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BRENTHURST
THE HOME OF WEALTH

BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017

GLOBAL MARKETS

► **CURRENT FED CHAIR JANET YELLEN'S SUCCESSOR IS SOURCE OF MARKET VOLATILITY.** However, this reached a pinnacle when US President Donald Trump revealed that he would be backing Jerome Powell to take over from Yellen. The aforementioned is still subject to congressional approval but the announcement had a muted impact on markets as the news was seemingly already priced in.

► **THE UNVEILING OF THE REPUBLICAN TAX PLAN ADVOCATED THE LARGEST OVERHAUL IN THE US TAX SYSTEM SINCE THE 1980'S.** In the plan, whilst putting an end to various tax breaks, it proposes to significantly cut individual and corporate taxes in the US. Trump is hoping to sign this into law by Thanksgiving weekend later in the month. US markets were buoyed by the news with the Nasdaq, Dow Jones Industrial Average and the S&P 500 indices ending the week 0.94%, 0.45% and 0.26% higher respectively.

► **FED SQUARED WITH MARKET EXPECTATIONS AND KEPT INTEREST RATES ON HOLD AT FOMC MEETING.** They mentioned that inflation remains an issue on items other than food and energy but that the US labour market is improving and economic activity is rising. Additionally, they went on to state that a plan of gradually raising interest rates would be pursued, which increases the likelihood of a rate hike in December (92% probability).

► **THE BANK OF ENGLAND (BOE) INCREASED INTEREST RATES FROM 0.25% TO 0.50%.** Although this was expected by markets to a large degree, it was the first time in ten years that interest rates rose in the UK. At the MPC meeting, concerns surrounding the impact of Brexit on the UK economy were raised. At the same time, the BOE's GDP and inflation forecasts remained unchanged. Additionally, the meeting minutes revealed that the BOE are in no hurry to raise interest rates in the UK again and that future hikes would be limited. So, despite interest rates increasing, a dovish tone was set resulting in the pound ending the week at 1.31/USD and 1.13/EUR having depreciated 0.40% and 0.39% respectively on the back of the announcement. Similarly, the UK 10Y gilt lost 0.12% to trade at 1.30% as the week came to a close.

► **EMPLOYMENT DATA OUT OF THE US CONTINUED TO IMPRESS.** US ADP employment for October showed the private businesses in the US hired 235k more workers in October compared to 110k hired in September. Markets were expecting a figure closer to 200k and were pleasantly surprised. This was followed by the Non-Farm Payrolls for October, which showed that jobs in food services and drinking establishments rebounded strongly (reversal of previous hurricane effects) leading to 210k new jobs added over the month. The US unemployment rate improved slightly to 4.1% in October from 4.2% reported in September, which is exactly what the Fed was referring to in their minutes mentioned to above.

► **ECONOMIC NEWS OUT OF THE EU WAS MIXED.** On the one hand, stubbornly low inflation remains a problem for the ECB as October's inflation disappointed markets somewhat coming in at 1.4% y/y, which was both below September's print as well as expectations of 1.5%. Interest rates in the EU are therefore likely to stay where they are for the time being even though quantitative easing is set to begin in 2018. On the other hand, GDP growth continued to steam roll ahead returning 2.5% y/y in Q3 2017. This beat market expectations of 2.1% and the print of 2.3% from Q2 2017. The EU unemployment rate in the meanwhile continued to fall in September as the labour market extended its recovery. The unemployment rate of 8.9% in September was the lowest rate of unemployment since 2009.

► **UK MANUFACTURING PMI FOR OCTOBER CAME IN STRONGER THAN EXPECTED.** This indicates that the UK manufacturing sector has been relatively well protected from the Brexit vote. Nonetheless, export orders came in slightly lower in October meaning the UK's domestic economy made the largest contribution.

