



BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017

INFLUENCES ON WEEKLY GLOBAL MARKET MOVEMENTS

WEEKLYWRAP 20 July 2018

► **In what now seems to be the norm, US President Donald Trump once again made comments that added volatility to global markets.** Last week saw Trump mentioning that he was concerned over the strengthening dollar, which had the opposite effect, to some extent, against most major currencies. He went on to question the Fed's tightening of monetary policy saying that it would make the US less competitive. This was then quickly followed by a statement from the US government stating they respect the Fed's independence and that they would not interfere with their policy decisions. As the week came to a close, the dollar had strengthened to end at 1.17/EUR (+0.29%) and 1.31/GBP (+0.78%).

► **Kansas City Fed President Esther George maintained her hawkish stance when she stated that the Fed should continue to gradually raise interest rates.** When asked how far the Fed should go considering the uncertainty surrounding the US trade policy, she was unable to give further clarity. Fed Chair Jerome Powell's testimony before the US senate banking committee followed on from this. As part of this process, Powell mentioned that he expects the gradual pace of US interest rate hikes not to be derailed by the new trade policy implemented by the Trump administration as the counterbalance to lower expected growth (caused by the probable fall in global trade) is most likely the US governments fiscal stimulus injection.

► **Two primary factors that resulted in significant depreciation of emerging market currencies over the last while have been firstly, expectations for a higher global interest rate environment and**

secondly, the aforementioned trade war between the US and China and between the US and the EU. Regarding the second point, the Chinese yuan fell to levels not seen in the last year as risk-off sentiment resulted in capital outflows. The yuan ended the week at 6.77/USD (-1.2% down). Interestingly, the weaker currency makes Chinese exports cheaper and more competitive, which goes directly against what the Trump administration is trying to achieve by imposing tariffs. This could potentially lead to additional tariffs down the line. The saga will no doubt be closely monitored by global market practitioners.

► **In China, GDP growth for Q2 2018 squared with expectations of 6.7% y/y.** This was slightly below the 6.8% reported for Q1 2018 and was the weakest growth since Q3 2016. Undoubtedly, the trade war between China and the US adversely impacted the GDP figure. At the same time however, the Chinese government has been trying to deleverage financial risk, which would also have a negative influence.

► **Staying in the east, Japan's trade balance swung into surplus (+JPY721.4Bn) in June from a -JPY580.5Bn deficit in May.** Markets meanwhile, were expecting a surplus of +JPY534.2Bn and were therefore pleasantly surprised. Japanese inflation for June matched the May figure of 0.7% y/y, which was below consensus of 0.8%. This again shows how stubbornly low inflation is in Japan and it makes it more difficult for the Bank of Japan to taper quantitative easing.

INFLUENCES ON WEEKLY SA MARKET MOVEMENTS

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► **After struggling for most of the week, the JSE All Share index fought back on Friday to end 1.12% in the green.** The largest detractor from performance was the JSE Resource 10 index, which lost -0.91% over the period. On the opposite side of the spectrum, the industrial and financial boards both staged a strong resurgence towards the end of the week and ended 2.12% and 1.77% up respectively. Property continued to be out of favour with the SAPY index falling -0.99% over the week. Astonishingly, this sector has now shed about one quarter of its market value year to date. The R186 bond closed at 8.72%, which was somewhat flat for the week after significant selling pressure plagued the instrument year to date. It has risen by 1.46% over this period.

► **At the Monetary Policy Committee meeting held last week, the SARB acted as expected and kept interest rates on hold. This was a unanimous decision from all member of the committee.** In a similar fashion, SARB Governor Lesetja Kganyago was rather hawkish. In his speech, specific mention of inflation risk to the upside was made.

Backing this statement up were comments of the rising oil price, a weaker rand (and its volatility) whilst mention of geopolitical risks in the form a trade war were also made. The SARB increased its inflation outlook, albeit only marginally. According to their Quarterly Projection Model (QPM), five 0.25% interest rate hikes are projected by 2020 compared to only four hikes as projected previously.

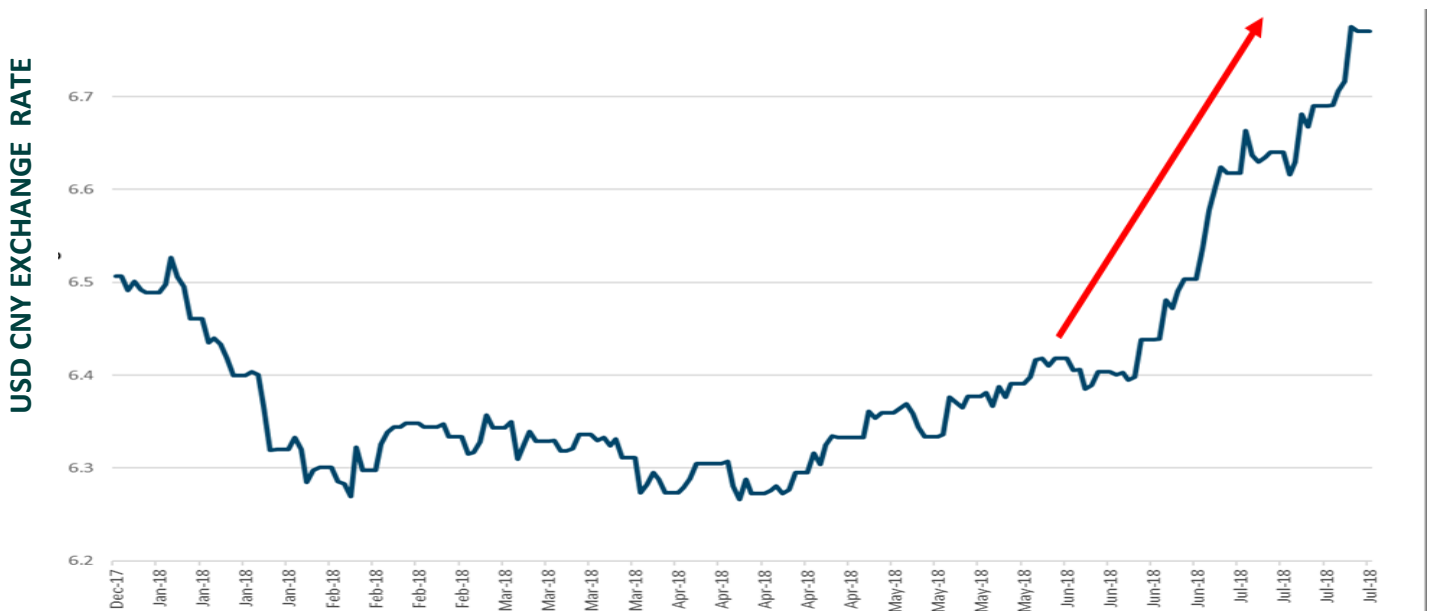
► **Despite the SARB mentioning inflation risk is to the upside instead of downside, inflation for June undershot market expectations of 4.8% y/y when it returned 4.6%.** Nevertheless, the general price level rose from 4.4% in May. The main culprit was higher transport costs.

