BRENTHURST
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Month in Review | July 2023

LOCAL MARKETS
- STRONG RECOVERY FOR THE RAND

The rand recovered dramatically on the back of lower US inflation numbers that weakened the dollar and stabilised commodity prices. The rand remains among the most shorted currencies in the world at present, alongside the yen.

Despite low global growth, commodity prices may stabilise or even rise slightly as a result of low inventory levels. Higher commodity prices would support the rand further. The rand firmed by 5.6% MoM (-4.5% YTD), ending July below the psychological R18.00/US$1 level at R17.85/US$1.

JSE CLOSES HIGHER

The JSE All Share Index rose by a solid 3.9% in July (+8.1% YTD). Financials were by far the best-performing segment of the market (Fini-15 +7.9% MoM; +11.6% YTD), followed by resources (Resi-10 +3.7% MoM; -9.2% YTD), as higher commodity prices, especially platinum group metal (PGM) prices and gold buoyed the index. Industrial shares (Indi-25 +2.5% MoM; +20.8% YTD) and property (the SA Listed Property Index +2.1% MoM; -5.5% YTD) also recorded good gains.

The largest company on the exchange, BHP Group, disappointed, falling 1.4% MoM, while Anheuser Busch InBev, the third-largest listed company, declined by 3.7% MoM and Richemont was down 10.1% MoM. However, the JSE was buoyed by the performances of Prosus (the second-biggest listed company) and Naspers (the fifth largest by market cap), up 2.9% and 3.4% MoM, respectively.

Real estate investment trust (REIT), Liberty Two Degrees (L2D), was July's best-performing share, soaring by 50.4% MoM. This follows an announcement that Liberty Group (which owns 61% of L2D's shares) intends to buy out L2D's minority shareholders and de-list the Group. Clothing retailer Truworths was in second place, +26.8% MoM, followed by platinum mining company Northam, +20.4% month on month.

ArcelorMittal (Amsa) was July's worst-performing share, with its share price plummeting 31.7% after SA's largest steelmaker warned that its earnings for the six months to end-June would drop by between 111% and 114% YoY. Amsa was followed by Richemont, which was down 10.1% MoM. Information and communication technology (ICT) solutions and services group Datatec was the third worst performing share with a share price decline of 10.0% MoM.

INFLATION AT ITS LOWEST SINCE OCTOBER 2021

SA headline CPI slowed for a second month in May to 6.3% YoY (the lowest reading since April last year) from 6.8% YoY in April. MoM, CPI rose 0.2% in May vs 0.4% in April. The annual rate for food and non-alcoholic beverages, a critical upward driver of inflation over the past few months, came in significantly lower than expected – at 11.8% YoY in May vs 13.9% in April. However, inflation remains outside the SA Reserve Bank's (SARB's) target range of 3%-6%. April retail sales data (released in June) fell for a fifth consecutive month, with data showing that retail trade shrank 1.6% YoY, following a downwardly revised 1.5% YoY drop in March.

After weakening dramatically in May and breaching the R19.90/US$1 level, the rand recorded a strong performance in June as load shedding eased somewhat for the first time this year. The local unit firmed by 4.7% MoM (-10.6% YTD), ending June below the psychological R19.00/US$1 level at R18.85/US$1.

VEHICLE SALES SLIGHTLY UP

Total new-vehicle sales in July inched up by 1.3%, to 43 389 units, compared with the same month last year. Not all categories performed well, as shown in the latest Naamsa report. The new-passenger-car market reached 27 839 units last month – a drop of 9.7% over July last year. Sales of new bakkies, vans and minibus taxis – light commercial vehicles – jumped by 32.6%, to 12 666 units.

July export sales, at 37 064 units, increased by 47.3% compared with the same month last year. Year-to-date exports are up 10% at 209 900 units. Year-to-date new-vehicle sales in the South African market, at 309 359 units, are up 4.4% compared with the same seven months last year.

INTERNATIONAL MARKETS

- GOOD MONTH FOR SEVERAL GLOBAL MARKETS

Global markets rallied on more good news about inflation and the prospects of a soft landing. The International Monetary Fund's (IMF) July World Economic Outlook was slightly more upbeat than April, with global growth revised up to 3% for 2023 and 2024.

Inflation is coming down and should continue to do so (though not in a straight line). This is positive for markets, as it suggests that central banks may not need to raise interest rates as aggressively as expected.

Among the major Wall Street indices, the tech-heavy Nasdaq Composite Index (Nasdaq) and blue-chip S&P 500 posted good gains, up 4.0% (+37.1% YTD) and 3.1% (+19.5% YTD) MoM, respectively. It was both indices' fifth consecutive positive month. The Dow Jones rose 3.3% MoM and is up 7.3% YTD.

In Europe, Germany's DAX ended July 1.9% higher (+18.1% YTD), while France's CAC Index closed 1.3% up MoM (+15.8% YTD). The European Central Bank (ECB) raised rates by 25 bps at its July meeting (the ninth consecutive increase), taking the ECB deposit rate to 3.75%. In a statement, the ECB said, "Inflation continues to decline but is still expected to remain too high for too long,".

In economic data, June euro area inflation was 5.5% YoY (May 6.1%), while EU annual inflation was 6.4% in June vs May's 7.1%.

CHINESE MARKETS CLOSE HIGHER

Chinese equities closed July on a cheery note, despite the month's disappointing economic data releases. There was optimism around the government's top economic planning agency, the National Development and Reform Commission (NDRC), releasing a policy document on 31 July containing measures to restore and expand consumption and covering a wide range of industries, including automobile, real estate, electronic products, and the services industry. MoM, Chinese markets recorded gains, with Hong Kong's Hang Seng Index up 6.1% (+1.5% YTD), while the Shanghai Composite Index rose 2.8% (+6.5% YTD). China's factory activity posted a fourth straight monthly contraction in July, with the official manufacturing purchasing managers index (PMI) coming in at 49.3, slightly better than the expected 49.2 but down from 49 in June.

JAPANESE MARKET DISAPPOINTS

Japan's equity market performance disappointed, with the benchmark Nikkei declining after two consecutive positive MoM performances as it retreated by 0.1% in July (+27.1%YTD). Core CPI (excluding the volatile fresh food category but including energy costs) rose 3.3% YoY in June vs May's 3.2% gain, matching expectations.

In commodities, Brent crude oil rose 14.2% MoM (-0.4% YTD) – its second consecutive MoM gain following OPEC production cuts and renewed optimism around the Chinese demand and global growth outlook. Iron ore prices rose 2.0% MoM but are down 1.1% YTD. The gold price rose 2.4% MoM (+7.7% YTD). The platinum price jumped 5.3% MoM (-11.2% YTD), while palladium ended the month 4.6% higher (-28.2% YTD).

SMART TIP

TAKE NOTE OF TAX ON INTEREST EARNED

With tax season now in full swing, do take note of this tip by asset manager Ninety One.

- Interest rates have more than doubled from their lows, with the result that the amount you can invest in a bank account before you exceed your interest income exemption has halved – this at a time when peoples' cash balances have increased materially.
    - **At 8.25% you can now only have around R290k invested in a bank account before you exceed your interest income exemption**
- It's one thing for you to receive your salary net of income tax (you feel the pain less), it's quite another to make an actual payment to SARS.
- **Investors will need to look to alternative, more tax-efficient solutions, as hiding in cash and paying away 45% of any excess interest income earned is not a sensible savings or investment strategy.**

Sources: Anchor Capital, Business Day, Engineering News, Sygnia

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