

On the bright side

Lindsay Hall,
Technical Investment Specialist

20 September 2024

The remainder of 2024 appears less eventful for South Africa. National election uncertainty is well behind us and the perils of load-shedding are fading into 2023 history, bringing stability to the macro-economic environment. While market volatility is likely to persist globally, it's an opportune time to pause and take stock of local economic prospects and investment potential. Amidst South Africa's known and significant challenges are some positive signs of much needed economic reform. Noteworthy factors include:

Electricity stability

The negative impact of loadshedding extended beyond the loss of power and drove a significant loss of business confidence in SA in 2023, and this year began with some trepidation around Eskom's ability to restore sustainable power to businesses and homes. By the end of August 2024, Eskom reported 152 consecutive days of no-loadshedding proving success of strategic plans to improve generation. Positive has been the sustained increase in the Energy Availability Factor (EAF) which rose from 57% in April to 67% by end of July.

The outlook for sustainable improvement is promising despite ongoing challenges. The increase in private sector generation is positive while the separation of electricity and energy from the mining and petroleum resources ministry – following the formation of the GNU – has been welcomed by the market.

Consumer recovery

The pressure of inflation and rising interest rates is finally subsiding. The Fed recently reduced rates by 0.5% paving the way for South Africa to follow without the fear of devaluing the currency. A 25bps cut in September with more expected this year supports the consumer outlook which should have a positive revenue impact on many SA companies over the summer months. The recent launch of the Two-pot retirement system will also bring a temporary boost to the consumer wallet as many South Africans choose to ease cash constraints by withdrawing a small allowable element from their retirement savings.

Turning around infrastructure

Logistics issues including port congestion, poor maintenance, debt challenges and weakening rail capability have been well publicised when it comes to Transnet. A turnaround of the SOE could substantially boost South Africa's GDP going forward and needs to be closely monitored. The challenge is complex and will take time. While the organisation recently reported financial losses, management remains committed to increasing rail volumes (and revenue) allowing the SOE to manage its debt obligations. Critical steps to include the private sector are positive even though tariff disagreements are slowing the process. Continued privatisation will be key to getting rail logistics back on track.

Welcoming tourists and skill

South Africa's new minister of Home Affairs, Dr Schreiber, recently reported, that research by National Treasury showed that attracting more skilled workers is the second-most powerful intervention to stimulate economic growth in South Africa. Furthermore South Africa is an attractive destination and has the potential to boost the economy through tourism. Administration and corruption have long impacted the ability of SA's Home Affairs, yet this department plays a critical role in enabling economic growth. Positively, initiatives are already underway to modernise and digitally transform administration of visas and the new minister has bold plans in place for the department.



Resilience and ongoing delivery are certainly required to tackle well-established issues and drive economic reform in South Africa. Green shoots are evident and **as we race toward the end of 2024 it is worth keeping an eye on the bright side.**

Disclaimer

Truffle Asset Management (Pty) Ltd is a registered Financial Services Provider (FSP Number: 36484). Registered for Categories I and II. This document does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation, and is only intended for the use by the original recipient/addressee. If further distributed by the recipient, the recipient will be responsible to ensure that such distribution does not breach any local investment legislation or regulation.

Prospective investors should inform themselves and take appropriate advice as to any applicable legal requirements and any applicable taxation and exchange control regulations in the countries of their citizenship, residence or domicile which might be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any investments. Opinions expressed are current opinions as of the date appearing in this material only. The information is confidential and intended solely for the use of Truffle's client's and prospective clients, and other specific addressee's. It is not to be reproduced or distributed to any other person except to the client's professional advisers.

While information obtained is from sources we believe to be up to date and reliable, Truffle does not guarantee the accuracy or completeness thereof. Truffle does not accept any liability for inaccurate or incomplete information contained, or for the correctness of any opinions expressed. Past performance is not an indication of future performance. The uncertain macro-economic environment continues to fuel financial market uncertainty.

Contact Information

E: info@truffle.co.za

T: +27 11 325 0030

A: Ground Floor, Lancaster Gate,
Hyde Park Lane Business Complex,
Hyde Lane, Hyde Park, Sandton, 2196

truffle.co.za

