Market Matters

SYMMETRY

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A DREAM DEFERRED

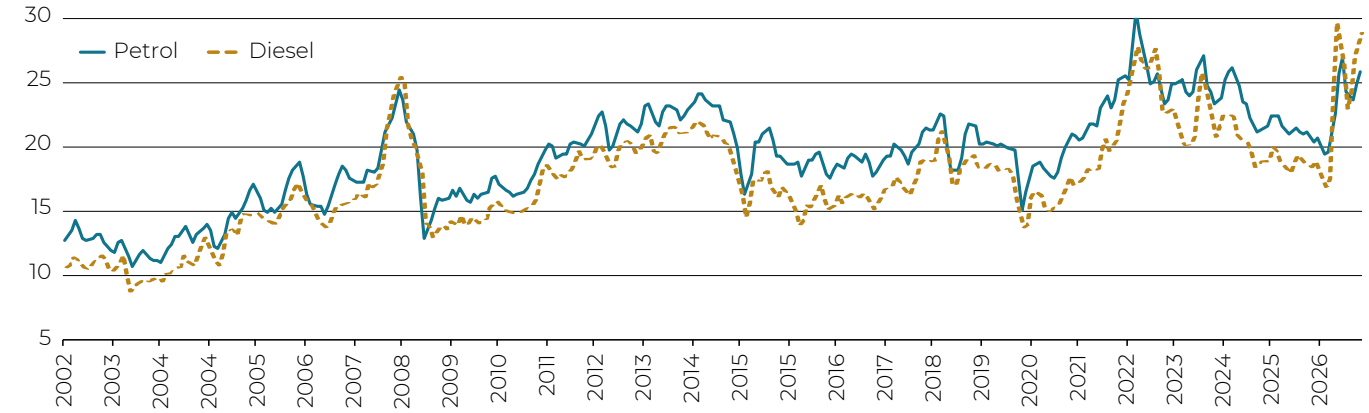
Synopsis:

- South Africa's economy contracted in the second quarter largely due to the spike in global fuel prices.
- Fuel prices have surged again in recent weeks, putting renewed downward pressure on economic activity in South Africa and the rest of the world.
- The expected acceleration in local economic growth is therefore likely to be delayed, but not permanently.
- Important structural reforms will raise the medium-term growth potential of the economy, while precious metals prices remain an important tailwind.
- Combined with reasonable valuations, this means the outlook for real returns from domestic asset classes remains favourable.

The cost of fuel in South Africa spiked in the second quarter, contributing to a decline in inflation-adjusted economic growth. Unfortunately, the war between the US and Iran is escalating again and crude oil prices hit triple-digit levels again last week. Iran's allies, the Houthis, have seized a strategic Red Sea port which could further disrupt shipping, while Saudi-Arabia's East-West pipeline was shut after a drone strike. All this is compounded by Ukrainian attacks on Russian refineries, further reducing the worldwide availability of refined products.

Therefore, after declining in July and August, local petrol and diesel prices increased sharply in August and September, with another increase looming in October based on the current daily under-recovery. As chart 1 shows, that will push the real price of petrol and diesel back towards June's level. This will squeeze household finances and business margins.

