



BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017

## INFLUENCES ON WEEKLY GLOBAL MARKET MOVEMENTS

WEEKLYWRAP 27 July 2018

### **Risk appetite entered markets once again last week.**

**This week the meeting between President Trump and European Commission President Juncker resulted in a ceasefire in the trade war.** Specifically, Trump and Juncker agreed to expand European imports of US Liquefied Natural Gas and soybeans, while both sides also agreed to lower industrial tariffs. Trump said that the US and EU were to work towards “zero” tariffs and would try to “resolve” steel and aluminium tariffs imposed earlier this year by the US. Trade in vehicles and car parts remain unresolved, but the threat of an all-out trade war seems to be declining. Optimism surrounding the US-NAFTA talks and US-China trade deals is increasing.

### **FITCH: Reports on potential impact of trade war**

Fitch ratings agency noted that the impact of an ongoing trade war could cut global GDP growth by 0.4 pps by the end of next year. The agency believes that the US, Canada and Mexico would be the most affected, possibly seeing drops of up to 0.7-1.5% in their respective baseline GDP expectations in 2019 and in 2020. This only includes the effect of tariff actions, and excludes a collapse of the NAFTA agreement. China could potentially see a 0.3% downward revision in its baseline GDP for 2019/20.

### **US: Home sales fall in June, composite PMI edges lower**

In the US, June existing homes fell for the third month in a row to 5.38m (vs. 5.45m expected, -0.6% MoM). June new home sales fell -5.3% MoM to the lowest in eight months (631k vs. 668k expected). Meanwhile, the composite PMI edged down 0.3 pts to 55.9 pts, mainly as a result of a 0.3 pt fall in the services reading to 56.2 pts (vs. 56.3 pts expected). The manufacturing PMI unexpectedly rose 0.1pts to 55.5 pts (vs. 55.1 expected). US GDP came in at 4.1% QoQ in Q2:18 as expected, while Q1's GDP was revised up to 2.2% QoQ.

### **EUROPE: Consumers more confident in July**

The June figure was at an eight month low level, so no doubt markets are now hoping a bottom has been reached and that confidence in the third quarter picks up from here. The EU PMI estimates were mixed with the manufacturing PMI for July expected to beat the June figure. Conversely, the July services PMI is anticipated to disappoint and hence come in below that posted in June. We now need to wait anxiously to see what the actual numbers are when they get released.

### **CHINA: Unveils pro-active measures to drive growth**

China is to make fiscal policy more “proactive”, and keep liquidity conditions “reasonably adequate”, while avoiding aggressive loosening like the “4tn” stimulus rolled out in 2008/09. The change of monetary stance already happened in Q2 with the cash reserved ratio cut and injection of liquidity through MLF, so this week's message is that fiscal policy will become incrementally more expansionary.

### **JAPAN: Manufacturing growth slows slightly in July**

Japan's Nikkei manufacturing PMI for July (preliminary estimate) showed growth of 51.6 pts (vs. June's 53.0 pts). Both input and output price inflation increased to multi-year highs, which could be supportive to the Bank of Japan as it discusses adjustments to its stimulus programme.

### **VENEZUELA: Runaway inflation**

According to the IMF, Venezuela's inflation rate is now expected to hit 1,000,000% by the end of 2018, comparable to Germany in the 1920s and Zimbabwe in the 2000s. In April this year, the IMF predicted inflation of ‘only’ 13,000% for Venezuela for 2018. Their new forecast suggests prices are rising by about 3.9% a day.

# INFLUENCES ON WEEKLY SA MARKET MOVEMENTS

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**The JSE All Share index ended the week 0.34% up.** The industrial board was hardest hit and ended -1.17% lower. The rand's appreciation was the mostly likely reason. As such, it ended the week 1.65% stronger vs the US dollar and closed at 13.18/USD. Over the same period, the JSE Resource10 index rose by 3.04% whilst the JSE Financial 15 index added 2.14%.

Despite the bounce back in emerging markets owing to the surge in risk taking appetite, there was South Africa specific news released that could sour SA growth prospects down the line and probably kept the JSE All Share index from rising further than it did last week.

