BRENTHURST
THE HOME OF WEALTH

LOCAL MARKETS
- INFLATION UP, CONSUMER CONFIDENCE LOWER

May annual headline inflation, as measured by the consumer price index (CPI), jumped 5.2% YoY vs April's 4.4%. The higher number was widely expected and comes off the very low base recorded in May 2020, when fuel prices were low. Core inflation (which excludes food and non-alcoholic beverages, fuel, and energy) came in at 3.1% YoY, much lower than the headline rate. This hints at the notable impact that fuel and food inflation has had on overall (headline) inflation levels, and subsequently also the effects of supply side price pressures on domestic inflation, with domestic demand-side price pressures remaining muted. The rebound in fuel prices especially contributed to May's spike, with the petrol price falling to R12.22/litre in May 2020 and recovering to R17.23/litre by May 2021. Overall, this number has taken inflation to above the 4.5% mid-point of the SA Reserve Bank's (SARB's) inflation target range of between 3% and 6% for the first time since February 2020 (when inflation stood at 4.6% YoY).

Consumer confidence declined in the second quarter after the government ended increased social welfare payments and temporary relief measures for workers who lost their income because of the coronavirus pandemic. A quarterly index measuring sentiment fell to -13 in the three months through June, from -9 in the previous quarter, according to a report by First National Bank. The index has now erased gains that saw it return to pre-pandemic levels earlier this year and remains below the average consumer-confidence reading of 2 since 1994.

FIRST DECLINE FOR JSE IN SEVEN MONTHS

The JSE All Share Index recorded its first MoM decline after seven-consecutive monthly gains – down 2.5% in June but still up an impressive 11.5% YTD (it was basically unchanged for 2Q21). Commodity and industrial shares saw sharp declines in June, with the Resi10 down 6.5% MoM (+9.8% YTD), while financials were down 2.6% MoM (+8.6% YTD). The SA Listed Property Index had a positive month, recording a 3.2% rebound (+15.5% YTD), while the Indi-25 just made it in the black and closed at +0.4% MoM (+12.0% YTD).

The Foschini Group was June's best-performing share, rising 20.0% MoM, despite reporting an FY21 operating loss of R719.2mn, impacted by the pandemic and resulting lockdowns in its various territories. Despite its share price taking a hit this week following the president's announcement of stricter lockdown measures, Tsogo Sun Hotels (+18.9% MoM) was June's second best-performing share, albeit from a low base. In third spot, PPC's share price rose 16.1% MoM. The cement manufacturer's share price shot up after it announced a debt-restructuring deal with lenders (the debt is related to the Group's operations in the Democratic Republic of the Congo).

Several gold mining companies featured prominently among June's worst-performing shares. Harmony was the overall worst performer, with its share price dropping 28.7% MoM. It was followed by IT services management company, Allied Electronics (Altron; -28.0% MoM) in second spot, with more gold companies accounting for the remainder of June's five worst-performing shares. Gold Fields, AngloGold Ashanti, and Pan African Resources all recorded steep declines – down 26.0%, 22.0%, and 21.6% MoM, respectively.

RAND ENDS JUNE LOWER

The weaker dollar, SA's strong terms of trade supporting a current account surplus, and lower US interest rates were all supportive of a stronger rand in the first half of June. However, the US Federal Reserve (Fed) signalling that there could be two rate hikes in 2023, weighed on the local unit resulting in the currency trading with a bearish tone and closing the month 3.8% lower (+2.9% YTD).

The Absa Purchasing Managers' Index (PMI) dipped to 57.4 index points in June from 57.8 in May. But, in a promising sign, the employment sub-index edged back up above the neutral 50 mark. However, Absa said that the number of jobs in the manufacturing sector remains far short of pre-pandemic levels.

Absa said that all of the PMI's five subcomponents were above the neutral 50 mark, so sentiment is broadly in positive territory – but a far cry from bullish. The PMI is derived from detailed monthly surveys of purchasing managers in South African manufacturing and is a key measure of the sector's health.

The Absa report included this warning: "The move to adjusted Alert Level 4 lockdown restrictions at the end of June, especially if sustained for longer than the initial two-week period, could stall the broader economy's quarterly growth momentum at the start of the third quarter. This could result in a possible slowdown in the demand for selected manufactured goods, and thus production."

VEHICLE SALES SLOW DOWN

SA's new-vehicle sales in June continued to track ahead of most industry forecasts despite the continued effects of the Covid-19 pandemic. Sales in June at 38 030 units were marginally down on May's 38 337 units, according to the Naamsa Automotive Business Council, but sales for the first half of 2021, at 227 440 units, were 40.1% higher than over the same period in 2020, which was more adversely affected by lockdowns.

Compared to the pre-Covid-19 first six months of 2019, the new-vehicle market was still 11.7% down, highlighting that a full recovery would be protracted until about 2023, Naamsa said.

Passenger cars accounted for 24 482 units in June, marginally higher than May sales. Light commercial vehicle (LCV) sales were 5.9% down to 11 208 compared to May, but up 9.6% year on year. The Toyota Hilux and Ford Ranger one-tonner bakkies continued their reign as respectively the two best-selling vehicles overall in June, but the sales chart was largely dominated by budget hatchbacks and SUVs.