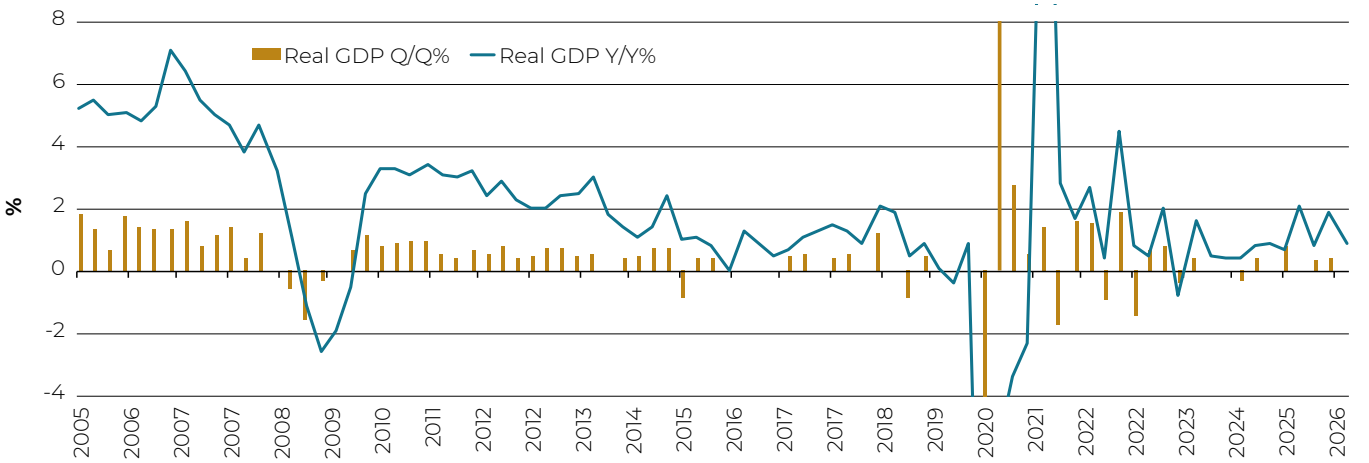
CHART 1: SOUTH AFRICAN RETAIL PETROL AND DIESEL PRICES, ADJUSTED FOR INFLATION



Source: CEF, Stats SA, Symmetry calculation

According to Stats SA, real gross domestic product (GDP) declined by 0.2% in the second quarter after the first string of six consecutive positive quarters since 2016. Compared to a year ago, the economy was still 0.9% larger. This means the underlying growth trend is around 1%, which is not exciting by global standards but still represents an improvement from the dismal trend of around 0.5% over the previous decade. Unfortunately, renewed fuel price pressures mean that the expected growth acceleration is unlikely to materialise for now. While deferred, the dream is not dead, however, as we'll explain below.

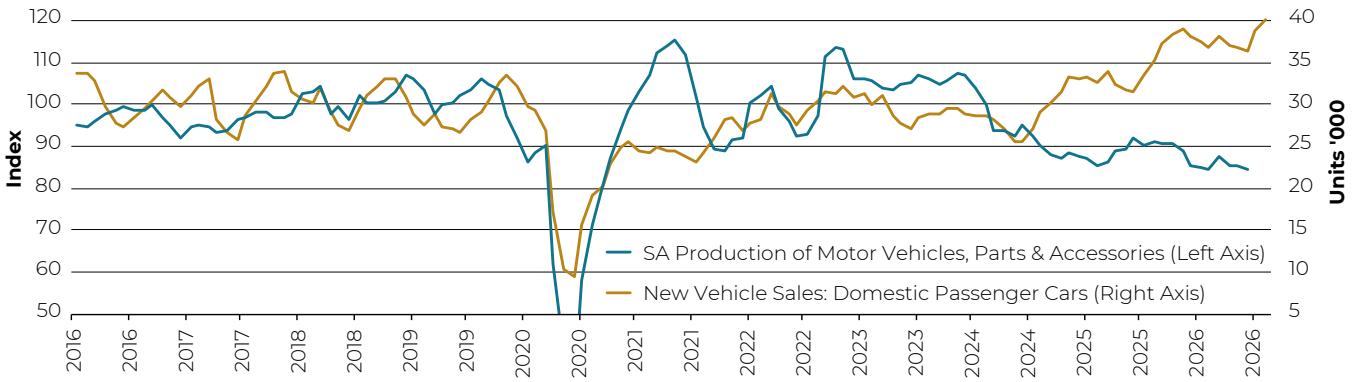
CHART 2: SOUTH AFRICAN ECONOMIC GROWTH, %



Source: Stats SA. Axis truncated around the pandemic.

