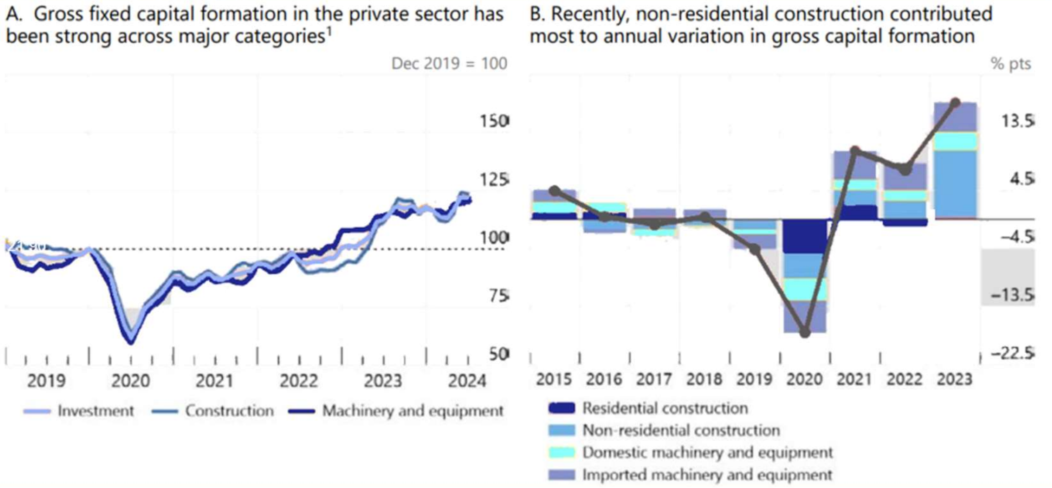
Investec

Fixed Investment Outlook: globally fixed investment is being affected by global trade shifts

Tuesday 8 April 2025



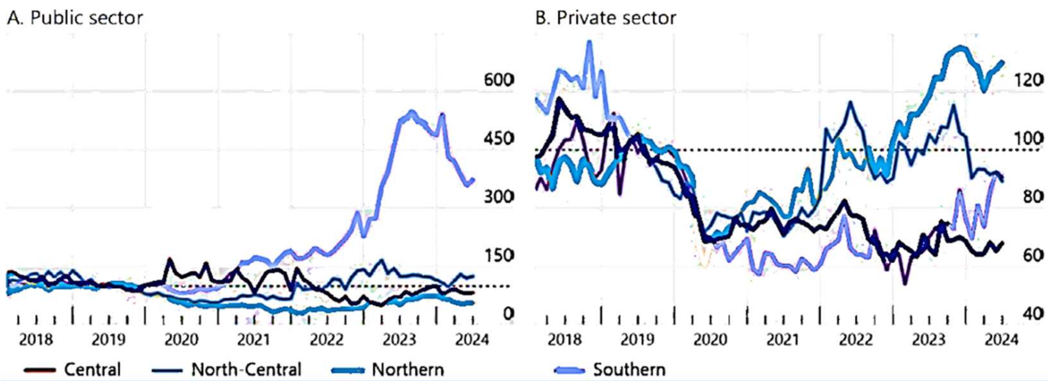
Evidence of nearshoring in Mexico



Source: Bank of International Settlements

Real value of production in the construction industry by Mexican regions[1]

