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Month in Review | May 2021

# LOCAL MARKETS
# - A CALMER MARKET IN MAY

**Following the turmoil of April, the JSE ended May basically unchanged, as South Africa's JSE All Share Index closed the month 0.5% lower (-2.2% YTD), while the FTSE JSE Capped SWIX rose slightly (+0.5% MoM; +3.1% YTD). The Fini-15 outperformed in May, rising 4.2% MoM (+14.8% YTD), as banks and insurance companies were amongst May's best-performing stocks after their poor performances in April. The Resi-10 ended the month slightly lower (-0.3% MoM; +8.4% YTD), while the SA Listed Property Index also declined slightly (-0.3% MoM; -4.8% YTD). The Indi-25 (-2.4% MoM; -18.0% YTD) was the month's biggest loser as industrial shares retreated. May's best-performing shares by market cap include Anglo American (+ 6.8% MoM), Naspers (+ 6.6% MoM), FirstRand (+ 5.7% MoM), Glencore (+ 4.9%) and Prosus (+ 4.3% MoM).**

April's annual headline inflation, as measured by the consumer price index (CPI), was unchanged from March at 5.9% YoY. *Stats SA* said the key drivers were, once again, food and non-alcoholic beverages, housing, and utilities as well as transport – all the usual suspects that have been driving prices of late. Interestingly, April core CPI printed slightly higher at 3.9% YoY (vs 3.8% in March) as headline pressures slowly trickle down through to the stickier, entrenched categories. Nonetheless, core inflation remains contained – signalling domestic inflationary pressures are muted. March SA retail sales rose 1.30% YoY, less than forecast and compared to a YoY drop of 0.90% in February.

## UNEMPLOYMENT DECLINES

The latest *Quarterly Labour Force Survey (QLFS)*, released at the end of May, showed that SA's unemployment rate declined slightly (for the first time in seven quarters as the manufacturing and mining industries added jobs to meet the demand for commodities) in 1Q22 to 34.5% from 35.3% in 4Q21. There were 7.9mn unemployed people in the country in 1Q22, with 370,000 jobs gained QoQ. Business Day columnist, Hillary Joffe, analysed the latest unemployment numbers and wrote that instead of proper policy debates that take a holistic look at how best and even whether to spend government money on job creation, the president's jobs programme is politically driven. Former Treasury deputy director-general Michael Sachs says: "The president is backing the basic income grant and this presidential employment initiative. If he had a serious growth strategy these could be good complements, but in the absence of being serious about growth, they become a substitute," according to the report.

As expected, the South African Reserve Bank's (SARB's) Monetary Policy Committee (MPC) broke precedence and hiked rates by 50 basis points on 19 May, as opposed to the 25-basis point increments thus far in the current rate-hiking cycle. Standard &Poor's (S&P) upgraded SA's credit rating outlook to positive from stable, noting that recent favourable terms of trade have improved the external and fiscal trajectory, while the country's "reasonably large net external asset position, flexible currency, and deep domestic capital markets provide strong buffers against shifts in external financing."

## VEHICLE SALES UP, EXPORTS DOWN

Figures released by the vehicle industry body Naamsa show that domestic sales of new vehicles increased by 2.1% year on year in May, from 38,358 units to 39,177. The increase was mainly due to car sales which rose by 13.8%, from 24,119 to 27,437. Total sales of light commercial vehicles fell 22.6%, while those of medium and heavy trucks all grew from last year.

By the end of May, total new-vehicle sales in SA stood at 212,537 units, 12.2% higher than 189,380 a year ago. However, SA's new-vehicle exports fell almost 30% in May, thanks largely to the continued suspension of production at Toyota's vehicle assembly plant in Durban after severe floods in April. In March, before April's KwaZulu-Natal floods submerged parts of the plant, the company exported 6,837 cars and commercial vehicles. In April, this number was down to 3,629 and in May, it was just 143 units.

The result was an industry total of 25,788 exports in May — 29.9% lower than the 36,798 of May 2021.