The contraction in GDP in the second quarter was not just due to the impact of fuel prices, but also because of weaker production levels in the mining and manufacturing sectors. These tend to be volatile at the best of times, and one shouldn't read too much into a single quarterly decline. For the mining industry, elevated commodity prices mean firms have every incentive to increase production, rather than cut back output due to a lack of demand. For manufacturing, it is more difficult to be unambiguously positive as South African factories have limited exposure to the AI capex boom that is driving strong output growth in other countries. Meanwhile, the automotive industry, one of the biggest manufacturing sectors, faces increased competition from China and US tariff headwinds. Upbeat car sales numbers suggest that household finances are not as precarious as is often noted. However, as chart 3 shows, a big gap has opened between local sales of new vehicles, which expanded at a robust 12% year-on-year in August, and local production levels.

CHART 3: SOUTH AFRICAN AUTOMOTIVE TRENDS



Source: Stats SA, Naamsa

Beyond the quarterly volatility, the bigger picture is that mining and manufacturing output have been stagnant for years. Both sectors are key to the national economy and job creation but are hampered by infrastructure bottlenecks. While loadshedding is largely a thing of the past, electricity prices keep increasing rapidly, making some forms of manufacturing activity, notably smelting, uncompetitive. As much as politicians love talking about the dream of adding value to, or beneficiating South Africa's mineral wealth, that dream must also be deferred until electricity is affordable. Eskom has offered special tariffs to keep some of the smelters afloat, but the latest proposed 9% increase for everyone else is still three times the Reserve Bank's inflation target. Ultimately, only meaningful competition can stabilise prices.

CRUCIAL REFORMS

This is why the current reforms under way are so important. The plan to separate transmission from electricity generation is still on track to be completed next year. It has been slow going, but unbundling a 100-year-old vertically integrated monopoly is not a simple exercise. Eventually, all power generators should be able access the grid and compete on a level playing field, completely reshaping the electricity market in the process.

A similar process is underway in the key logistics sector. On its own, Transnet cannot move the country's mineral output and needs outside support. It has similarly been split into a Rail Infrastructure Manager (TRIM) that owns and manages the tracks, while Transnet Rail Freight runs the trains. TRIM is opening access to its rails for private companies to run trains on. Ditto for the ports, where the Transnet National Ports Authority is the owner of the infrastructure, but the operators of the port (the loading and unloading of ships) will increasingly be done by private entities, including experienced international players. In the case of Container Terminal 2, the biggest in the country, it is now run by a joint venture between Transnet and a private Philippines company. There have been teething problems but also progress with the World Bank and S&P's Container Port Performance Index (CPPI) showing the Port of Durban to be the most improved port in the world in 2025.

The restructuring of the logistics sector has been a slow process, but Transnet is also a century old monopoly. And while there have been some obstacles to these reforms in logistics and electricity markets, they have faced remarkably little political pushback. Only a few years ago, anything that looked like privatisation would have been taboo. Today, it is largely taken for granted that opening space for private participation in these crucial network industries is necessary to unlock investment and improve operational performance.

A few weeks ago, Phase 3 of the Government-Business Partnership was launched. It flew under the radar somewhat, but marks the ongoing improvement in the relationship between the government and business, which will help to cement important reforms and create a platform for responding to unforeseen future events. This relationship largely broke down in the 2010s, and the impact on the economy and the investment climate was notable. While government and business perform different roles in society, collaboration is necessary to achieve faster and more inclusive growth.

The partnership is structured around three broad pillars. Firstly, electricity and logistics, the "growth enablers". Secondly, the "growth sectors", areas where there is the potential to expand investment and employment, notably mining, agriculture, tourism and infrastructure. The third

pillar consists of the "confidence multipliers" changes that will improve the general investment climate, specifically tackling crime and corruption and addressing the challenges in major municipalities like Johannesburg.

The latter is crucial, since Johannesburg is responsible for a sizable portion of national economic activity. While welcome, the partnership between business and national government will not make much headway in this area if there isn't stable and committed leadership at the metro level. Johannesburg has had nine mayors in ten years, and it is no wonder that it has deteriorated rapidly in terms of its finances and infrastructure. The main thing investors will want to see from the upcoming local government elections is therefore the emergence of more stable municipal coalitions.

