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GLOBAL MARKETS
DRAGHI KEEPS RATES ON HOLD IN EUROPE

News from Europe seemed to dominate global financial media this week, as many countries prepared to begin their summer holidays. Investors awaited the outcome of the latest ECB meeting to see if hawkish comments made in Sintra in June would be reiterated. In the end, central bank president Mario Draghi kept rates on hold and maintained the asset purchase target of EUR 60 billion. No expectations for the timing of a policy decision were set, but some analysts suspect an announcement may come in October after the committees are tasked in early September.

CPI CONFIRMED FLAT IN EUROPE, WEAKER THAN EXPECTED IN UK

Europe's headline CPI for June was confirmed as flat MoM and 1.3% YoY, and core inflation was confirmed at 1.1% YoY, unrevised and up from 0.9% in May. In the UK, June's headline CPI came in at 0.0% MoM, lower than the 0.2% expected, which pushed the annual rate down more than forecast to 2.6% YoY. Core CPI also fell to 2.4% YoY, returning to April's print, after consensus was for no change. The fall was attributed to lower prices for clothing, recreation, food and alcohol.

EUROPE: EASING CREDIT, Q2 EARNINGS SEASON STARTS WEAKER

The Q2 ECB bank lending survey reported a net easing in credit standards for corporates as well as growing loan and CAPEX demand. Germany and the Netherlands could see more easing in credit conditions, while Italian banks may see a net tightening. Corporate and consumer loan demand is expected to increase, but demand for mortgages may be slightly lower. Demand for fixed investment by corporates increased in the Euro area in the second quarter of 2017, particularly in Italy, Netherlands and Germany. In terms of the Q2 earnings season, the quarter is off to a weak start. A recent study by Deutsche Bank noted that only around 20% of Stoxx 600 companies have reported so far, and only 47% of companies have beaten expected EPS. With the euro stronger by 4% during Q2, forex pressures are likely to hamper the Q2 beat ratio, and negatively impact full-year earnings expectations.

UK: BREXIT NEGOTIATIONS CONTINUE

UK newspaper The Guardian reported that the British cabinet will agree to the free movement of EU citizens for up to four years as part of a transitional deal. The article suggests that there is consensus in the cabinet for the deal, with the news likely to boost supporters of a softer Brexit.

US: MANUFACTURING SURVEY COMES IN LOWER THAN EXPECTED

The New York Fed's empire manufacturing survey for July slipped 10 pts to 9.8, lower than the forecast of 15.0 pts, but remaining higher than the level seen in April and May.

JAPAN: BANK OF JAPAN KEEPS POLICY UNCHANGED

The Bank of Japan met this week, but there were no changes to policy. The policy balance rate was kept at -0.10% and 10y JGB yields will continue to be targeted at around 0.0%. The BoJ raised its assessment of the economy, but revised its inflation outlook lower. The BoJ's 2% inflation target was again delayed, this time to around the 2019 fiscal year, from November 2016's postponement to the 2018 fiscal year. Inflation forecasts for 2017 and 2018 were also revised lower.

DOMESTIC MARKETS

SURPRISE RATE CUT BRINGS SOME RELIEF

Making local headlines this week was the SARB's surprise 25 bps cut in the repo, to 6.75%. Standard Bank analysts believe that even under fairly conservative assumptions, the SARB's real repo rate will now be too high for at least the next 12 to 16 months, and that an affordable real repo rate is around 1.20%. A real repo rate that is too high is likely to boost rand strength – either because the current account compresses due to lower imports from weaker domestic demand, or because South Africa sees capital inflows as foreigners are overcompensated. Even after the 25 bps cut and revised inflation forecasts (4.9% YoY in 2018 and 5.2% YoY in 2019), the SARB will still run an average real repo rate next year of 1.85%, which should support the rand.

JUNE'S CPI COMES IN LOWER THAN FORECAST

Statistics SA reported June's CPI as coming in lower than expected at 5.1% YoY, down from 5.4% YoY in May. Core CPI remained unchanged at 4.8% YoY in June, reflecting a weaker exchange rate. Moderating inflation and revised inflation forecasts indicate that weak domestic demand continues, and may lead to further rate cuts later this year.

MAY RETAIL SALES EXCEED EXPECTATIONS

Retail sales for May came in better than anticipated at 1.7% YoY, from an upwardly revised 2.0% YoY in April. The Bloomberg consensus for May was a contraction of 0.3% YoY. Despite the positive data, weak economic fundamentals are likely to weigh on retail sales performance this year, and will result in lowering private consumption expenditure to the end of the year.

ESKOM RELEASES FINANCIAL RESULTS

Eskom's financial results were released yesterday, which although not in themselves significant, are of interest due to the Minister of Finance's 14-point "action plan" which outlined the need for relief. The results reflected increased revenue at the SOE, but showed declining profits and an alarming R3 billion worth of irregular expenditure.

POSSIBLE RESTRICTION OF MINING AND PERMITTING RIGHTS

Mineral Resources Minister Mosebenzi Zwane gazetted a proposal yesterday to limit the granting of new mining and permitting rights, as well as the transfer of mineral rights between companies. These proposals will not affect applications already in place, but will likely hamper growth in the mining sector if successful. The news follows the recent postponement of the new Mining Charter, adding to uncertainty around the future performance of the sector.

