



INTERNATIONAL MARKETS - TRADE WAR TENSION CONTINUES

MONTH IN REVIEW JULY 2018

Global trade war concerns continued in July with tension between the US and China remaining strained. President Donald Trump's administration officially imposed \$34bn in tariffs on Chinese imports during the month and, in retaliation, China implemented tariffs to the same value on US goods. At least in terms of the US trade dispute with Europe, sanity seemingly prevailed as Trump announced that the US and the European Union (EU) would start collaborating to lower tariffs, in order to avoid a potential trade war. The US dollar remained firm with US Federal Reserve (Fed) Chairman, Jerome Powell saying that the central bank will continue to raise interest rates gradually, as the US economic outlook remained robust.

The Nasdaq has been the top-performing index of the three main US indexes (the Dow and S&P 500 being the other two) year to date, rising by 11.1% as most large-cap tech shares continued their march higher this year. Month on month the Nasdaq is up 2.2%, despite a tech stock rout following Facebook's disappointing results announced towards the end of July, while the S&P 500 rose 3.6% month on month (+5.3% year to date) and the Dow jumped 4.7% compared to June (+2.8% ytd).

On the US macro front, growth accelerated in the second quarter of the year as consumer and government spending propelled the economy to a 4.1% gross domestic product (GDP) growth rate - the fastest pace in four years. US consumer confidence also inched up in July, while June saw another solid month of job gains (adding a further 213 000 jobs although the unemployment rate rose to 4%).

European stocks closed the month higher, with Germany's Dax gaining 4.1% month on month, its best month since April, but still slightly down year to date at -0.9%. France's CAC advanced 3.5% month on month (+3.7% year to date) while the UK's FTSE 100 closed 1.5% higher month on month (+0.8% year to date). In a sharp contrast to US economic growth, the eurozone economy slowed further in the second quarter (to 2.1% year on year vs a 2.2% forecast), as exports sputtered and trade tension concerns saw business confidence weaken. In addition, eurozone July inflation rose to 2.1% - further above the European Central Bank's (ECB's) target and the forecast 2% year on year gain.

In Asia, Chinese markets recorded another lacklustre month as sentiment remained hamstrung by trade war concerns. Hong Kong's Hang Seng Index fell 1.3% month on month (-4.5% year to date), while the Shanghai Composite Index, one of the worst-performing major indices globally this year, managed to post a 1.0% month on month advance (-13.0% year to date). China's yuan recorded a fourth-straight month of losses, while economic data disappointed with slower-than-expected growth in the country's manufacturing sector, as the worsening trade dispute with the US, poor weather conditions and weaker domestic demand weighed on factory activity. In Japan, the Nikkei ended the month 1.1% higher (-0.9% year to date) on the back of solid corporate earnings from blue-chip shares such as Sony and Nintendo.

LOCAL MARKETS - LAND ISSUE AND RISING UNEMPLOYMENT DRIVES NEGATIVE SENTIMENT

July ended with a late-night announcement from President Cyril Ramaphosa that the ANC had unilaterally decided to amend section 25 of the Constitution (the property clause), despite ongoing hearings countrywide around the proposal. This was not good news for the rand and the currency weakened immediately after his statement. *Business Day* reported the next day that the rand had been on a steady recovery, touching a two-month high of R13.08/\$ early on 31 July, before tumbling to lows of R13.39/\$ early on Wednesday morning, in a decline that began late at night after the news broke.

The official unemployment rate increased by 0.5% to 27.2% in the second quarter of 2018, up from 26.7% in the first three months of the year. The increase in the unemployment rate was due to a decline of 90 000 people in employment, as well as an increase of 102 000 people who became unemployed. Additionally, the number of discouraged job seekers rose to 2.9 million people, between the first and second quarters of 2018. *Financial Mail* highlighted this as a 'national emergency' in an editorial and said 'one has to wonder why the unemployment disaster hasn't provoked a crisis situation response'.

These two news announcements were made at the end of the month and are likely to drive negative sentiment in August. The JSE ended July in negative territory with the FTSE All Share Index closing 0.3% lower month on month (down 3.5% year to date). This as major gold miners, mining houses and Naspers especially came under pressure. Naspers was largely affected thanks to its significant holding in Hong Kong-listed Tencent, which fell more than 9% month on month. Financial shares were the outperformers for the month with the FINI-15 adding 6.4% month on month (-3.9% year to date), while Industrials closed 2.3% down month on month (-6.9% year to date).