Index 2019 = 100

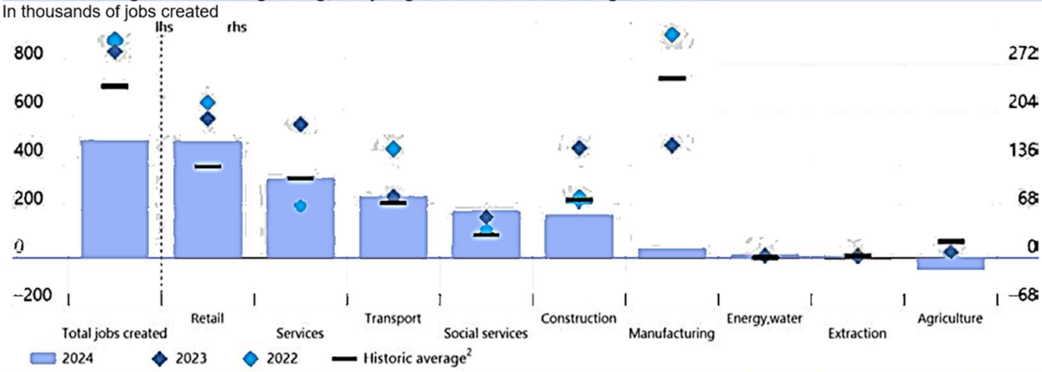


Source: Bank of International Settlements

Note: 1 Central: Mexico City, State of Mexico, Guanajuato, Hidalgo, Morelos, Puebla, Querétaro and Tlaxcala. Central North: Aguascalientes, Baja California Sur, Colima, Durango, Jalisco, Michoacán, Nayarit, San Luis Potosí, Sinaloa and Zacatecas. North: Baja California, Chihuahua, Coahuila, Nuevo León, Sonora and Tamaulipas. South: Campeche, Chiapas, Guerrero, Oaxaca, Quintana Roo, Tabasco, Veracruz and Yucatán.

Manufacturing in Mexico is growing, but job growth in manufacturing has slowed

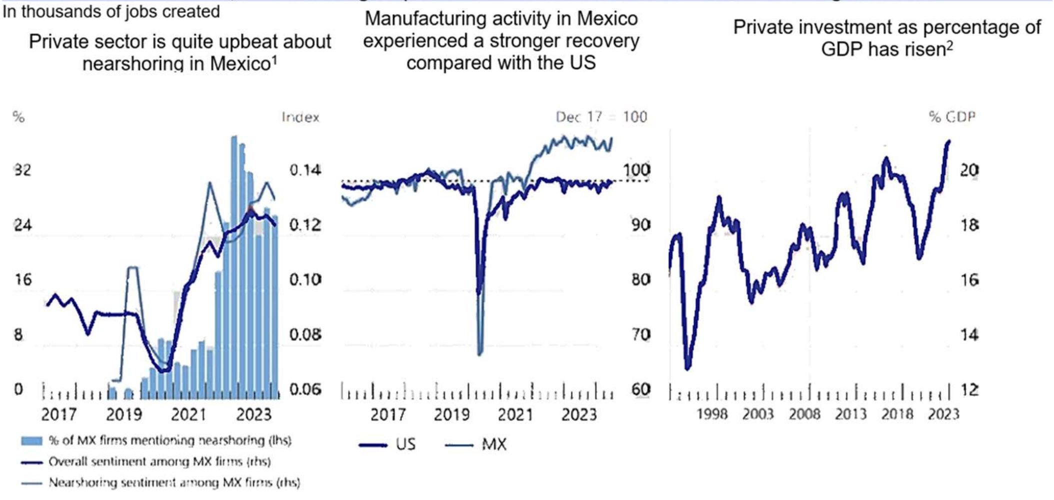
In thousands of jobs created



Source: Bank of International Settlements

Note: 1 Data values for the first half of each year. 2 Data for the period 2016 – 22, excluding 202 (COVID-19)

Private sector sentiment, manufacturing output an investment show indication of nearshoring in Mexico



Source: Bank of International Settlements

Note: [1] Sentiment analysis is based on the Huang et al (2023) FinBERT model. A higher value means a more positive perception of nearshoring. Data are extracted from earnings calls of listed Mexican firms during the Q1 2017–Q1 2024 period. [2] Three-month moving average.

- Markets remain focused on the potential for the breakup of the coalition between the DA and the ANC in government in SA, which has driven the rand even weaker today, to R19.65/USD, as market concerns are deep on a break-up.

- The rand would likely weaken substantially further on the DA's exit from government, pushing up fuel and other prices, towards R21.00/USD or weaker, depending on which political parties enter the GNU on a DA exit.

- The rand has been undermined by the high political uncertainty prevailing in South Africa, with the rand weakening generally, reaching R21.46/EUR from R19.52/EUR and R25.00/GBP, from R23.47/GBP.

- The uncertainty has also negatively affected markets, as the decision continues to pend. Currently rand weakness has cancelled out a fuel price cut which was building for this month, while further rand weakness will result in a petrol price hike.

- The broad sweeping US tariffs announced at the start of the month has seen marked US dollar weakness, which would have resulted in rand strength against the US dollar instead, to R17.50/USD or beyond, strengthening the depth of a fuel price cut.

- US tariffs are open for negotiation, and a number of countries are expected to engage the world's largest economy on the recent announcements. If unchanged at current rates, an effective 22%, US imports are expected to drop 30% (Bloomberg).

