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## GLOBAL MARKETS BREXIT AFTERMATH LINGERING

**Global markets continued to assess the fall-out from last week's landmark Brexit vote. Politics in Britain is very much in turmoil as a result, both in the governing Conservative party and in the opposition Labour Party.**

Having announced his resignation last week, David Cameron is to step down by October 2016. In the meanwhile, the ruling party is fielding five candidates for the prime minister's position. Chief among them are Michael Gove, the Secretary of State of Justice, and a leader of the Vote Leave campaign, and Theresa May, the Home Secretary, who kept a low profile during the campaign. The candidate most favoured to lead the party, Boris Johnson, who in a way symbolised the Vote Leave campaign, surprised the country by deciding not to stand.

On the other side of the benches in the British parliament, the Labour Leader Jeremy Corbyn faces a vote of no-confidence supported by the majority of his members of parliament, but has despite that refused to budge. Clearly the British political scene has many twists to navigate before they settle on a team to negotiate their way out of the European Union.

In the meanwhile the European Union has stated it will brook no informal discussion with the Brits until they trigger Article 50 of the Lisbon Treaty, which is when the two year period begins for Britain to exit the EU and in which time it will officially be able to start discussing its future relationship with that body.

To add to Britain's woes, the rating agency S&P downgraded Britain's sovereign debt from AAA to AA, which should, all things being equal, increase the country's borrowing costs.

Against this background, Bank of England governor Mark Carney, in a speech on Thursday the 30<sup>th</sup>, stated that the bank will exercise vigilance during this period of turmoil, and that the monetary policy committee will be watching events as they unfold.

The economic outlook for Britain is an uncertain one. The markets have in the meanwhile increased the probability of a rate cut from the Bank of England at its August 4<sup>th</sup> monetary policy meeting from 25% pre-Brexit to 55% as of Friday the 1<sup>st</sup> July. Central bankers around the world have also promised to open the liquidity spigots to support any wider fall-out from Brexit.

**BRITAIN VOTES BREXIT**  
**WHAT HAPPENS NOW?**

The markets have reacted in a rather bifurcated way in the week after Brexit. Given the enhanced liquidity promises of the central banks, the UK (and other major equity markets), after initially falling 6.5%, actually regained all losses and traded 3.5% higher than its pre-Brexit level on the 1<sup>st</sup> July.

This followed through to risky assets such as global credit spreads and emerging market government bonds. However, telling was that the yield on UK 10y gilt (and other developed markets' sovereign bond yields), which initially fell from 1.40% to 1.05% on the Brexit news, has continued to fall and now trades at 0.83%, which is indicative of a clear flight to safety.

The British pound has likewise retained the knock it took in the aftermath of Brexit. It fell from a value of 1.50 USD to 1.33 and continues to trade there. The gold price also spiked up on the news from roughly 1255/oz. to 1335/oz. and continues to trade there.

One is thus getting a disconfirmation of the rally in the equity markets. In view of this, one should brace oneself for much more volatility over the short-to-medium term. Over the week, the MSCI World Index rose 3.20% and the MSCI Emerging market index rose 4.14% in USD terms.

## DOMESTIC MARKETS

### JSE RECOVERS AT END OF THE WEEK AFTER BREXIT FALL-OUT

**South African financial markets did not escape the Brexit turmoil. The JSE all share index, having fallen -4.7% upon the announcement of Brexit, continued to fall further into Tuesday's trading session by a further -2.5% before staging a recovery to end the week returning 2.08%. The JSE Resources index actually ended the week trading 0.56% higher than it did pre-Brexit.**

The ZAR, in line with the Turkish lira and the Russian ruble amongst other currencies, initially spiked from 14.35/USD to 15.55/USD on the Brexit news. It has however traded steadily stronger since the shock to end the week at the 14.62/USD. Against the British pound, in contrast, the ZAR strengthened from 21.58/GBP to 20.33/GBP immediately post-Brexit, and has continued to strengthen against sterling to end the week at 19.42/GBP.

The South African bond market was a strong beneficiary over this period as foreigners piled into the market in search of yield. The yield on the benchmark South African 10y sovereign bond, after kicking up by 40 bps post-Brexit, subsequently shrugged it off to end the week 49 bps down at 8.70%.

Data releases in South Africa were pleasing on the trade balance side. Imports were the big surprise falling 6.6% m/m, mainly due to lower oil imports. Exports, on the other hand, grew 14% m/m. This led to a R17.7bn trade surplus beating market expectations of R10,1bn. Other promising news released this week shows PPI slowing to 6.5% y/y from 7% in April, again beating market expectations of 6.9%.

The main contributors to the slowdown in PPI were certain food products, beverages and tobacco while mining, intermediate manufacturing and agriculture PPI all accelerated in May. Credit extension growth slowed unexpectedly to 6.6% y/y from 7.1% in April. This was mainly driven by a slowdown in corporate credit growth as household credit growth ticked up slightly. All in all, the data was encouraging and ZAR-supportive.

**CONTACT ANY OF OUR FINANCIAL PLANNERS TO DISCUSS YOUR INVESTMENT STRATEGY.**

All our Financial Planners are CFP® Professionals and members of the Financial Planning Institute of Southern Africa. They are highly qualified to give advice on all investment matters.

