



BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017

GLOBAL MARKETS

WEEKLYWRAP 06 October 2017

► The dollar traded in a volatile fashion last week.

After strengthening the week before, the dollar initially pulled back as reports surfaced of a potential dovish successor to current Fed Chair Janet Yellen. In these reports, US President Donald Trump was quoted as favouring Jerome Powell over Kevin Walsh to take over from Yellen when her term comes to an end in February 2018. In this type of environment, risk-on sentiment would most likely prevail as US interest rates would stay on hold for longer (or rise at a slower pace) and emerging markets would then continue to be buoyed by developed market flows. Global markets reacted positively evidenced by the S&P500, the DAX and the Brazil's Bovespa indices trading at new all-time high levels last week and ending 1.19%, 0.99% and 2.37% up respectively.

► **The Fed looking to hike rates drives inflation expectations lower.** Fed Minneapolis President Neel Kashkari indicated that sluggish inflation in the US is most likely due to Fed's current monetary policy instead of transitory factors. The President of the Dallas Fed added that he believes that even though the Fed has room to hike rates, they need to be one hundred percent sure of the decision vs the alternative of hiking when inflation reaches the target level of 2%. San Francisco Fed President Jon Williams thereafter struck a more hawkish tone, mentioning that interest rates should keep rising owing to the fact that the US labour market is close to full employment, which is likely to translate into higher inflation.

► **ECB meeting minutes from the latest September meeting were released.** This revealed that members exchanged views on whether to taper quantitative easing vs merits of continuing with their asset buying program and the benefits of short term relative to long term commitment to this option. The ECB now faces a conundrum as bonds to value of EUR2.3tn expire in December. They therefore need to decide on the best course of action as time is running out. The strong euro has resulted in subdued inflation in the EU and the main source of difficulty in their decision-making process to taper. Keen interest will thus be paid to their official decision later this month.

► Private businesses in the US hired 135k more workers in September, which surprised on the upside.

However, markets were caught off guard somewhat as they were not expecting non-farm payrolls to print -33k for September as consensus was for a figure closer to +90k. This was the first drop in payrolls since September 2010 as employment contracted sharply in food services and drinking establishments. US unemployment then strangely came in better than expected at 4.2% in September, which was lower than 4.4% in August. These two statistics might seem to be contradicting each other. However, payrolls were, in all likelihood, distorted by Hurricanes Harvey and Irma in Florida and Texas as this tally would omit workers that stayed away from work and did not get paid, due to the bad weather. Besides this, US ISM manufacturing and services both beat market expectations in September. Impressively, manufacturing expanded at the fastest pace in thirteen years while services grew at a rate not seen in the last twelve years. Fears pertaining to the effects of the hurricane season on US growth prospects were then quickly vanquished causing the dollar to strengthen. Meanwhile, the US 10Y treasury yield rose 0.04% over the week and closed at 2.36% as the probability of an interest rate hike rose.

► **EU, a pick-up in retail sales in August as well as in the Markit Services PMI for September will most likely lead to higher price levels.** This paints a healthy picture for the Eurozone and it would not be surprising to see GDP growth continue for the foreseeable future. Nevertheless, Eurozone PMI for September reached its strongest level since February 2011 as demand rose across the board whilst y/y PPI for August also increased and surprised on the upside. All in all, these positive prints make it easier on the ECB decision making process to begin tapering this month.

► **Japanese manufacturing PMI for September came at its highest level in four months at 52.9pts.** An increase in demand was the main driver of production and new orders. Similarly, an increase in foreign demand led to a pick up in export orders. On the contrary, the services PMI dipped in September and came in at the slowest pace of growth in eleven months. Services have been growing remarkably in Japan over the last while, supposedly at an unsustainable pace as economic activity there is still robust and confidence remains strong.

DOMESTIC MARKETS

► **In the run up to the Medium Term Budget Policy Statement (MTBPS) later this month, Finance Minister Malusi Gigaba said that National Treasury is undecided as to whether it would extend SABC's ZAR3bn loan guarantee.** Unfortunately, other SOE's like SANRAL and SAA may also need extensions on their guarantees in time to come. Ratings agencies have cautioned that guarantees as well as net debt to GDP of 60% or more would be sufficient to trigger further downgrades so it would be interesting to see what transpires.

► **Despite the heightened risk, complacent behavior by market participants pushed the JSE All Share index to new records highs.** It closed the week trading 3.08% higher. All three of the main sub-indices contributed. More specifically, the JSE Resource 10 and the JSE Industrials 25 indices rose 4.61% and 3.49% over the week whilst the financials board added 1.43%.