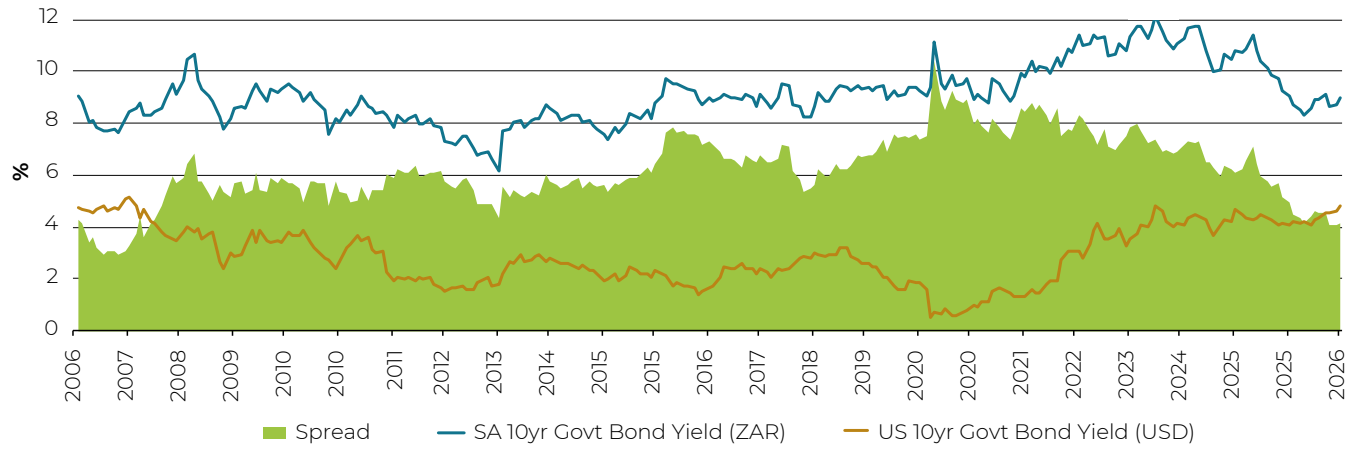
FISCAL CONSOLIDATION

Also looming is the October Medium Term Budget Policy Statement. It should show continued modest progress in fiscal consolidation, i.e. stabilising debt levels. Tight fiscal policy is never politically popular but is being maintained despite the November election. Although some parties are making big promises, there is very little that can be called populism or vote-buying giveaways. This contrasts with countries like Brazil, where analysts are concerned that fiscal policy is being loosened ahead of next month's presidential election. Even more egregious was US President Donald Trump's promise of a $5 000 "dividend" to all American adults if the Republican Party maintains control of Congress after the midterm election. While unlikely to materialise, this naked attempt at vote buying would cost around $1.3 trillion. This at a time when the US government's borrowing levels are already alarmingly high and the benchmark 10-year US Treasury yield is approaching 5% for the first time in 18 years.

South Africa's progress in fiscal consolidation has already reduced the government's borrowing costs over the past two years, which also lowers hurdle rates for new investments by the private sector. The decline in South African government bond yields is even more striking considering how much yields in developed countries have increased. The South African government therefore currently pays the smallest "spread" over equivalent US government bond yields since 2007 as chart 4 shows.

However, the relentless rise in government bond yields across developed countries means that public finances are in the spotlight everywhere. In a higher-for-longer global interest rate environment, South Africa cannot afford to backtrack on its fiscal consolidation efforts or the reforms to raise economic growth. In an uncertain global environment, it becomes more important for South Africa to get its own house in order and develop its own growth drivers that do not depend on what other countries do.