- For China, the tariff increase is estimated at closer to 50% (Bloomberg) on the announcements to date, and 14% for the EU, with the EU also worried about Chinese dumping of cheap imports (it no longer sells to the US).

- The negative effect on the volume of goods exported to the US is expected to affect trade volumes and global growth. Geopolitical tensions are high as deglobalisation and trade defragmentation will gather pace, negatively affecting US growth as well.

- Unpredictability is high, negatively affecting fixed investment in SA and globally. Global trade is complex and highly intertwined and the 'bring investment home' trend (onshoring) has driven the protection of critical supply chains.

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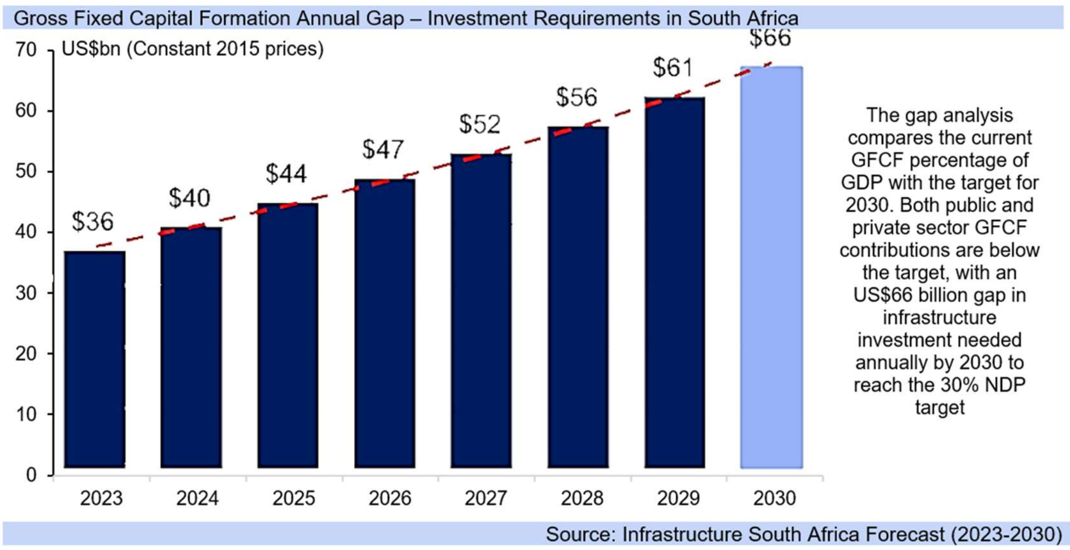
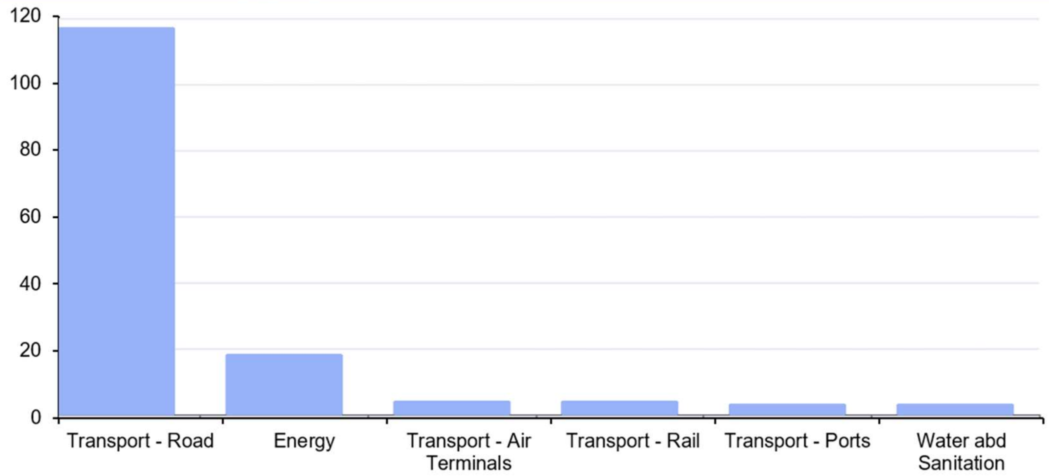
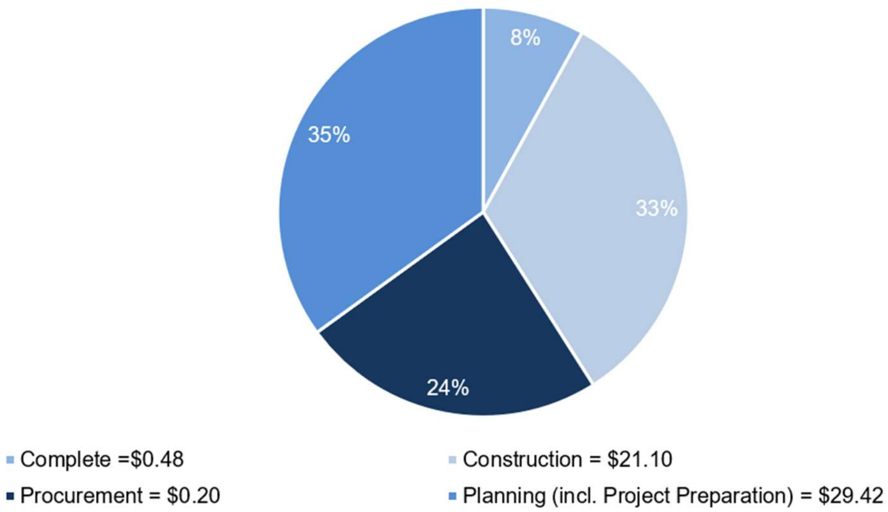