DOMESTIC MARKETS

► **IMF RELEASE THEIR REGIONAL ECONOMIC OUTLOOK FOR SUB-SAHARAN AFRICA LAST WEEK.** Accordingly, they see the region growing at 2.6% this year and 3.4% in 2018 with much of the growth in the region attributed to the recovery of Nigeria's oil production and the end of the drought. They specifically mentioned that Nigeria and South Africa (two largest economies in the region) face policy uncertainty which could hinder growth. As such, the IMF sees growth increase to 4.4% this year and 5.1% in 2018 when omitting Nigeria and South Africa from the subset. Regarding South Africa specifically, they hinted that sovereign downgrade risks would probably weigh on investor confidence and adversely impact growth, which could have adverse regional spill-over effects.

► **IN THE WAKE OF THE GRIM MTBPS, FOCUS MOVES TO THE 24TH OF NOVEMBER WHEN S&P RATINGS AND MOODY'S WILL REVIEW SA'S CREDIT RATING.** Worth remembering, Moody's have South Africa on one notch above non-investment grade (for both domestic and foreign currency rating) whilst S&P Ratings have South Africa at one notch above non-investment grade for the domestic currency rating and non-investment grade for the foreign currency rating. If both agencies downgrade South Africa's domestic currency rating further, forced selling would most likely follow, as would a depreciation in the rand. However, further downgrades may be priced in to some extent.

► **THE RAND CLOSED THE WEEK AT 14.21/USD AND 16.51/EUR.** This signals a depreciation of 0.85% and 1.13% respectively over the week. Similarly, foreigners have been net sellers of South African bonds (chart of the week for illustrative purposes). All of this stands to soften the blow in the event of actual downgrades.

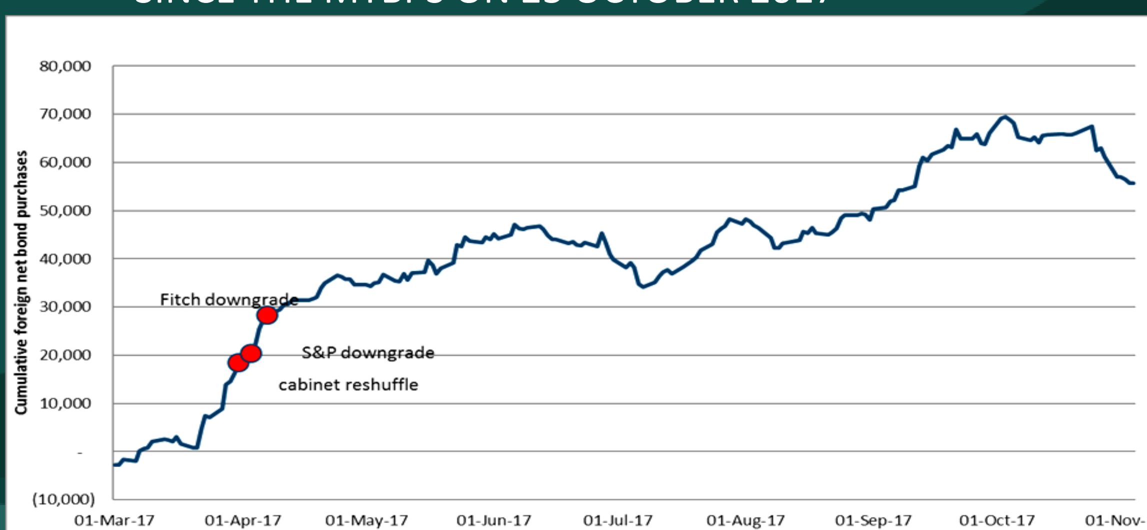
► **PRIVATE SECTOR CREDIT EXTENSION FELL IN SEPTEMBER UPON DEPRESSED BUSINESS CONFIDENCE AND WEAK ECONOMIC GROWTH DOMESTICALLY.** Low business confidence as well as poor consumer confidence pose significant challenges to the labour market. This was evident last week when the unemployment rate of 27.7% for Q3 2017 matched the rate for Q2 2017, which was the highest level of unemployment since the global financial crisis in Q1 2008.

► **NAAMSA VEHICLE SALES DISAPPOINTED AND FELL TO 4.6% IN OCTOBER FROM 7.0% IN SEPTEMBER.** Vehicle sales is seen as a leading indicator of the business cycle and thus the lack of confidence and the bleak fiscal outlook most likely means that vehicle sales will continue to struggle going forward.