**Eskom to receive loan from China Development Bank**  
In particular, Eskom reported a ZAR2.3Bn loss for the last financial year and cited poor liquidity and a higher debt burden as primary reasons. At the same time, Eskom workers are demanding above-inflation wage increases as well as bonuses. All the while, pressure on SA's fiscus has been mounting due to sluggish growth. This was followed by news that Eskom secured a USD2.5Bn loan from the China Development Bank to shore up their balance sheet. This however, was like a wolf dressed in sheep's clothing as the loan is totally guaranteed by the SA government.

So, seems like a short term solution to Eskom's issues but one wonders how this will impact South Africa's rating with Moody's when they give an update.

## Leading economic indicator flat in May.

There was not much economic news domestically last week. Markets were expecting PPI for June to come in at 5.2% y/y, which is above the May figure of 4.6%. In the event, the actual print of 5.9% overshoot consensus. This was the highest PPI figure since January 2017. The main drivers of this print emanated from higher than expected price increases in food, beverage and tobacco products.

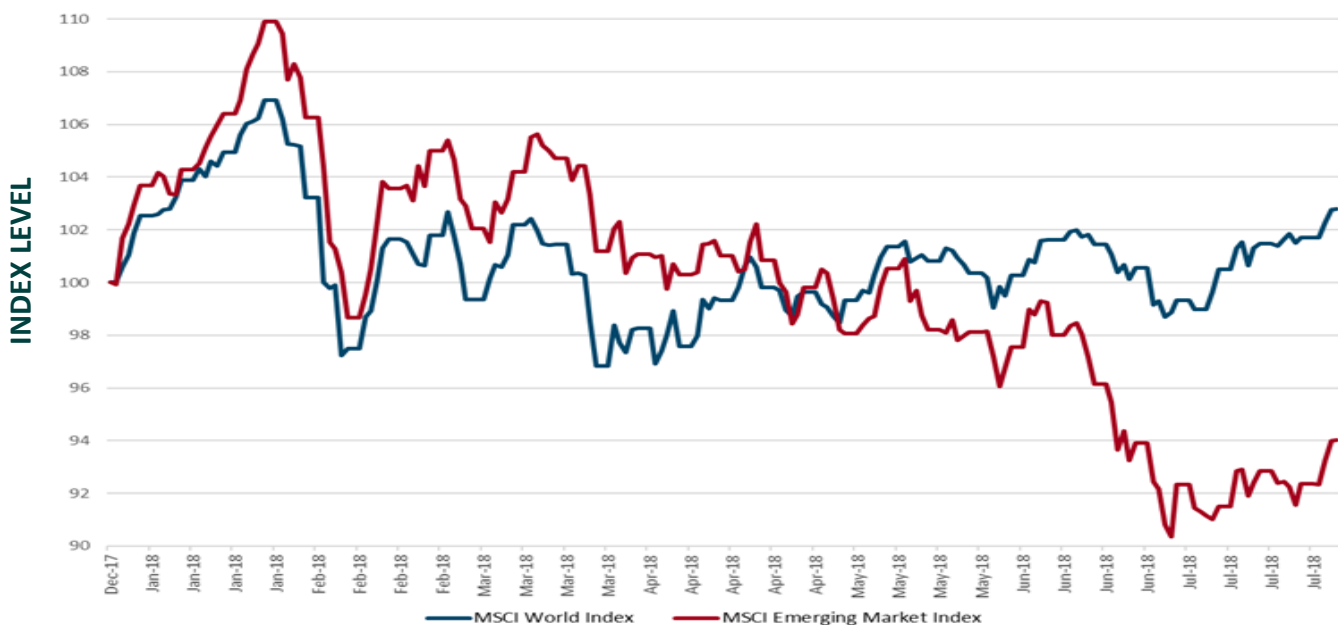
## BRICS summit concludes in Johannesburg

The focus of the BRICS summit this week has been on investment-led trade, while other economic issues (such as inclusive growth and technological advances) and progress on previous agreements were also discussed. The outcome is likely to boost the rand, especially after China committed to invest \$14.7 billion in SA to reinforce stronger diplomatic relations between the two countries.