CHART 4: SA AND US GOVERNMENT BORROWING COSTS



Source: LSEG Datastream

Global markets are going through a volatile patch as interest rate expectations shift and geopolitical risk is rising again. This is spilling over to local shores in the form of higher fuel costs, but the impact on local bond and equity markets could also rise. However, local markets still offer reasonable value, and with an improving medium-term economic outlook, patient investors can still earn decent real returns in the years ahead. The key, as always, will be to not overreact to short-term market moves or disappointing economic data.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US$	4 937.0	-1.00%	-0.62%	11.44%	16.03%
United States	S&P 500	US$	7 657.0	-0.80%	-0.38%	11.85%	17.22%
Europe	MSCI Europe	US$	2 824.0	-1.71%	-1.84%	6.85%	13.96%
Britain	FTSE 100	US$	14 408.0	-1.58%	-1.76%	7.67%	14.17%
Germany	DAX	US$	2 514.0	-2.10%	-4.05%	4.34%	6.75%
Japan	Nikkei 225	US$	416.9	-1.76%	0.29%	29.75%	38.33%
Emerging Markets	MSCI Emerging Markets	US$	1 722.0	-0.23%	0.17%	22.65%	31.45%
Brazil	MSCI Brazil	US$	1 968.0	1.08%	6.55%	19.56%	28.29%
China	MSCI China	US$	72.2	-3.02%	-3.81%	-12.52%	-15.52%
India	MSCI India	US$	925.8	-2.81%	-3.16%	-12.24%	-10.03%
South Africa	MSCI South Africa	US$	761.0	-2.31%	-0.52%	2.42%	23.74%

EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	115 165.0	-1.34%	-0.94%	-0.58%	10.81%
All Share	All Share (Total Return)	Rand	22 363.0	-1.02%	-0.59%	2.15%	14.88%
TOP 40/Large Caps	Top 40	Rand	20 607.0	-1.04%	-0.55%	2.46%	15.47%
Mid Caps	Mid Cap	Rand	31 547.0	0.14%	0.54%	-4.19%	8.90%
Small Companies	Small Cap	Rand	54 202.0	-0.83%	-0.38%	0.78%	13.62%
Resources	Resource 20	Rand	12 433.8	-0.06%	1.52%	12.91%	41.71%
Industrials	Industrial 25	Rand	27 201.0	-1.64%	-2.71%	-12.36%	-11.95%
Financials	Financial 15	Rand	21 387.0	-1.40%	-0.52%	7.11%	24.96%
Listed Property	SA Listed Property	Rand	3 188.6	-2.00%	-1.28%	1.61%	16.29%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government Overall (USD Unhedged)	S&P	US$	74.3	-0.69%	-0.37%	-3.04%	-4.63%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 411.2	-1.00%	-0.49%	3.01%	14.21%
Government Bonds	BESA GOVI	Rand	1 384.2	-1.03%	-0.50%	2.96%	13.93%
Inflation Linked Bonds	BESA CILI	Rand	462.2	0.20%	0.21%	6.32%	17.17%
Cash	STEFI Composite	Rand	669.9	0.13%	0.21%	4.76%	6.98%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US$	104.6	8.65%	16.23%	71.49%	58.50%
Gold	Gold Spot	US$	4 347.0	-3.06%	-2.20%	0.91%	19.72%
Platinum	Platinum Spot	US$	1 804.0	-1.15%	-0.55%	-10.20%	30.54%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	16.14	-1.05%	-0.15%	2.60%	7.56%
ZAR/Pound	ZAR/GBP	Rand	21.83	-1.15%	0.00%	2.15%	7.92%
ZAR/Euro	ZAR/EUR	Rand	18.71	-0.92%	0.04%	3.95%	8.86%
Dollar/Euro	USD/EUR	US$	1.16	0.00%	0.17%	1.21%	0.86%
Dollar/Pound	USD/GBP	US$	1.35	-0.08%	-0.21%	-0.21%	0.53%
Dollar/Yen	USD/JPY	US$	0.01	-1.73%	-3.88%	-2.00%	4.28%

Source: I-Net, figures as at 11 September 2026

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