► **ON A POSITIVE NOTE, BARCLAYS MANUFACTURING PMI FOR OCTOBER BEAT THE SEPTEMBER FIGURE AS NEW ORDERS CONTRIBUTED THE MOST.** However, the print remains firmly below the 50pts benchmark level and therefore in contractionary territory.

CHART OF THE WEEK

FOREIGNERS WERE NET SELLERS OF SA BONDS SINCE THE MTBPS ON 25 OCTOBER 2017



WEEKLY TICKER

CURRENCIES							
Description	Classification	Currency	Exchange Rate	Week	Month	Month-to-Date	Year-to-Date
ZAR/USD	ZAR/USD	ZAR	14.25	-0.86%	-4.80%	-0.89%	-3.61%
ZAR/Pound	ZAR/GBP	ZAR	18.63	-0.41%	-3.47%	0.74%	-9.05%
ZAR/Euro	ZAR/EUR	ZAR	16.55	-0.86%	-3.45%	-0.59%	-12.70%
Dollar/Euro**	USD/EUR	USD	1.16	0.00%	1.28%	-0.28%	10.42%
Yen/Dollar	YEN/USD	YEN	114.37	-0.35%	-1.16%	-0.64%	2.26%
COMMODITIES							
Description	Classification	Currency	Commodity Price	Week	Month	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1269.56	-0.27%	-0.39%	-0.15%	10.64%
Brent Crude Oil	ICE Brent Futures	USD	62.44	3.23%	11.64%	2.46%	6.43%
Platinum	Platinum Spot	USD	921.77	0.49%	0.68%	0.26%	2.07%
Copper	LME 3 month Copper	USD	6895.00	0.95%	5.74%	0.82%	24.56%
Silver	Silver Spot	USD	16.86	-0.14%	1.56%	0.88%	5.88%

GLOBAL EQUITY INDEXES (TOTAL RETURN)							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	1269.56	-0.27%	-0.39%	-0.15%	10.64%
United States	S&P 500	USD	62.44	3.23%	11.64%	2.46%	6.43%
Europe	Euro Stoxx 50	EUR	921.77	0.49%	0.68%	0.26%	2.07%
Britain	FTSE 100	GBP	6895.00	0.95%	5.74%	0.82%	24.56%
Germany	DAX	EUR	16.86	-0.14%	1.56%	0.88%	5.88%
Japan	Nikkei 225	JPY	35008.75	3.69%	9.37%	2.41%	19.94%
Emerging Markets	MSCI Emerging Markets*	USD	1126.18	1.44%	2.21%	0.64%	33.45%
SA EQUITY INDEXES (TOTAL RETURN)							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Share	JSE All Share	ZAR	8451.32	1.06%	5.43%	1.12%	20.97%
Top 40	JSE Top 40	ZAR	7529.76	0.84%	5.53%	1.20%	24.42%
Shareholder Weighted	JSE SWIX	ZAR	21560.18	1.05%	5.89%	0.98%	18.92%
Small Companies	JSE Small Cap*	ZAR	60348.22	0.93%	2.21%	-1.05%	0.94%
Resources	JSE Resource 20	ZAR	2407.97	2.95%	6.10%	2.63%	22.99%
Industrials	JSE Industrial 25	ZAR	15714.37	-0.14%	6.01%	0.65%	30.38%
Financials	JSE Financial 15	ZAR	8444.90	2.01%	4.28%	1.13%	8.21%
SA Listed Property	JSE SA Listed Property	ZAR	2358.89	2.11%	3.75%	1.68%	12.16%
Preference Shares	JSE Pref Shares	ZAR	1925.26	-0.49%	-1.41%	-0.47%	0.61%
SA FIXED INTEREST							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Bond	BESA ALBI Index	ZAR	555.62	-0.75%	-2.80%	-1.13%	4.18%
Inflation Linked Bonds	BESA CILI	ZAR	248.19	-0.18%	-0.83%	-0.17%	1.04%
Cash	STEFI Composite*	ZAR	378.82	0.12%	0.59%	0.06%	6.36%

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

The WEEKLY TICKER report was compiled in association with Counterpoint Asset Management. www.cpam.co.za