## CHART OF THE WEEK

EMERGING MARKETS HAVE BORE THE BRUNT OF TRADE WAR RHETORIC AND THE RISK OFF SENTIMENT THIS YEAR SO FAR.

### YEAR TO DATE COMPARISON: MSCI WORLD VS MSCI EMERGING MARKET INDICES



The Weekly Commentary was compiled in association with Prescient.

# WEEKLY TICKER

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## CURRENCIES

Description	Classification	Currency	Exchange Rate	Week	Month	Month-to-Date	Year-to-Date
ZAR/USD	ZAR/USD	ZAR	13.20	1.73%	4.95%	4.00%	-6.17%
ZAR/Pound	ZAR/GBP	ZAR	17.31	2.00%	5.04%	4.75%	-3.38%
ZAR/Euro	ZAR/EUR	ZAR	15.39	2.27%	4.08%	4.20%	-3.48%
Dollar/Euro**	USD/EUR	USD	1.17	-0.57%	-0.89%	-0.20%	-2.87%
Yen/Dollar	YEN/USD	YEN	111.05	0.32%	-0.72%	-0.26%	1.48%

## COMMODITIES

Description	Classification	Currency	Commodity Price	Week	Month	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1220.31	-0.43%	2.25%	-2.58%	-6.33%
Brent Crude Oil	ICE Brent Futures	USD	74.43	1.67%	4.09%	-6.06%	14.93%
Platinum	Platinum Spot	USD	823.66	0.30%	3.09%	-3.48%	-11.27%
Copper	LME 3 month Copper	USD	6297.00	2.43%	5.91%	-4.97%	-13.11%
Silver	Silver Spot	USD	15.42	-0.05%	3.43%	-4.32%	-8.95%

## GLOBAL EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	1220.31	-0.43%	2.25%	-2.58%	-6.33%
United States	S&P 500	USD	74.43	1.67%	4.09%	-6.06%	14.93%
Europe	Euro Stoxx 50	EUR	823.66	0.30%	3.09%	-3.48%	-11.27%
Britain	FTSE 100	GBP	6297.00	2.43%	5.91%	-4.97%	-13.11%
Germany	DAX	EUR	15.42	-0.05%	3.43%	-4.32%	-8.95%
Japan	Nikkei 225	JPY	35694.19	1.42%	-2.01%	1.84%	0.79%
Emerging Markets	MSCI Emerging Markets*	USD	1092.36	2.08%	-3.82%	2.73%	-4.04%

## SA EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Share	JSE All Share	ZAR	8246.75	0.34%	-3.30%	-0.72%	-2.41%
Top 40	JSE Top 40	ZAR	7357.90	0.47%	-3.71%	-0.70%	-1.21%
Shareholder Weighted	JSE SWIX	ZAR	20869.27	0.21%	-4.54%	-0.23%	-5.04%
Small Companies	JSE Small Cap*	ZAR	55104.11	-1.57%	1.04%	-1.87%	-7.48%
Resources	JSE Resource 20	ZAR	2633.40	3.04%	-0.23%	-2.80%	15.19%
Industrials	JSE Industrial 25	ZAR	14311.55	-1.17%	-3.50%	-1.47%	-5.32%
Financials	JSE Financial 15	ZAR	9350.15	2.14%	-8.63%	4.29%	-3.67%
SA Listed Property	JSE SA Listed Property	ZAR	1902.93	-0.75%	-1.09%	-1.78%	-22.77%
Preference Shares	JSE Pref Shares	ZAR	2024.65	-0.68%	-1.28%	1.57%	9.40%

## SA FIXED INTEREST

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Bond	BESA ALBI Index	ZAR	35694.19	1.42%	-2.01%	1.84%	0.79%
Inflation Linked Bonds	BESA CILI	ZAR	1092.36	2.08%	-3.82%	2.73%	-4.04%
Cash	STEFI Composite*	ZAR	398.71	0.13%	-0.57%	0.53%	4.12%

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(FOURWAYS)

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(SANDTON)

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