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INTERNATIONAL MARKETS -VOLATILITY CONTINUES AS MARKETS RISE

While US equity market returns have been impressive (and volatile), these moves come after the first quarter of the year, which saw the emergence of the COVID-19 pandemic in the US and its devastating impact on the US and global economies, as governments introduced lockdowns to curb the spread of the virus.

At the end of the first half of the year, the number of COVID-19 cases, especially in the US, continued to rise, triggering a considerable amount of uncertainty in markets as it leads to new restrictions and a rollback of previously announced re-openings. World Health Organisation (WHO) Director-General Tedros Adhanom Ghebreyesus warned that "the worst is yet to come" as several countries saw a flare up of the pandemic. Currently, the US accounts for over 20% of all COVID-19 reported deaths, more than any other country. It is followed by Brazil, the UK, Italy, and France.

Nevertheless, most major global markets ended June in the green. The Dow Jones Industrial Average (DJIA +17.8% in 2Q20 and -9.6% YTD) and the S&P 500 (+20.0% in 2Q20 and -4.0% YTD) up 1.7% and 1.8% MoM, respectively, and recording their best quarterly performances since 1938, according to Dow Jones Market Data.

The tech-heavy NASDAQ rose 6.0% MoM and jumped 30.6% in the 2nd quarter – its best quarter since 2001. Year to date, the NASDAQ is up 12.1%. Here it is worth noting that, while these performances may sound impressive, the DJIA recorded its worst first six months of any calendar year since the 2008 global financial crisis and the S&P 500 its worst first half-year in a decade. Towards month-end, US investor sentiment was buoyed by upbeat economic data and hopes for a stimulus-backed economic rebound. US housing market activity showed a quick recovery in May, while June consumer confidence data, released on Tuesday (30 June), exceeded consensus economist forecasts, recording its biggest jump since 2011.

The UK's FTSE 100 gained 1.5% in June (-18.2% YTD) but recorded its best quarter since 2010, rising 8.8%. While Europe was pulled in different directions over the course of June by the continually alarming COVID-19 headlines, European equity markets closed higher, wrapping up their best quarterly performance in five years, according to CNBC. Germany's Dax jumped 6.2% MoM (+23.9% for 2Q20, but down 7.1% YTD), while France's CAC rose 5.1% MoM (+12.3% in 2Q20, but down 17.4% YTD).

On the data front, June economic confidence in the European Union (EU) and the eurozone improved sharply, with the Economic Sentiment Indicator (ESI) climbing 8.2 points to 75.7 (from 67.5 in May) in the EU27 (all member countries of the bloc) and by 8.1 points to 74.8 in the eurozone.

ASIAN MARKETS ALSO CLOSE HIGHER

In Asia, Japan's Nikkei advanced 1.9% MoM and closed 17.8% higher for 2Q20. However, YTD the Nikkei is still down 5.8%. China's Shanghai Composite Index jumped 4.6% in June (up 8.5% in 2Q20 but down 2.1% YTD), while Hong Kong's Hang Seng soared by 6.4% MoM (up 3.5% in 2Q20 but down 13.3% YTD). The latest economic data seems to suggest that an economic recovery is underway in China, with that country's official June manufacturing purchasing managers index (PMI) coming in above expectations at 50.9 (vs May's 50.6). Meanwhile, the June Caixin/Markit manufacturing PMI came in at 51.2 – also above consensus expectations of a 50.5 reading (above 50 signals expansion, below 50 indicates contraction).

On the commodity front, the iron ore price rose by 12.0% in June. However, the resumption of operations at the world's largest iron ore producer, Brazil's Vale, could see supply-side issues, which resulted in iron ore surging to fresh highs, withering away. Meanwhile, platinum and palladium prices were basically unchanged, while rhodium recorded a 12% decline. The price of crude oil jumped 16% as it reached $41.15/bbl by month-end, but despite a massive move in May and its June gains, YTD oil is down 38%. The gold price recorded another great run in June (up 2.9% MoM), with the yellow metal topping $1,800/oz – its highest finish since 2011. The gold price has been buoyed by uncertainties around the COVID-19 pandemic which continues to cloud the global economy, feeding gold's appeal as a safe-haven investment.

LOCAL MARKETS -MINING SHARES BOOST JSE

The JSE posted impressive gains in June despite some hiccups along the way, with miners, especially gold miners, Prosus (+12.9% MoM) and Naspers (+13.4% MoM) doing most of the heavy lifting. The FTSE JSE All Share Index jumped 7.7% MoM, propelled higher by strong share price gains from various large-cap constituents including the aforementioned Prosus and Naspers as well as AngloGold Ashanti (+19.1% MoM), Anglo American Platinum (Amplats; +13.0%), Glencore (+11.5% MoM), and Anglo American (+9.8% MoM). The index is also up 22.2% in the second quarter of 2020 compared to the first quarter of the year, but down 4.8% YTD. The Resi-10 jumped by 8.6% MoM (+4.1% YTD) as gold shares and diversified miners rallied. Buoyed by Naspers and Prosus, the Indi-25 closed 8.2% higher (+8.9% YTD), while banking and financial shares lagged, although the Fini-15 did end June 3.1% higher (-36.0% YTD).