► **A slight improvement in South Africa's budget deficit for August was posted last week.** National Treasury estimates the deficit to be 3.3% of GDP for this fiscal year. Despite the improvement, concerns surrounding the SOE's loom large. More specifically, Citibank is refusing to roll SAA's ZAR1.8Bn loan of which, National Treasury will need to fork out the cash as well as a ZAR1.2Bn cash injection to SAA's working capital.

Added to this, let us not forget the ZAR2.3Bn they had to pay to Standard Chartered Bank in July, who then refused to roll SAA's debt.

► **50 675 new vehicles were sold in September according to the NAAMSA vehicle sales statistic.** This was the fourth consecutive increase in vehicle sales and upon further inspection, all categories rose except buses and light commercial vehicles. The increase in sales could be driven by the benign inflation outlook domestically as well as the 0.25% interest rate cut by the SARB in July making debt repayments cheaper.

► **Standard Bank PMI came in at 48.5pts for September from 49.9pts in August as private sector activity continues to contract.** Stagflation in South Africa may become a problem in time to come as actual growth and expected future growth are pointing lower while inflation should rise.

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CHART OF THE WEEK

HAWKISH RHETORIC AND PRESIDENT TRUMPS REFLATIONARY TAX OVERHAUL PLAN HAS INCREASED THE PROBABILITY OF ANOTHER INTEREST RATE HIKE IN THE US THIS YEAR



WEEKLY TICKER

CURRENCIES							
Description	Classification	Currency	Exchange Rate	Week	Month	Month-to-Date	Year-to-Date
ZAR/USD	ZAR/USD	ZAR	13.73	-1.39%	-7.61%	-1.25%	0.06%
ZAR/Pound	ZAR/GBP	ZAR	18.00	1.32%	-7.49%	0.92%	-5.87%
ZAR/Euro	ZAR/EUR	ZAR	16.10	-0.64%	-5.91%	-0.52%	-10.24%
Dollar/Euro**	USD/EUR	USD	1.17	-0.71%	1.57%	-0.74%	11.50%
Yen/Dollar	YEN/USD	YEN	112.57	-0.12%	-3.14%	-0.05%	3.90%
COMMODITIES							
Description	Classification	Currency	Commodity Price	Week	Month	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1281.44	-0.24%	-4.31%	0.13%	11.67%
Brent Crude Oil	ICE Brent Futures	USD	55.77	-2.06%	2.87%	-1.80%	-5.04%
Platinum	Platinum Spot	USD	918.75	0.46%	-8.75%	0.73%	1.73%
Copper	LME 3 month Copper	USD	6666.50	2.86%	-3.40%	2.86%	20.43%
Silver	Silver Spot	USD	16.92	1.09%	-5.83%	1.62%	6.26%

GLOBAL EQUITY INDEXES (TOTAL RETURN)							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	2014.02	0.67%	2.80%	0.72%	17.36%
United States	S&P 500	USD	4949.09	1.25%	3.59%	1.25%	15.67%
Europe	Euro Stoxx 50	EUR	7233.23	0.26%	5.04%	0.26%	12.01%
Britain	FTSE 100	GBP	6337.12	2.08%	2.45%	2.08%	8.81%
Germany	DAX	EUR	12955.94	0.99%	6.07%	0.99%	12.85%
Japan	Nikkei 225	JPY	32127.06	1.64%	7.58%	1.64%	10.07%
Emerging Markets	MSCI Emerging Markets*	USD	1103.12	1.98%	1.84%	2.00%	30.65%
SA EQUITY INDEXES (TOTAL RETURN)							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Share	JSE All Share	ZAR	8107.36	2.66%	2.45%	3.08%	16.05%
Top 40	JSE Top 40	ZAR	7218.97	2.97%	3.30%	3.43%	19.29%
Shareholder Weighted	JSE SWIX	ZAR	20672.49	2.57%	1.71%	3.13%	14.02%
Small Companies	JSE Small Cap*	ZAR	60107.60	0.17%	-0.49%	0.88%	0.35%
Resources	JSE Resource 20	ZAR	2307.35	4.35%	2.93%	4.61%	17.85%
Industrials	JSE Industrial 25	ZAR	14942.25	2.90%	4.11%	3.49%	23.97%
Financials	JSE Financial 15	ZAR	8257.05	1.18%	-0.51%	1.43%	5.80%
SA Listed Property	JSE SA Listed Property	ZAR	2289.42	0.10%	0.58%	0.65%	8.86%
Preference Shares	JSE Pref Shares	ZAR	1957.88	0.19%	0.81%	-0.20%	2.31%
SA FIXED INTEREST							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Bond	BESA ALBI Index	ZAR	570.65	-0.76%	-0.56%	-0.76%	7.00%
Inflation Linked Bonds	BESA CILI	ZAR	250.25	0.10%	1.01%	0.07%	1.88%
Cash	STEFI Composite*	ZAR	376.76	0.12%	0.59%	0.14%	5.78%

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

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

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