TURBULENT AUGUST

LOCAL MARKETS

This past month was not for the faint hearted as we witnessed widespread volatility on markets across the globe as fears over the health of the Chinese economy kept investors on edge, and the question remained as to whether the US Federal Reserve (Fed) would raise interest rates next month (its first increase in a decade) or delay until December. In fact, financial market assets have been under significant pressure in the past few weeks. This has included currencies, equities and bonds.

The weakness in South Africa's financial markets partly reflects global events, especially policy uncertainty in the United States, and a pronounced economic slowdown in China. The 25% decline in the oil price since the beginning of July, as well as an ongoing slump in a broad-range of commodity prices has intensified the pressure on many emerging economies. Falling commodity prices have prompted persistent downward revisions to earnings forecasts.

The JSE All Share Index (ALSI) followed global markets and ended August in negative territory (down 4.0% for the month), although surprisingly still positive for the year by 0.4%. Mining shares fell -4.6%, Financials -3% and Industrials -2.6%. This means that the ALSI is back at January 2015 levels and also April 2014 levels. Last October the low was 46,673, so the market is still above that level. At this level the FNDI index is still +270% since March 2009, or 25% per year, excluding dividends. At its peak in April, it was +340% or 27% per year.

On the South African market, strength in gold and platinum mining sector stocks, amid firmer commodity prices towards the end of August, resulted in these counters featuring prominently among the top-20 month-on-month performing shares (albeit coming from a low base). This could be mainly due to higher commodity prices globally and a much-weaker rand.

On the economic front, locally there was a plethora of bad news as our gross domestic product (GDP) shrunk 1.3% in second quarter of 2015, with the widespread disappointment coming from negative growth in most manufacturing sectors. CPI inflation recorded a 5.5% YOY rise in July (from June's 4.7%) and the trade balance showed a small deficit of R0.4billion in July from a surplus of R5.8billion in June.

SA consumer inflation is up at 5.0% year-on-year in July 2015 due to an increase in electricity and water prices. The decline in the petrol price in August and September will reduce the monthly inflation rate by around 0.2 percentage points in each month, which will further help to ease some of the current upward pressure on SA's overall inflation. Inflation is still expected to breach the target in early 2016 despite a lower petrol price.

The latest inflation rate (especially core inflation) should provide the Reserve Bank with room to hold-off on raising rates for a while as they assess global interest and domestic inflation rate developments.

Although the US bond market has strengthened, our bond market has weakened due to the very weak rand. The R186 SA government bond due in 12/13 years, is trading at 8.43% at month-end, similar to the 2015 highs seen in June (yield highs/price lows).

The SA Listed Property Index has also pulled back from its recent recovery, -4.7% from its high in the last week of August. So far in 2015 the total return is +11.5%, somewhat better than the +3.1% total return of the Financial & Industrial Index.

GLOBAL MARKETS

WHILE WORLD STOCKS, COMMODITIES AND CURRENCIES WERE ON A ROLLER-COASTER RIDE FOR MOST OF THE MONTH, GLOBAL MARKETS STAGED SOMEWHAT OF A RECOVERY TOWARDS THE END OF LAST WEEK ALTHOUGH MARKETS STILL STRUGGLED TO FIND SUPPORT AT HIGHER LEVELS.

On a month-to-month basis, US markets closed August in the red with the Dow Jones Industrial Average posting a c. 6.4% decline - its worst monthly performance in over five years. The broader US stock benchmark, the S&P 500 Index recorded a 6.3% drop for the month, while the NASDAQ was off 6.9% for the month. According to FactSet, it has been both the S&P 500 and the tech-heavy NASDAQ's worst monthly performance in three years. Similar dips were seen in Asia (the Shanghai Composite Index plummeted 12.5% for the month - its third straight month of declines) and Europe.

The market volatility was despite US economic news remaining positive for the most part. Last week's final GDP data point came in ahead of expectations showing that the US economy grew at an annualised rate of 3.7% in 2Q15, while significantly lower oil prices, a recovering housing market and good jobs growth further buoyed consumer spending.

Although the Federal Reserve is relatively optimistic about US economic growth, they are concerned about sustained low inflation as well as negative development in other parts of the world. Unsurprisingly, the market-implied probability of a Fed interest rate hike in September has slipped back to around 35% from just over 50% a few weeks ago.

Investors are worrying that weak world economies along with a potential Fed hike could cause a reversal in the market, in other words, becoming a bear market. At the same time, there are also fears that if the Fed doesn't hike in September, it will be a signal that there is a slowdown in the economy.

Economists believe US consumer spending, which accounts for 67% of economic growth in the US, will provide a solid foundation for the economy, supported by good gains in employment, incomes and net worth. Housing is improving. Affordability is still good, mortgage rates are low and labour markets are improving.

Regarding China's 2.9% engineered currency decline that seemed to cause such chaos in markets, it needs to be pointed out that the real trade-weighted currency is still 13% higher than May 2014's level and 29% higher than it was just four years ago. Which means it is still too expensive. Analysts expect the trade-weighted Chinese currency to fall another 5-8%, which should support Chinese growth and mitigate deflation risks.

Sources: *"From the Desk" Market Review Anchor Capital 02 September, 2015*
"The Weekly Focus" Market and Economic Review Paul Hansen, Stanlib, 24 August 2015

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SOUTH AFRICA QUO~VADIS?

ARE YOU CONCERNED ABOUT HOW THE CURRENT POLITICAL CLIMATE IN SOUTH AFRICA AND THE IMPACT OF THIS ON MARKETS WILL AFFECT YOUR INVESTMENTS?

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Time: 16:00 to 17:45
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