



BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017

INFLUENCES ON WEEKLY GLOBAL MARKET MOVEMENTS

WEEKLYWRAP 06 July 2018

► **Volatility remained heightened last week with geopolitical risk still the main driving force.** America's celebrated Independence Day last Wednesday meaning their work week consisted of only four days. Despite the shortened week, global market practitioners were anxiously awaiting the looming tariff deadline. In news flow, China categorically stated that they would not fire the first shot in the trade war and would hence not be the first to impose tariffs on US imports. Markets were most likely hoping that the Trump administration would come to their senses before the deadline. This was evident in the dollar weakening initially allowing emerging market currencies to recover somewhat. But their worst fears were realized on Friday when a trade war between the world's two largest economies officially began with the US imposing tariffs on Chinese imports. China will no doubt quickly retaliate and one wonders how far this will reach globally. One thing for sure, the global growth outlook will be adversely impacted.

► **Interestingly, Chinese equity markets have reacted to global trade war fears significantly more than US markets.** Surely a correction in US markets should follow once China retaliates? The Shanghai Composite index lost -3.52% over the week and trades -16.93% down year to date. Conversely, US markets are acting like nothing is wrong with the Dow Jones Industrial Average index adding 0.82% over the week and rising by 0.09% year to date. Looking ahead, it will most likely be a bumpy ride for global currency and bond markets as they ebb and flow to breaking news surrounding this topic.

► **Federal Open Market Committee (FOMC) meeting minutes released showed the US trade policy was the main risk factor that Fed officials were concerned about.** They also discussed the flattening of the yield curve (which has historically been a strong indicator that the US will enter a recession), to which many members were opposed to further interest rate hikes.

► **As aforementioned, emerging market currencies were buoyed by the weaker dollar last week.** Other than this, Brent crude oil lost -2.32% over the period to end at USD77.4/USD. This caught markets off guard as oil supply disruptions in Libya were reported, which should have had the opposite effect on the oil price. However, reports also surfaced from the Abu Dhabi National Oil Co. that they were set to increase oil production by about two hundred thousand barrels per day, which mostly likely led prices lower.

► **Private businesses in the US added 177k jobs in June.** This surprised on the downside as markets were expecting a figure closer to 190k. The most jobs were created in the transportation, manufacturing, healthcare and construction sectors. This was followed by non-farm payrolls for June, which surprised on the upside coming in at 213k. Job gains in professional and business services, manufacturing and in healthcare were the main contributors. The US unemployment rate for June posted 4.0% vs 3.8% in May. Even though unemployment in the US rose slightly as more new workers entered the workforce looking for jobs, joblessness in the US is still at decade low levels and hence the employment market there is still extremely tight.

► **In the EU, the unemployment rate for May squared with the 8.4% posted for April.** Much the same, the labour market in the EU is also very tight with the current unemployment rate the lowest since December 2008.

► **Notwithstanding the global trade war concerns, the Caixin manufacturing PMI in China for June remained in expansionary territory and came in pretty much in line with the May figure.** This signals an ever improving operating environment with output rising the most in four months.

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► **The JSE All Share index had a disappointing start to the third quarter.** As the week came to a close, the index was traded -0.50% down. The main laggards were the JSE Resources 10 and the JSE Industrials 25 indices, which lost -2.15% and -0.81% respectively. In the meanwhile, the JSE Financial 15 index ended the week 1.10% up. Looking ahead, the key risks to emerging markets like South Africa, will be global risk sentiment. Firstly, trade war concerns are and will continue to add to negative sentiment. Secondly, developed market interest rate expectations will also impact emerging markets.

► **Any news about unexpected inflation should cause a sell off.** The R186 ended the week -0.19% down at 8.65% signaling that selling in the short term might have been overdone. Nevertheless, the trend is still definitely down considering the geopolitical risks. The rand appreciated 1.84% and 1.28% vs the dollar and the euro respectively to end the week at 13.47/USD and 15.83/EUR.

► **Moody's ratings agency added additional comments last week.** In these comments, they cautioned that SA's fiscal position has deteriorated due to the weaker rand increasing SA's debt obligations. Additionally, they went on the mention that foreign outflows have limited SA's foreign flexibility.

However, they did also add that a high portion of SA's foreign debt is rand denominated, which thankfully makes SA's credit metrics resilient to some degree, to the weakening rand.

► **Economic news released last week was rather mixed.** On the one hand, the ABSA manufacturing PMI for June remained in contractionary territory at 47.9pts. This was below the May figure of 49.8pts and was the lowest figure reported so far this year. As we know, the GDP growth rate came in significantly below expectations a few weeks ago for Q1 2018. This disappointing manufacturing print therefore does not bode well for the Q2 2018 GDP print and is evidence that the manufacturing sector is finding the going tough.

► **On the other hand, the Standard Bank PMI, which focuses on all the sectors (not only manufacturing), rose from the neutral level in May to post 50.9pts in June.** New orders and an advance in employment rose at a faster rate whilst at the same time, business activity rebounded too.

► **Similarly, NAAMSA vehicles sales for June also came in above the figure reported in May.** 46678 new vehicles being sold compared to 42950 from previously.

