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INTERNATIONAL MARKETS
- TRADE WAR WEIGHS ON MARKETS

► NIKKEI, S&P 500 CLOSE LOWER

It was an ugly month for global equities, which sank on the trade spat between the US and China. This outweighed a more dovish rhetoric by major central banks in developed markets (DMs), which had benefited global equity markets in earlier months. The MSCI All Country World Index plunged 5.9% in May 2019, driven weaker by a fallout in developed and emerging equity markets.

The MSCI DM Index finished the month 5.8% in the red, with equity markets in Japan and the US leading the index lower. The Nikkei 225 Index suffered a 7.5% knock in May 2019 in line with heightened trade conflict between the world's two-largest economies and a firmer yen, which gained on increased risk aversion.

This was followed by a 6.4% dip in the S&P 500 Index. Bloomberg noted this was the worst monthly return for May in seven years and the second-worst return since the 1960s. Negative trade developments between the US and China and Mexico hurt the return from US shares in the month and stirred volatility in global equity markets.

Losses were softer in the MSCI Europe, Middle East and African (EMEA) Index, which fell 3.7% in the month. The MSCI Latin American Index performed better on a relative basis, losing only 2.0% in May 2019.

► RECESSION PREDICTED

Morgan Stanley issued a news report towards the end of May that a recession may be on the way. "Evidence that a recession lies ahead is mounting," according to the report. The company listed three reasons for this outlook: U.S. economic data is getting worse; credit markets are sending a warning and growth sectors are underperforming.

LOCAL MARKETS - ELECTION OUTCOME WELL-RECEIVED BUT CHALLENGES REMAIN

►MUTED POSITIVE RESPONSE TO NEW CABINET

The much-anticipated South African elections and the subsequent cabinet appointments delivered a largely market-friendly outcome in May but the challenges for the local economy are looming larger than ever. International events affected local markets and the local currency. The rand was also affected and closed 2.5% lower than in April. SA equities followed global markets down in May 2019, as the trade war between the US and China continued to rattle markets. The FTSE/JSE All-Share Index slipped 4.8% in the month, dragged lower by resource and industrial shares. This was the worst return in seven months and followed five consecutive months of gains.

The FTSE/JSE Industrials Index dove 6.0% in May 2019. Retailers performed well in the last week of the month on a broadly positive reconfiguration of cabinet. This was followed by a 5.1% decline in the FTSE/JSE Resources Index. Although the US dollar price of gold ended the month 1.7% higher, the price of platinum sank 10.6%. Meanwhile, losses were capped at 2.3% in the FTSE/JSE Financial Index for May 2019. Bank shares reacted favourably to the announcement of the new cabinet.

In its May 2019 review, S&P kept the foreign currency sovereign rating on South Africa (SA) unchanged at BB on a stable outlook. The rating agency expects some reform to follow the outcome of the 2019 national elections to improve economic growth and fiscal outcomes.

► INFLATION BELOW EXPECTATIONS

Inflation slowed to 4.4% in April, below expectations, strengthening the case for the Reserve Bank to maintain interest rates.

Measured by the annual change in the consumer price index (CPI), inflation decelerated from March's 4.5%. This was below a poll by Trading Economics, which expected inflation to rise to 4.7%; and the Bloomberg consensus, which expected inflation to remain flat at 4.5%. This is despite the steepest fuel price hike in four years in April — a third consecutive hike that was countered by muted underlying inflation.

Viewed over the long term, however, SA inflation is rather alarming. Economist Mike Schüssler, reported on Netwerk24 that consumer prices have increased by 84.9% from January 2008 to April this year. This is mostly thanks to increases in administrative prices managed by various government agencies. The price of water increased by 205% over the term under review and electricity prices by 351%.

► VEHICLE SALES DECLINE

The National Association of Automobile Manufacturers of South Africa (Naamsa) said that new vehicle sales continued to disappoint into May 2019, while export sales were also down for the first time this year.

Naamsa reports aggregate domestic sales at 40 506 units showed a decline of 2444 units or 57% from the 42 950 vehicles sold in May last year. Export sales had registered a decline of 2866 vehicles or a fall of 8.8% compared to the 32 829 vehicles exported in May 2018.

Overall, out of the total reported industry sales of 40 506 vehicles, an estimated 35 506 units or 87.7% represented dealer sales, an estimated 5.8% represented sales to the vehicle rental Industry, 3.6% to industry corporate fleets and 2.9% to government.

Sources:
Anchor Capital, Momentum, Morgan Stanley, Wheels24, Netwerk24

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