► **June retail sales came in at 1.9% y/y in June from 0.5% reported in May.** This was above market expectations of 0.8%. Upon further investigation, it became evident that sales of furniture and household equipment were the main contributors. That said, sales of textiles, clothing, foot ware and leather goods also made positive contributions.

CHART OF THE WEEK

TRADE WAR FEARS HAVE WEAKENED THE CHINESE YUAN, WHICH HAS MADE CHINESE EXPORTS EVEN MORE ATTRACTIVE

YEAR TO DATE EXCHANGE RATE COMPARISON: CHINESE YUAN VS US DOLLAR



WEEKLY TICKER

WEEKLYWRAP 20 July 2018

CURRENCIES

Description	Classification	Currency	Exchange Rate	Week	Month	Month-to-Date	Year-to-Date
ZAR/USD	ZAR/USD	ZAR	13.42	-0.99%	1.84%	2.28%	-7.72%
ZAR/Pound	ZAR/GBP	ZAR	17.63	-0.35%	2.11%	2.81%	-5.17%
ZAR/Euro	ZAR/EUR	ZAR	15.74	-1.31%	0.56%	1.90%	-5.61%
Dollar/Euro**	USD/EUR	USD	1.17	0.33%	-1.31%	0.38%	-2.31%
Yen/Dollar	YEN/USD	YEN	110.97	0.86%	-0.95%	-0.19%	1.55%

COMMODITIES

Description	Classification	Currency	Commodity Price	Week	Month	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1230.63	-1.19%	3.02%	-1.75%	-5.54%
Brent Crude Oil	ICE Brent Futures	USD	72.92	-3.00%	1.70%	-7.96%	12.60%
Platinum	Platinum Spot	USD	826.41	-0.06%	4.79%	-3.15%	-10.97%
Copper	LME 3 month Copper	USD	6147.50	-1.43%	9.24%	-7.22%	-15.17%
Silver	Silver Spot	USD	15.49	-1.90%	4.73%	-3.91%	-8.56%

GLOBAL EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	2139.17	0.21%	-1.01%	2.46%	3.22%
United States	S&P 500	USD	5520.50	0.04%	-1.38%	3.17%	5.90%
Europe	Euro Stoxx 50	EUR	7114.47	0.16%	-0.63%	1.94%	0.94%
Britain	FTSE 100	GBP	6666.18	0.22%	-0.80%	0.56%	2.24%
Germany	DAX	EUR	12561.42	0.16%	1.05%	2.08%	-2.76%
Japan	Nikkei 225	JPY	35668.55	0.00%	-0.81%	1.76%	0.72%
Emerging Markets	MSCI Emerging Markets*	USD	1070.07	-0.52%	2.12%	0.58%	-6.06%

SA EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Share	JSE All Share	ZAR	8219.18	1.12%	-0.68%	-1.05%	-2.73%
Top 40	JSE Top 40	ZAR	7323.31	1.33%	-1.09%	-1.16%	-1.68%
Shareholder Weighted	JSE SWIX	ZAR	20825.27	1.00%	-1.51%	-0.44%	-5.24%
Small Companies	JSE Small Cap*	ZAR	55982.52	-0.28%	2.16%	-0.43%	-6.12%
Resources	JSE Resource 20	ZAR	2555.72	-0.91%	2.15%	-5.66%	11.79%
Industrials	JSE Industrial 25	ZAR	14480.59	2.12%	-1.44%	-0.30%	-4.20%
Financials	JSE Financial 15	ZAR	9153.98	1.77%	-3.51%	2.10%	-5.69%
SA Listed Property	JSE SA Listed Property	ZAR	1917.32	-0.99%	0.01%	-1.04%	-22.18%
Preference Shares	JSE Pref Shares	ZAR	2038.48	0.52%	-2.62%	2.26%	10.14%

SA FIXED INTEREST

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Bond	BESA ALBI Index	ZAR	618.10	0.32%	-2.54%	1.14%	5.18%
Inflation Linked Bonds	BESA CILI	ZAR	250.13	0.09%	0.65%	-0.44%	-0.98%
Cash	STEFI Composite*	ZAR	398.18	0.13%	-0.57%	0.40%	3.98%

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