CHART OF THE WEEK:

US Unemployment rate ticks higher for the first time this year despite more jobs being created in June.



WEEKLY TICKER

WEEKLYWRAP 06 July 2018

CURRENCIES

| Description | Classification | Currency | Exchange Rate | Week | Month | Month-to-Date | Year-to-Date |
|---------------|----------------|----------|---------------|-------|--------|---------------|--------------|
| ZAR/USD | ZAR/USD | ZAR | 13.44 | 1.84% | -5.99% | 2.15% | -7.84% |
| ZAR/Pound | ZAR/GBP | ZAR | 17.89 | 1.31% | -4.97% | 1.31% | -6.56% |
| ZAR/Euro | ZAR/EUR | ZAR | 15.82 | 1.28% | -5.78% | 1.38% | -6.09% |
| Dollar/Euro** | USD/EUR | USD | 1.18 | 0.53% | 0.24% | 0.76% | -1.93% |
| Yen/Dollar | YEN/USD | YEN | 110.45 | 0.26% | -0.26% | 0.28% | 2.03% |

COMMODITIES

| Description | Classification | Currency | Commodity Price | Week | Month | Month-to-Date | Year-to-Date |
|-----------------|--------------------|----------|-----------------|--------|--------|---------------|--------------|
| Gold | Gold Spot | USD | 1261.69 | 0.23% | 3.16% | 0.73% | -3.16% |
| Brent Crude Oil | ICE Brent Futures | USD | 77.67 | -2.68% | -2.87% | -1.97% | 19.94% |
| Platinum | Platinum Spot | USD | 855.69 | -1.04% | 6.74% | 0.28% | -7.82% |
| Copper | LME 3 month Copper | USD | 6282.00 | -5.19% | 12.99% | -5.19% | -13.32% |
| Silver | Silver Spot | USD | 16.17 | -0.44% | 3.79% | 0.31% | -4.54% |

GLOBAL EQUITY INDEXES (TOTAL RETURN)

| Description | Index | Currency | Index Value | Week | Month | Month-to-Date | Year-to-Date |
|------------------|------------------------|----------|-------------|--------|-------|---------------|--------------|
| Global | MSCI World* | USD | 2113.74 | 1.17% | 1.08% | 1.22% | 1.97% |
| United States | S&P 500 | USD | 5434.36 | 1.56% | 0.31% | 1.56% | 4.25% |
| Europe | Euro Stoxx 50 | EUR | 7088.10 | 1.56% | 0.26% | 1.56% | 0.56% |
| Britain | FTSE 100 | GBP | 6613.02 | -0.24% | 0.91% | -0.24% | 1.43% |
| Germany | DAX | EUR | 12496.17 | 1.55% | 2.60% | 1.55% | -3.26% |
| Japan | Nikkei 225 | JPY | 34238.93 | -0.11% | 3.52% | -2.32% | -3.32% |
| Emerging Markets | MSCI Emerging Markets* | USD | 1059.97 | -0.89% | 7.84% | -0.58% | -7.14% |

SA EQUITY INDEXES (TOTAL RETURN)

| Description | Index | Currency | Index Value | Week | Month | Month-to-Date | Year-to-Date |
|----------------------|------------------------|----------|-------------|--------|--------|---------------|--------------|
| All Share | JSE All Share | ZAR | 8264.48 | -0.50% | 1.15% | -0.50% | -2.20% |
| Top 40 | JSE Top 40 | ZAR | 7353.61 | -0.75% | 1.05% | -0.75% | -1.27% |
| Shareholder Weighted | JSE SWIX | ZAR | 20925.87 | 0.04% | 0.70% | 0.04% | -4.78% |
| Small Companies | JSE Small Cap* | ZAR | 56652.51 | 0.67% | 2.04% | 0.68% | -5.07% |
| Resources | JSE Resource 20 | ZAR | 2650.85 | -2.15% | 0.39% | -2.15% | 15.95% |
| Industrials | JSE Industrial 25 | ZAR | 14406.24 | -0.81% | 0.85% | -0.81% | -4.70% |
| Financials | JSE Financial 15 | ZAR | 9064.30 | 1.10% | 2.41% | 1.10% | -6.62% |
| SA Listed Property | JSE SA Listed Property | ZAR | 1959.35 | 1.13% | 3.12% | 1.13% | -20.48% |
| Preference Shares | JSE Pref Shares | ZAR | 2015.72 | 1.12% | -2.81% | 1.12% | 8.91% |

SA FIXED INTEREST

| Description | Index | Currency | Index Value | Week | Month | Month-to-Date | Year-to-Date |
|------------------------|------------------|----------|-------------|--------|--------|---------------|--------------|
| All Bond | BESA ALBI Index | ZAR | 618.98 | 1.28% | -1.00% | 1.28% | 5.33% |
| Inflation Linked Bonds | BESA CILI | ZAR | 250.80 | -0.17% | 2.20% | -0.17% | -0.72% |
| Cash | STEFI Composite* | ZAR | 397.12 | 0.13% | -0.57% | 0.13% | 3.70% |

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BRENTHURST RANKED AS BEST BOUTIQUE WEALTH MANAGER IN SA 2017 INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD

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