South Africa - Number of projects per sector

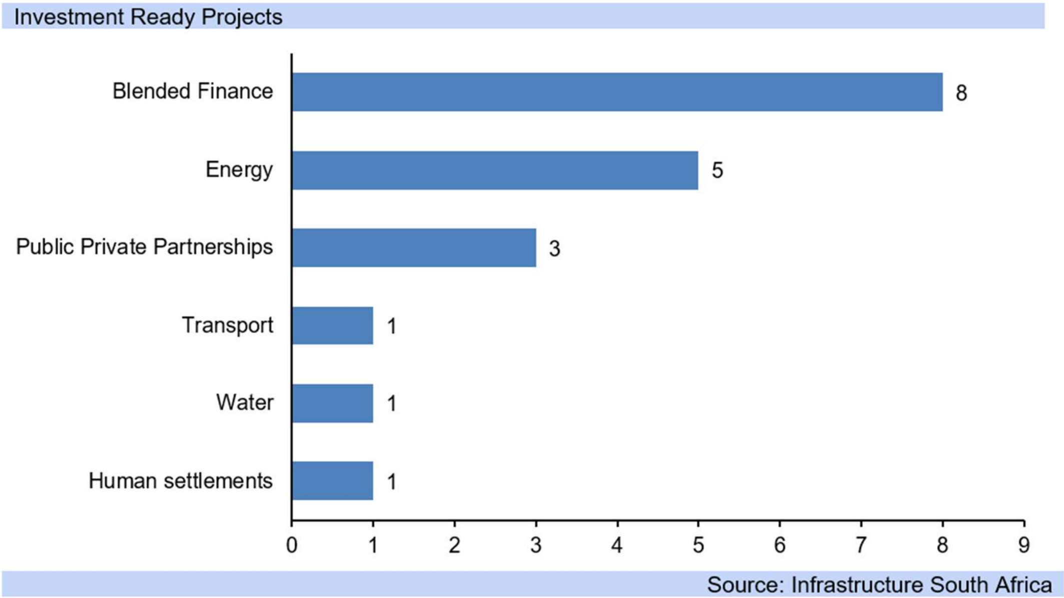


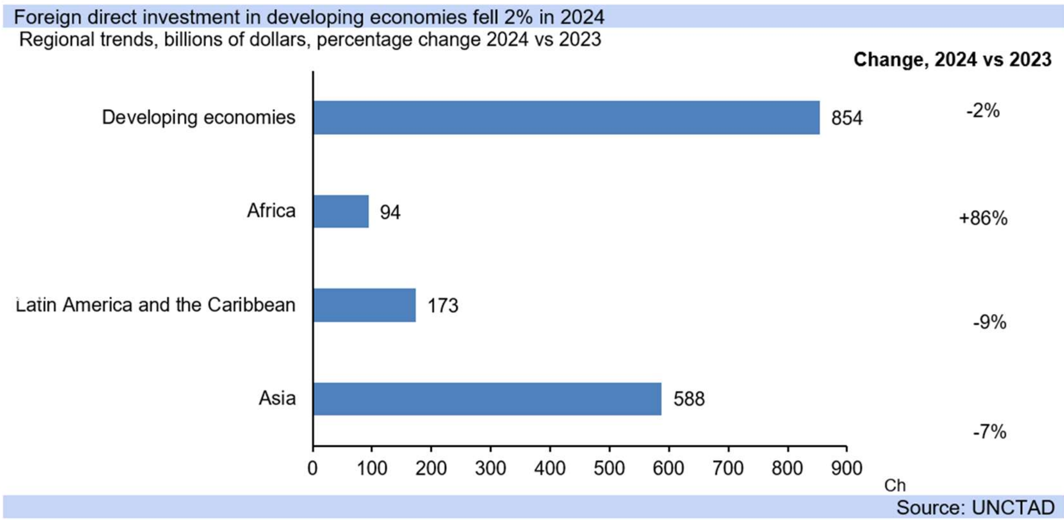
Source: Infrastructure South Africa Forecast (2023-2030)

South Africa - Infrastructure projects at various stages of development



Source: Infrastructure South Africa





- Geopolitical tensions had increased the role of the flow of capital, with the US-western Europe bloc and the opposing bloc which has China at its core, and China pursuing its race to become the world’s largest economy.

- In particular, the ‘bring investment home trend’ saw major economies seek to protect critical supply chains such as energy production, critical medical production and the defence industrial supply chain.

- However, with the insular nature of the Trump Administration’s tariffs, the relationship has broken down to some degree in the West, and geopolitical and financial market uncertainty has risen substantially.

