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INTERNATIONAL MARKETS

US MARKETS PERFORM WELL BUT DOLLAR WEAKENS

JULY was a strong month in the US and for most major world markets as a robust start to the US earnings season and higher commodity prices helped equities. This was despite geopolitical risk remaining high on the back of fresh missile launches by North Korea, with recent reports suggesting that its missiles could now strike the entire continental US coast. In Washington, the woes of President Donald Trump's administration continued as the investigation into his campaign's ties to Russia gained traction.

For the month, the Dow registered a 2.5% return (+10.8% year to date), while the S&P 500 ended 1.9% higher month on month (+10.3% year to date) and the tech-heavy Nasdaq climbed 3.4% in July (+17.9% year to date), despite coming under pressure last week.

In terms of US economic data, it was somewhat of a mixed bag. Although 2Q17 GDP data (+2.6%) displayed growth in the US economy and was an improvement from the weak start to the year, the data underwhelmed, further weakening the dollar (which recorded its fifth straight monthly decline against a basket of currencies). The GDP data added to concerns that US inflation would remain low and could keep the Federal Reserve (Fed) from raising interest rates again later this year.

In Europe, July ended with a whimper as equities for the most part (and despite gains posted by mining counters), closed the month lower. Germany's DAX was down 1.7% month on month (+5.6% year to date), while France's CAC lost 0.5% Month on month (-4.8% year to date), and the UK FTSE 100 Index eked out a gain of 0.8% Month on month (+3.2% year to date). Equities swung lower on the back of a stronger euro which pushed to levels against the US dollar which hadn't been seen since early 2015.

In Asia, Japan's Nikkei, which hasn't had a down month since March, ended July 0.5% lower Month on month (+4.2% year to date) as a surge in the Japanese yen against the dollar weighed on exporters. However, in China, Hong Kong's Hang Seng Index, which hasn't recorded a Month on month drop year to date, ended July 6.1% higher - the index is up 24.2% year to date. The Shanghai Composite closed 2.5% Month on month higher on Monday and is up 5.5% year to date.

Although the gold price slipped slightly, it nevertheless recorded a solid July performance (+2.2% month on month) on the back of the weaker US dollar and as the potential of another Fed rate cut later this year seemed to fade. International and US crude oil prices, topped $50 per barrel to trade around a two-month high (month on month the oil price was up 9.9%). Platinum ended the month 2.1% higher (+4.7% year to date), while iron ore prices jumped to their highest level in four months.

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2017 INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD

LOCAL MARKETS

ECONOMIC SITUATION REMAINS CONCERNING DESPITE POSITIVE NEWS

For the first time in many months some positive market and economic news was reported in July, although the dark economic clouds remain ever present. The JSE FTSE All Share index closed on a record high at 55 207.40 the end of the month, after more than two years of lacklustre performance since the previous high recorded in April 2015. Business Day reported that before the close on the day the market also reached an intraday record of 55 366.70 points. While All-Share Index gains are mainly due to a strong performance from Naspers, which accounts for 20%-plus of the JSE's total market cap, resource shares also lifted the overall market. Mining companies were among the biggest gainers, with the Resi-20 ending the month 13.7% higher (the index is up 7.3% for the year to date). The Indi-25 and Fini-15 posted month on month gains of 6.1% (+16.4% year to date) and 5.4% (+1.2% year to date), respectively.

July's best-performing share was Lonmin (+28.8% month on month). In second and third spot, respectively, Anglo American Plc gained 23.5% compared to June, while BHP Billiton ended the month 20.0% higher. Large industrial shares, dual-listed shares and rand-hedge stocks accounted for most of the top-20 year to date performers on the JSE. After being pushed out of the top spot last month by Trencor, its strong run in July saw Naspers once again reclaim the number-one position, emerging as the best-performer year to date at +44.4% .

In terms of SA economic data, June trade numbers showed an improvement (to a R10.7bn surplus vs May's R7.2bn surplus), while June headline consumer price inflation (CPI) moderated to 5.1% year on year vs May's number of 5.4% year on year. Food inflation remained at 7.0% year on year in June, while core inflation (at 4.9% year on year) sat comfortably within the SA Reserve Bank's (SARB's) target range. June private sector credit extension (PSCE) growth slowed to 6.2% year on year vs May's 6.7% rise. At its July meeting, the SARB's Monetary Policy Committee (MPC) surprised the market by cutting the repo rate by 25 basis points to 6.75%. The rand ended the month softer against the dollar (-0.9% month on month), while for the year to date the local currency has strengthened by 4.0% against the greenback.

Despite the positive news of a new high for the JSE, lower inflation and a rate cut the economic situation remains concerning. "SA is facing an economic dilemma as two of its most dependent population groups – small children and the elderly – are growing while the number of working people is declining," Business Day reported after the release of the midyear population estimates at the end of July. According to the Stats SA report the country's population now stand at an estimated 56.52 million, 902 200 more people than in 2016. "It is problematic that the population in the range of 15 to 34 had been declining steadily. This is supposed to be the most economically active age range, making up the bulk of the country's workforce. This will affect the country's potential to reach the 'demographic dividend' – a window period for economic growth created when fertility rates decline and the working age population grows," the newspaper quoted from the statement by Statistician-General Pali Lehohla.

Unemployment numbers have been rising steadily for months and in view of this the announcements by retail group Pick n Pay that 3 500 employees will be retrenched and that of AngloGold Ashanti that it plans to retrench 8 500 workers were especially alarming. Fin24.com reported that some commentators noted that the Anglo announcement may be the first of many to hit the mining industry as a consequence of the Mining Charter; which was the big news for the industry in June.

The other bit of positive news came from the vehicle industry. South Africa's new vehicle sales grew 4.1% in July with a total of 46 719 units sold, according to the monthly report by the National Association of Automobile Manufacturers of South Africa (Naamsa).

"Domestic new vehicle sales recorded an encouraging improvement led by new car and light commercial vehicle (LCV) sales. A total of 46 719 units were sold in July, an increase of 1 849 units from the 44 870 vehicles sold in July 2016. July 2017 export sales were recorded at 35 486 vehicles, a gain of 6 456 units, a massive improvement of 22.2% compared to the 29 030 vehicles exported in July last year," Wheels24.co.za. reported.

SOURCES: Anchor Capital • Business Day • Fin24.com • Wheels24.co.za

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