Tsogo Sun Gaming has been on the back foot for some time now with its share price, battered by COVID-19 induced lockdowns, dropping by 82.7% for the year to end May. However, its fortunes turned around and the share price soared in June, emerging as the top-performing share in June with an impressive 106.6% gain. Tsogo's peer, Sun International surged 101.7% MoM – June's second best-performing share. The share price rocketed 16.1% on 17 June, amid reports of a positive announcement from government regarding the opening of casinos. In third spot, chemicals manufacturing company, Omnia Holdings recorded an 85.6% MoM jump after saying that its restructuring was bearing fruit and it returned to profit in the year to end-March.

Industrial goods and services Group, Reunert (-21.8% MoM) was by far the worst performing share in June after reporting half-year results which revealed that its revenue fell 22.0% YoY to R4.14bn. Reunert was followed by the Hospitality Property Fund (-12.3% MoM) in second spot and Lewis Group (+11.8% MoM) in third position.

BLEAK ECONOMIC OUTLOOK IN BUDGET AND ALL INDICATORS

Finance Minister Tito Mboweni presented the 2020 Supplementary Budget on 24 June, which was relatively low on detail (likely pushed to October's Medium Term Budget Policy Statement where demonstrable traction with infrastructure investment plans and the necessary savings could make it a catalyst for domestic business and consumer sentiment to improve). However, the economic picture the minister painted was bleak – GDP is now expected to decline by 7.2% YoY in 2020, while growth in 2021 is forecast at a paltry 2.1% YoY. The government deficit is also projected to be a record-breaking 15.7%.

SA's construction industry slumped in the first three months of 2020, with the Afrimat Construction Index showing that activity in the industry is now below that of the same period in 2011. The index is a composite indicator of the level of activity in the building and construction sectors. The index fell 12% year on year, with employment the only sub indice to show an increase, of 0.3%. The biggest decline was in the value of new building plans passed, which fell 25.9%. Conditions in the manufacturing sector reached a multi-year high in June, as the economy went into level 3 lockdown with fewer restrictions, allowing more businesses to open up.

ANOTHER BATTERING FOR VEHICLE SALES

Despite an improvement on the previous two months, new vehicle sales still suffered a hefty drop in June, as the country faced economic ruin due to the coronavirus pandemic, and the associated lockdown. Having fallen 98.4% in April and 68% in May from the corresponding months of 2019, the year-on-year drop in June amounted to 30.7%. Local car sales totalled 19 264 — more than twice May's 9 019 — but 33.4% behind the 28 931 of June 2019. Last month's aggregate market for all vehicles, including bakkies and commercial vehicles, was 31 867. That was up from 12 932 in May but well short of the total of 45 953 recorded in June last year.

SA's economy is in its longest recession since the global financial crisis with little sign of light at the end of the tunnel. Gross domestic product shrank 2% in the first quarter of 2020, figures issued by Stats SA showed, confirming the difficulties the country faced even before the Covid-19 pandemic prompted the government to close most of the economy. It was the third successive drop in GDP, which has not happened since 2009, when it contracted for four quarters. While the number was better than analysts had expected, economists say the worst is yet to come with data that reflects the effect of the lockdown that began only on March 27.

HOUSING MARKET CONTINUES DOWNWARD TREND

Annual house price growth fell to 1.9% in April, down from 2.5% (revised from 2.8%) in March – the slowest pace since December 2009. Since the implementation of lockdown, property market activity has almost grounded to a halt. Preliminary data shows that volumes plummeted by around 60% y/y in April (or 62% compared to the last twelve months' average monthly volumes). Read more: FNB House Price Index.

Sources: Anchor Capital, BusinessLive, FNB

SMART TIP

TAX SEASON 2020 - During Filing Season 2020, SARS is focusing on ensuring that the data that is used to prepopulate individual taxpayers' tax returns is verified and correct, thereby limiting the risk and time spent on objections and corrections once returns have been submitted. SARS will also inform individual taxpayers during Phase 2 about their dividual filing obligations. During August 2020, a significant number of auto-assessments, based on third party data, will be issued. Taxpayers can accept the auto-assessments if they agree that they are correct, and finalise their filing obligations. Taxpayers who do not accept the outcome of an auto-assessment must file a return during Phase 3. Read more >> Tax returns and Tax Season.

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