# WEEK AHEAD UPCOMING ECONOMIC EVENTS

WEEKLYWRAP 01 July 2016

DATE	TIME	EVENT	PERIOD	SURVEY	PRIOR
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## SOUTH AFRICA

2007/05/16		BER Consumer Confidence	2Q	--	-9
2007/05/16		Standard Bank South Africa PMI	June	--	50.2
2007/07/16		Gross Reserves	June	\$45.50b	\$46.08b

## UNITED STATES

2007/06/16		Trade Balance	May	-\$40.0b	-\$37.4b
2007/06/16		ISM Non-Manf. Composite	June	53.4	52.9
2007/07/16		ADP Employment Change	June	150k	173k
2007/08/16		Change in Nonfarm Payrolls	June	180k	38k
2007/08/16		Unemployment Rate	June	4.80%	4.70%

## EURO AREA

2007/04/16		PPI YoY	May	-4.10%	-4.40%
2007/05/16		Retail Sales YoY	May	1.70%	1.40%
2007/07/16		ECB account of the monetary policy meeting			

## CHINA

2007/05/16		Caixin China PMI Services	June	--	51.2
2007/10/16		CPI YoY	June	1.90%	2.00%

## JAPAN

2007/07/16		Leading Index CI	May	100	100
2007/07/16		Coincident Index	May	110.2	112
2007/08/16		Trade Balance BOP Basis	May	¥56.0b	¥697.1b

## COMMON ABBREVIATIONS USED FOR ECONOMIC INDICATOR TERMS

<b>PPI</b>	Producer price index (shows trends within the wholesale markets which feed through into inflation)
<b>PMI</b>	Purchasing managers index (indication of the economic health of the manufacturing sector)
<b>GDP</b>	Gross domestic product
<b>ECB</b>	European Central Bank
<b>CI</b>	Confidence Index
<b>MoM</b>	Month-on-month
<b>YoY</b>	Year-on-year
<b>QoQ</b>	Quarter-on-quarter
<b>SA</b>	Seasonally adjusted
<b>NSA</b>	Non-seasonally adjusted

# WEEKLY TICKER

01 July 2016

WEEKLYWRAP

## CURRENCIES

Description	Classification	Currency	Exchange Rate	Week	Month-to-Date	Year-to-Date
ZAR/USD	ZAR/USD	ZAR	14.54	3.46%	1.28%	6.39%
ZAR/Pound	ZAR/GBP	ZAR	19.31	6.21%	1.56%	18.09%
ZAR/Euro	ZAR/EUR	ZAR	16.18	3.05%	0.98%	3.96%
Dollar/Euro**	USD/EUR	USD	1.11	0.17%	0.19%	2.44%
Yen/Dollar	YEN/USD	YEN	102.68	-0.29%	0.51%	17.08%

## COMMODITIES

Description	Classification	Currency	Price	Week	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1 351	1.95%	2.21%	27.33%
Brent Crude Oil	ICE Brent Futures	USD	51	2.67%	1.85%	19.10%
Platinum	Platinum Spot	USD	1 063	7.46%	3.72%	19.17%
Copper	LME 3 month Copper	USD	4 911	4.53%	1.36%	4.38%
Silver	Silver Spot	USD	20	11.35%	8.87%	47.13%

## GLOBAL EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	1 660	3.20%	0.44%	1.46%
United States	S&P 500	USD	3 977	3.27%	0.21%	4.06%
Europe	Euro Stoxx 50	EUR	5 626	3.85%	0.64%	-9.64%
Britain	FTSE 100	GBP	5 274	7.18%	1.13%	7.82%
Germany	DAX	EUR	9 776	2.29%	0.99%	-9.00%
Japan	Nikkei 225	JPY	23 725	5.05%	0.68%	-16.78%
Emerging Markets	MSCI Emerging Markets*	USD	839	4.14%	0.64%	7.20%

## SA EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month-to-Date	Year-to-Date
All Share	JSE All Share	ZAR	7 121	1.34%	0.27%	4.60%
Top 40	JSE Top 40	ZAR	6 255	0.99%	0.09%	1.69%
Shareholder Weighted	JSE SWIX	ZAR	18 722	1.87%	0.24%	7.52%
Small Companies	JSE Small Cap*	ZAR	59 513	1.32%	0.17%	14.20%
Resources	JSE Resource 20	ZAR	1 864	4.37%	1.86%	22.78%
Industrials	JSE Industrial 25	ZAR	13 107	0.47%	-0.18%	-0.47%
Financials	JSE Financial 15	ZAR	7 441	-0.16%	-0.23%	-1.26%
SA Listed Property	JSE SA Listed Property	ZAR	2 095	3.02%	0.15%	9.79%
Preference Shares	JSE Pref Shares	ZAR	1 848	1.31%	0.66%	14.72%

## SOUTH AFRICAN FIXED INTEREST

Description	Index	Currency	Index Value	Week	Month-to-Date	Month-to-Date
Description	BESA ALBI Index	ZAR	519	2.85%	1.01%	12.37%
All Bond	BESA CILI	ZAR	247	0.34%	0.08%	6.64%
Inflation Linked Bonds	STEFI Composite*	ZAR	343	0.14%	0.02%	0.14%

\*Price Index (not Total Return) \*\* Negative indicates Euro weakness

This report was compiled in association with Counterpoint Asset Management. [www.cпам.co.za](http://www.cпам.co.za)

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