Resource shares declined by 1.4% compared to June as market-heavyweight commodity companies, including BHP Billiton and Anglo American recorded month on month declines of 2.8% and 3.1%, respectively. However, the index is still up an impressive 14.4% year to date.

Steinhoff International was July's best-performing share rallying 93.0% month on month, albeit from a very low base. In second spot, ArcelorMittal jumped by 50.9% month on month while EOH Holdings took third spot – adding 28.2% to its share price MOM.

After a stellar performance in June when Namibian financial services company Trustco Group Holdings was the month's best-performing share, the share returned more than half of its 42.9% June gain, to close 26.3% in the red – July's worst-performing share. Trustco was followed in second spot by Capital & Regional Plc, which fell 24.9% month on month and Niveus was in third spot, recording a 23.1% month on month decline.

On the macro front, SA retail sales advanced 1.9% year on year in May, the second-slowest pace of gains since July 2017. On a year on year basis, June private sector credit recorded a rise of 5.68% - higher than market expectations for a 5.07% advance. Local June consumer price inflation (CPI) accelerated at a slower-than-expected pace with annual inflation rate coming in at 4.6%, compared with 4.4% in May. Core inflation, excluding the volatile food, beverages, energy etc. categories, was 4.2% in June. At its July meeting, the SA Reserve Bank (SARB) held the benchmark repo rate at 6.5% and also reduced its 2018 growth outlook to 1.2% from 1.7%. The SARB projected the growth rate to accelerate to 1.9% in 2019 and 2.0% in 2020. SARB Governor Lesetja Kganyago stated that a possible tariff war (between China and the US) as well as higher global oil prices pose the main dangers to SA inflation.

Another issue threatening the already fragile economy was news that Eskom is planning load shedding. *Fin24* reported that the power utility warned of a constrained national power supply - which it said was caused by protests and intimidation – in the last days of July. Wage talks continued as unions stood firm on demands for bonuses.

It's been another good month for South African car sales with 47 881 new vehicles sold in July 2018, an improvement of 1 210 vehicles (+2.6%) compared to

the 46 671 vehicles sold in July 2017, reports Naamsa. The industry body said that the latest domestic sales figures are in line with industry expectations but that export sales remain disappointing. Volkswagen again showed its dominance by grabbing the top two positions for best-selling passenger cars though Toyota recorded the most number of vehicles in the top ten.

Sources:

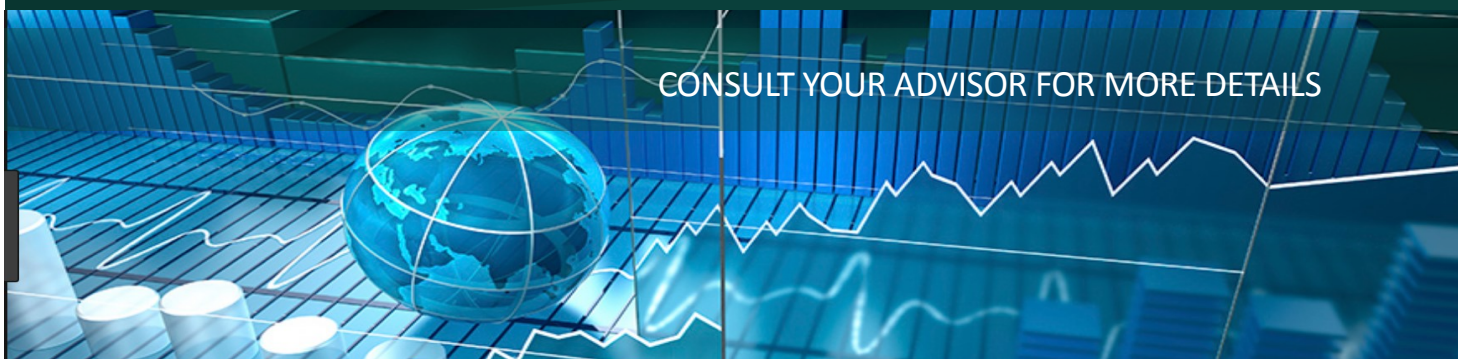
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