# INTERNATIONAL MARKETS - ANOTHER BUMPY RIDE

**It was another tumultuous and volatile month for US and global markets in May (MSCI World +0.1% MoM, -12.8% YTD), with some of the most extreme swings in recent memory as nearly all asset classes saw significant selling in the first half of the month, bounced back and rallied again as investors bought in the dip, before ending the month on a downbeat note. Ultimately, the sentiment was weighed down by worries about a possible US recession, rising interest rates, the ongoing Russian offensive against Ukraine, and soaring inflation with the 58% YTD jump in oil prices being a big contributor to the very high inflation globally. China's strict zero-COVID policies also weighed on sentiment for most of the month although Beijing announced this week that these strict lockdown policies would be systematically lifted.**

US indices' losses for the month were capped after a strong rally the week of 23 May, with the blue-chip S&P 500 gauge and the Dow ending the month very little changed (S&P +0.04% MoM: -13.3% YTD and the Dow +0.01% MoM and -9.2% YTD). After recording its worst monthly performance since October 2008 (during the global financial crisis) in April, the tech-heavy Nasdaq lost another 2.1% MoM in May, bringing its YTD loss to 22.8%.

On the US economic data front, April inflation decelerated slightly although it remained close to 40-year highs, coming in at 8.3% YoY vs 8.5% in March. Consumer spending, accounting for over two-thirds of US economic activity, grew 0.9% YoY in April. The Fed, in minutes from its 3-4 May policy meeting, called inflation a serious concern and highlighted, as expected, that most participants backed two 50-basis point rate hikes at the June and July meetings, as it attempts to curb inflation without causing a recession.

In Germany, Europe's largest economy, the DAX closed the month 2.1% higher (-9.4% YTD), while the eurozone's second-biggest economy, France's CAC Index ended May 1.0% in the red (-9.6% YTD). In economic data, May eurozone inflation data reached a much higher-than-expected 8.1% YoY vs April's 7.4% print. This was the eleventh consecutive rise in inflation for the region and the highest since records began in 1997 as the fallout from Russia's invasion of Ukraine sent energy and commodity prices soaring and added to global supply chain issues. Germany's preliminary inflation rate for May hit a fresh record reaching 7.9% YoY vs 7.4% YoY in April.

The UK's blue-chip FTSE-100 surprised on the upside for a second month, closing May 0.8% higher (+3.0% YTD). In economic data. April UK inflation, released last month, hit a 40-year high of 9% YoY (up from 7% in March) on the back of soaring gas and electricity costs.

## CHINA EASES LOCKDOWNS

In China, Shanghai and Beijing announced the easing of lockdown restrictions (after three months) this week amid a drop in COVID-19 cases. Fears about the impact of that country's zero-COVID strategy on its economy and the disruption of global supply chains had weighed on markets for most of the month due to Beijing's unprecedented lockdown measures to curb the spread of the pandemic. There was a late-month rally in Chinese stocks after the government announced restrictions would be eased and Hong Kong's Hang Seng Index posted a MoM gain of 1.5% (-8.5% YTD), while the Shanghai Composite Index rose by 4.6% MoM (-12.5%YTD). In economic data, following two months of contraction, China's official manufacturing purchasing managers index (PMI) advanced to 49.6 in May– up from 47.4 in April. China's central bank said in May that it would step up support for the country's slowing economy, while closely watching domestic inflation and monitoring policy adjustments by developed nations. Japan's benchmark Nikkei rose 1.6% in May but is down 5.3% YTD.

## NEWS FLASH|TAX SEASON DATES CHANGED

**The annual tax filing season kicks off in a month's time, but taxpayers should take note that the deadline for submissions has been brought forward by a month for non-provisional, manual and branch office submissions. The filing season starts on July 1 and taxpayers who submit their tax returns manually or at a branch office have until October 24 to do so. Non-provisional taxpayers who use the Sars eFiling platform also have until October 24. Provisional taxpayers have until January 23 – brought forward from the usual end of January – to file their returns.**

*Sources: Anchor Capital; Business Day; Moneyweb*



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