- Western corporates had tended to pick sides, through onshoring and friendshoring, while as capex spend has shifted away from China and countries, with most greenfield FDI now in friendly states.

- The Trump administration has shifted the trade and investment dynamic once again, now seeking particularly to protect critical industries in the US, bolstering their footprint (production).

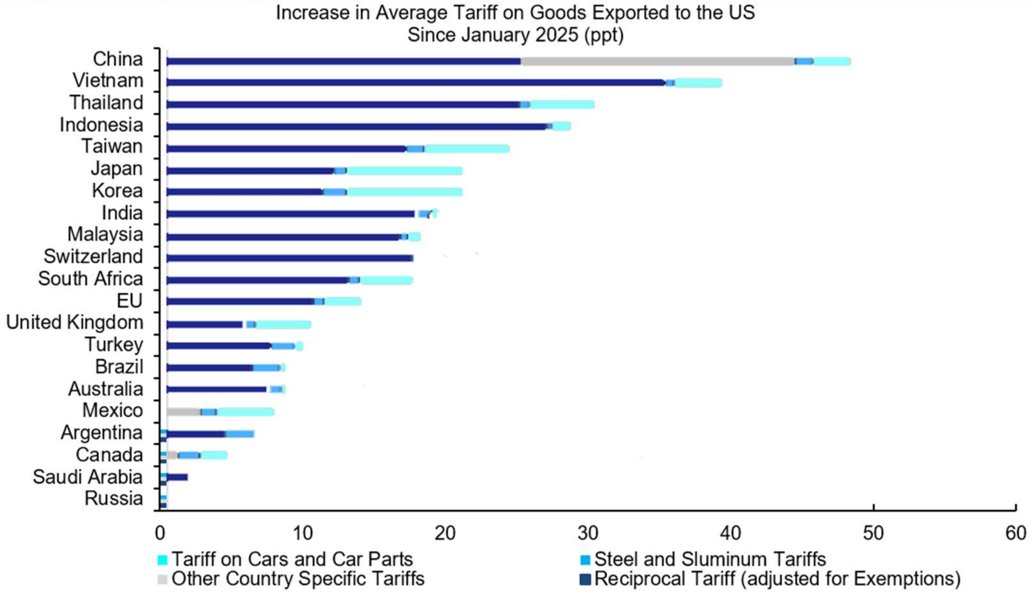
- The shocks are greater in the short-term as over the longer-term countries find new markets for their exports. The smaller and more open (and less diversified) the country the greater the risk to economies from the US trade shock.

- Bloomberg further estimates that China risks losing up to 85% of its exports to the US, and Vietnam 75%, while the EU is affected by up to 40% on its exported goods to the US. SA's total exports to the are just below 10%, and AGOA's around 5%.