INTERNATIONAL MARKETS
- MARKETS RETREAT FROM HIGHS

Most world markets retreated from recent highs and closed June on a disappointing note, with modest gains or MoM declines. This as market jitters emerged on the back of fears over the highly contagious Delta variant, while investors also took profits as the first half of 2021 ended. As of end-June, around 54% of the US population and 49% of the population in Europe have been partially vaccinated, while in the UK this figure stands at 60%. Despite a tepid month for most world markets, optimism about the US economic recovery saw the major US indices close at, or near, record highs, on the last day of June. The blue-chip S&P 500 notched up its fifth-straight month of gains (+2.2% MoM/+8.2% in the 2nd quarter 2021/+14.4% YTD), ending June at a record high, while the tech-heavy Nasdaq (+5.5% MoM/+9.5% in 2Q21/+12.5% YTD) posted a record close on 29 June and an impressive turnaround from its lacklustre performance in May as tech counters drove the June rally with investors rotating back into tech names. The Dow Jones declined 0.1% in June although YTD the Dow has surged 12.7% and is up 4.6% for the 2nd quarter of 2021.

The US Federal Reserve (Fed) concluded its June meeting mid-month, keeping the benchmark rate at zero (as was broadly expected), while its 2021 inflation forecasts crept a little higher (in line with expectations), albeit not meaningfully so. However, most market participants were caught off guard by the Fed signalling that there could be two rate hikes in 2023. The main surprises being that the Fed seemed to have pulled the expectation of its first rate hike forward from early 2024 to the 3rd quarter of 2023 in its estimates of future rates. At the post-meeting press conference, Fed Chair Jerome Powell indicated that initial discussions around when the Fed should talk about tapering bond purchases have now started. Somme commentators are of the view that inflation spikes are mostly transitory, and a combination of base effects (from the height of the initial 2020 lockdown when inflation fell) and temporary supply bottlenecks. The US dollar gained 2.6% against a basket of currencies in June, partly in the wake of the Fed's hawkish stance.

The UK's FTSE 100 Index gained 0.2% MoM (+8.9% YTD/+4.8% in the 2nd quarter of 2021), while the UK economy shrank by a higher-than-expected 1.6% in the 1st quarter of 2021 (initial estimates were for a GDP contraction of 1.5%), meaning that the country's economy was 8.8% lower vs pre-pandemic levels. The decline was driven by a drop in the services (-2.1% in 1Q21) sector, especially education, wholesale, and retail trade as well as the accommodation and food services industries (the data covers the period when the country was under a third lockdown). Last month, UK Prime Minister Boris Johnson also delayed the full lifting of restrictions (initially scheduled for 21 June), amid renewed concerns over the spread of the Delta variant, to 19 July. Johnson said people in England were "very likely" to be able to return to "pretty much life before COVID" on that date.

In Asia, markets closed mixed at the end of the month – Chinese markets disappointed as Hong Kong's Hang Seng Index fell 1.1% MoM (+5.9% YTD/+1.6% in 2Q21), while the Shanghai Composite Index retreated by 0.7% MoM (+3.4% YTD/+4.3% in 2Q21). In terms of economic data, China's official manufacturing purchasing managers' index (PMI) contracted to 50.9 in June vs May's 51.0 print, negatively impacted by new COVID-19 cases and chip shortages impacting factory output. In Japan, the Nikkei closed at -0.2% MoM (+4.9% YTD/ -1.3% in 2Q21), while the country's May unemployment rate fell to 3.0% (vs 2.8% in April) – the highest level in five months as Japan's government-declared state of emergency over the pandemic was extended to more parts of the country.

Sources: Sources: Anchor Capital; News24; Daily Maverick; BusinessLive

SMART TIP |GET READY FOR TAX SEASON

The South African Revenue Services (SARS) has announced that taxpayers will be able to file their tax returns from 1 July 2021. The revenue collector added that a significant number of individual taxpayers will be auto-assessed once again this year, and that this process will also start around the same period. Important dates that taxpayers should be aware of are:

1 July to 23 November 2021 (This is the period for taxpayers who file online).
Taxpayers who cannot file online can do so at a SARS branch. **1 July to 28 January 2022.**
(This is the period for Provisional taxpayers including Trusts may file via eFiling or SARS MobiApp.)

NEWS FLASH

BRENTHURST HAS AN INVESTMENT OPTION AVAILABLE TO INVESTORS LOOKING FOR A FIXED RETURN. The FedGroup Secured Investment's voluntary investment, which is similar to any five-year fixed deposit at all banks, but with added flexibility that combines consistent returns with capital security. This investment could be the ideal option in particular instances and for investors of a particular risk profile. The Secured Investment is an FSCA-registered collective investment in participation bonds. This five-year investment delivers a 7.6% nominal rate for income. Reinvested the interest will be 9.21% on maturity over five years.

For more information about this investment option, contact Christoff Potgieter on 011 799 8100 or email: christoff@brenthurstwealth.co.za

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