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WEEK AHEAD

DATE	EVENT	PERIOD	SURVEY	PRIOR
UNITED KINGDOM				
07/26/17	GDP	2Q	0.30%	0.20%
07/26/17	GDP	2Q	1.70%	2.00%
07/28/17-08/03/17	Nationwide House Px NSA	Jul	2.70%	3.10%
EURO AREA				
07/24/17	Markit Eurozone Manufacturing PMI	Jul	57.2	57.4
07/24/17	Markit Eurozone Services PMI	Jul	55.4	55.4
07/24/17	Markit Eurozone Composite PMI	Jul	56.2	56.3
07/27/17	M3 Money Supply	Jun	5.00%	5.00%
JAPAN				
07/21/17	Tokyo Dept Store Sales	Jun		-1.10%
07/26/17	PPI Services	Jun	0.80%	0.70%
07/26/17	Small Business Confidence	Jul	49.8	49.2
07/28/17	Job-To-Applicant Ratio	Jun	1.5	1.49
07/28/17	Natl CPI	Jun	0.40%	0.40%
CHINA				
07/27/17	Industrial Profits	Jun		16.70%
UNITED STATES				
07/24/17	Markit US Manufacturing PMI	Jul	52.2	52
07/24/17	Markit US Composite PMI	Jul		53
07/25/17	Conf. Board Consumer Confidence	Jul	116	118.9
07/26/17	FOMC Rate Decision (Upper Bound)	Jul	1.25%	1.25%
07/27/17	Durable Goods Orders	Jun	3.50%	-0.80%
07/28/17	U. of Mich. Sentiment	Jul	93.1	93.1
SOUTH AFRICA				
07/25/17	Leading Indicator	May		96.7
07/27/17	PPI	Jun	4.40%	4.80%
07/28/17	South Africa Budget	Jun	21.9b	-21.2b

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WEEKLY TICKER

CURRENCIES

Description	Classification	Currency	Exchange Rate	Week	Month	Month-to-Date	Year-to-Date
ZAR/USD	ZAR/USD	ZAR	12.95	0.91%	1.25%	0.99%	6.14%
ZAR/Pound	ZAR/GBP	ZAR	16.84	1.62%	-1.31%	1.11%	0.59%
ZAR/Euro	ZAR/EUR	ZAR	15.06	-0.77%	-3.14%	-0.77%	-4.03%
Dollar/Euro**	USD/EUR	USD	1.16	1.68%	-4.43%	1.80%	10.60%
Yen/Dollar	YEN/USD	YEN	110.84	1.24%	0.22%	1.40%	5.52%

COMMODITIES

Description	Classification	Currency	Commodity Price	Week	Month	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1253.60	2.14%	0.68%	0.97%	9.25%
Brent Crude Oil	ICE Brent Futures	USD	48.01	-1.74%	6.68%	-1.56%	-18.41%
Platinum	Platinum Spot	USD	933.58	1.47%	0.71%	0.83%	3.38%
Copper	LME 3 month Copper	USD	6004.00	1.32%	4.56%	1.13%	8.46%
Silver	Silver Spot	USD	16.45	3.31%	0.32%	-1.07%	3.30%

GLOBAL EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	1958.77	0.55%	2.02%	2.29%	13.55%
United States	S&P 500	USD	4778.07	0.56%	1.65%	2.13%	11.67%
Europe	Euro Stoxx 50	EUR	6905.29	-2.11%	-2.84%	0.21%	6.93%
Britain	FTSE 100	GBP	6190.07	1.01%	0.14%	1.53%	6.29%
Germany	DAX	EUR	12197.58	-3.10%	-4.18%	-1.03%	6.24%
Japan	Nikkei 225	JPY	30795.85	-0.09%	-0.02%	-0.29%	5.51%
Emerging Markets	MSCI Emerging MKTS*	USD	1060.18	1.25%	5.34%	5.40%	24.95%

SOUTH AFRICAN EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Share	JSE All Share	ZAR	7580.99	1.07%	5.44%	4.98%	8.51%
Top 40	JSE Top 40	ZAR	6679.77	1.04%	5.76%	5.25%	10.38%
Shareholder Weighted	JSE SWIX	ZAR	19698.40	1.39%	5.20%	5.17%	8.65%
Small Companies	JSE Small Cap*	ZAR	59169.60	0.52%	0.80%	1.43%	-2.05%
Resources	JSE Resource 20	ZAR	1965.43	-1.89%	7.85%	4.87%	0.39%
Industrials	JSE Industrial 25	ZAR	14072.50	2.00%	4.98%	5.42%	16.76%
Financials	JSE Financial 15	ZAR	8085.41	1.85%	6.09%	5.36%	3.61%
SA Listed Property	JSE SA Listed Property	ZAR	2234.59	0.32%	3.08%	3.87%	6.25%
Preference Shares	JSE Pref Shares	ZAR	1957.51	0.22%	-0.14%	-0.04%	2.29%

SOUTH AFRICAN FIXED INTEREST

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Bond	BESA ALBI Index	ZAR	565.89	0.81%	0.94%	2.00%	6.10%
Inflation Linked Bonds	BESA CILI	ZAR	246.30	0.47%	-0.88%	-0.14%	0.27%
Cash	STEFI Composite*	ZAR	371.07	0.14%	0.61%	0.42%	4.18%

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

This report was compiled in association with Counterpoint Asset Management. www.cpam.co.za