- Markets are awaiting more signalled changes from the US, particularly revaluations on the tariffs and trade relations, which will also inform fixed investment, with a differentiated expected impact of the US trade war on countries around the world.

- Domestically, Q1.25 has not seen a jump in the performance from Transnet so far, while the loss of AGOA and recent tariff lift from the US will negatively impact SA's motor vehicle and agricultural sectors in particular, and related fixed investment.

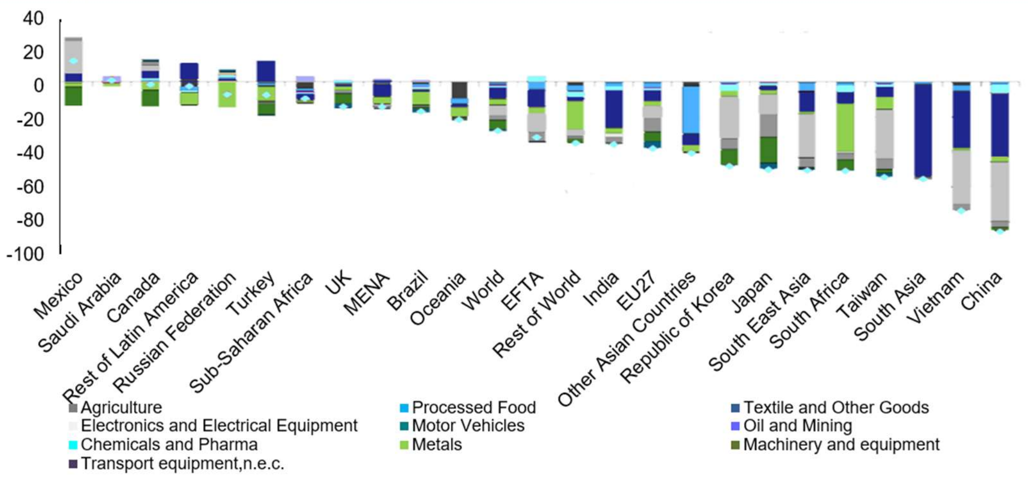
Trump 2.0's Historic Tariff Shock



Note: Source: Bloomberg

Note: Includes G20 countries (EU as a bloc) as well as any partners not in the G20 but in the top 15 countries with which the US ran the largest Trade deficits in 2024.

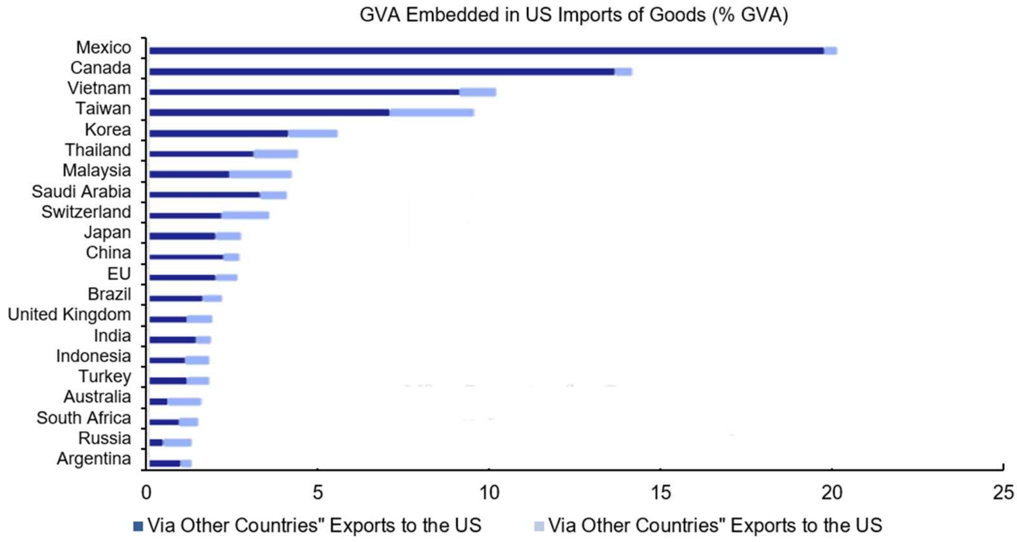
Modeling the Hit to Trade



Note: Source: Bloomberg

Note: Results for 2030, using the model's projections of trade flows under a baseline of unchanged tariffs and a scenario with Trump 2.0 tariffs. South Asia: Pakistan, Bangladesh, Sri Lanka.

Macroeconomic Exposure to US Demand



Note: Source: Bloomberg

Note: 2023 data used from the ADB MR10 when the country is covered in the ADP dataset, OECD TiVA data for 2020.

Major trade shock

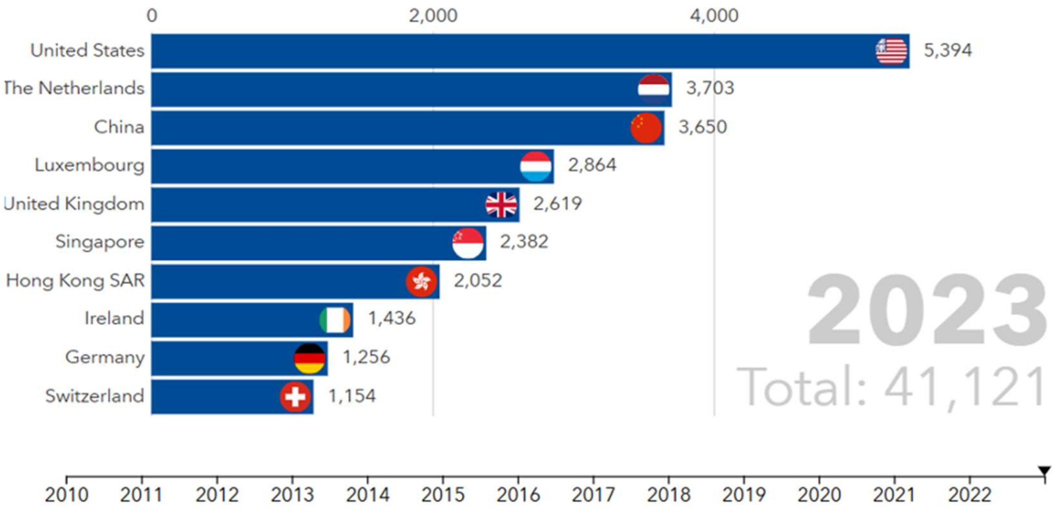
Country	**Trade shock**		**Country's overall GDP at risk from drop in US demand**	**GDP at Risk**	
	Effective tariff shock	Impact on country's exports of goods to the US (% from Baseline)		(of which, due to own losses of exports to the US)	(of which, due to Partners' losses of exports to the US)
Argentina	6.6	-2.6	-0.1	0.0	-0.1
Australia	8.7	-21.9	-0.6	-0.1	-0.5
Brazil	8.7	-17.1	-0.5	-0.3	-0.2
Canada	4.5	-1.5	-0.3	-0.2	-0.1
China	50.0	-85.6	-2.1	-2.0	-0.1
EU	14.2	-38.2	-1.0	-0.8	-0.2
India	19.9	-35.8	-0.6	-0.5	-0.1
Indonesia	29.6	-50.6	-0.9	-0.6	-0.3
Japan	21.8	-50.2	-1.3	-1.0	-0.3
Korea	21.6	-48.2	-2.5	-2.1	-0.5
Malaysia	18.6	-50.6	-1.9	-1.2	-0.7
Mexico	7.9	11.8	2.4	2.5	-0.1
Russia	0	-7.4	-0.4	0.0	-0.3
Saudi Arabia	1.8	1.0	-0.3	0.0	-0.3
South Africa	18.0	-50.8	-0.7	-0.5	-0.2
Switzerland	18.4	-31.8	-1.2	-0.7	-0.5
Taiwan	25.1	-54.7	-4.8	-4.1	-0.8
Thailand	31.3	-50.6	-2.0	-1.6	-0.4
Turkey	10.1	-7.4	-0.3	-0.1	-0.2
United Kingdom	10.6	-14.2	-0.4	-0.2	-0.2
Vietnam	40.7	-73.8	-7.4	-7.1	-0.4

Source: Bloomberg Economics

Note: includes G20 countries (EU as Bloc) as well as any partner not in the G20 but in the top 15 countries with which the US ran the largest trade deficits in 2024. GDP at risk is calculated using total GDP exposed to US goods imports (ADB MRIO, OECD, TiVA) combined with CGE estimates of the change in US demand.

The United States continues to lead as the top destination for inward foreign direct investment

Top 10 FDI recipients, billions of USD



Source: IMF