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INTERNATIONAL MARKETS
- TRUMP EFFECT CONTINUES TO SPOOK MARKETS

► TRADE WAR TALK RAGES ON

Global markets remained volatile in August as US President Donald Trump escalated his administration's trade war with China and anxiety around a possible recession again came to the fore. On 14 August, bond yields fell across developed markets and the US yield curve inverted briefly for the first time since 2007. Historically, yield curve inversion portends a recession in the US and signifies a slowdown of economic growth. Early in the month, Trump wrote in a tweet that an additional 10% tariff would be placed on $300bn of Chinese imports starting 1 September and a few days later he accused China of currency manipulations as the yuan plummeted to levels not seen in a decade. Then, in the last week of the month, trade tensions increased once again as China unveiled new tariffs on $75bn worth of US products and Trump responded by "ordering" US companies to move operations out of China and announced higher tariffs on a slew of Chinese goods.

All of the above weighed on global markets although there was a slight recovery moving into month-end after China's Foreign Ministry reportedly said that negotiators from both countries are maintaining "effective communication."

The tech-heavy, Nasdaq (-2.6% month on month) was the worst hit among the major US indices in August, although it is still up 20% year to date. The S&P 500 dropped 1.8%. month on month (+16.7% year to date), with the energy (-8.7% month on month) and financials sectors (-5.1% month on month) in the index being the worst performers. *CNBC* writes that overall, eight out of the 11 S&P 500 sectors fell last month. The Dow Jones Industrial Average also posted a month on month loss of 1.7% (+13.2% year to date).

► EUROPE, UK AND ASIA MARKETS LOWER

August saw major equity markets in Europe lose ground for the second month running, with Germany's DAX down 2.0% month on month (+13.1% year to date), while France's CAC retreated by 0.7% month on month (+15.8% year to date). In terms of economic data, Europe's largest economy, Germany, saw its 2^{nd} quarter GDP shrink by 0.1% quarter on quarter, as a fall in exports dampened growth. Year on year, Germany's GDP rose 0.4%. The eurozone's August flash manufacturing purchasing managers index (PMI) rose to a two-month high of 47 from July's 46.5, although it remained below the 50-level which separates expansion from contraction.

In the UK, the FTSE 100 dropped by 5.0% month on month (+7.1% year to date) as fears that the country is heading towards its first recession in ten years were stoked by bleak 2^{nd} quarter GDP data. The UK economy contracted by 0.2% in the quarter on the back of Brexit uncertainty and car plant shutdowns. The fact that new prime minister Boris Johnson seems to be taking the UK towards a no-deal Brexit is likely also weighing on the economy.

Asian markets ended August broadly lower, with the Hang Seng Index plummeting 7.4% (-0.5% year to date) as Hong Kong continued to be rocked by pro-democracy protesters seeking, among other things, a complete withdrawal of the extradition bill, an independent inquiry into alleged police brutality and greater democratic reforms. Meanwhile, China's Shanghai Composite was 1.6% lower (+15.7% year to date) for August. The country's economy weakened on several fronts with the unemployment rate in Chinese cities hitting a record high in August, while factory production, consumption and property investment came in much lower than expected.

LOCAL MARKETS
- WEAK ECONOMY, POLITICS WEIGH MARKET DOWN

► TREASURY RELEASES GROWTH PLAN

A lot happened in South Africa in August, with several developments driving negative sentiment. The highlight was Finance Minister Tito Mboweni's release of a 77-page economic policy document entitled ***Economic Transformation, inclusive growth and competitiveness: towards an economic strategy for South Africa***. Trade unions did not respond well and the likes of Cosatu complained that the body was not consulted. However, the private sector, for the most part, seemed to welcome the document. The public has been invited to give their comments with Finance Minister Tito Mboweni saying the strategy blueprint is expected to boost growth and create jobs.

Two other issues received a lot of attention in August – the Minister of Health, Zweli Mkhize, published a revised **National Health Insurance (NHI**) bill on 8 August, which knocked healthcare sector stocks such as Discovery and Aspen (both down 12.9% month on month). This dominated news for several days with commentators expressing views for and against the idea with many cautioning about the impact this could have on government finances and the health service options available to individuals.

The other was the **National Credit Amendment Act** which was gazetted on 13 August. The aim of the legislation is to allow a court of the National Consumer Tribunal to extinguish debt of consumers earning a gross income of less than R7 500 per month, who have unsecured debt of more than R50 000. Bodies like the Banking Association of SA warned against the adverse effects of the legislation saying it is likely to reduce lending to lower income earners by the formal sector, forcing them to unregulated markets and encouraging reckless borrowing.

► ANOTHER WEAK MONTH FOR JSE

The JSE's losing streak continued in August, with the FTSE JSE All Share Index down 2.7% for the month (+4.8% year to date) – its third monthly loss this year. Yet again, financials were the hardest hit sector, with the Fini-15 declining by 4.0% month on month (-7.6% year to date), and the big-four banks all recording month on month losses.

Nedbank (-6.3% month on month) was the worst impacted, followed by ABSA (-3.8% month on month), FirstRand (-2.9% month on month) and Standard Bank (-1.3% month on month). The Resi-10 (-1.7% month on month; +8.1% year to date) saw large index constituents such as Anglo American, Glencore, and BHP Group dropping by 6.9%, 4.8% and 4.7%, month on month, respectively, dragging the index lower. Meanwhile, the Indi-25 remained under pressure posting a 2.9% month on month decline (+10.9% year to date) as heavyweight shares such as Richemont (-3.5%) and Naspers (-1.5%) posted month on month losses. The rand weakened by 6% month on month against the dollar and is also 6.0% down year to date.

Gold miner, Harmony (+50.4% month on month) was August's best-performing share, as a stronger gold price and the firm's impressive annual results buoyed the share price. Two other gold producers were in the second and third best-performing spots – AngloGold Ashanti (+36.4% month on month) and Pan African Resources (+34.5% month on month). This was on the back of a higher gold price, trading at six-year high levels in the last week of August, its fourth consecutive monthly gain. Delta and Rebosis-B shares were August's worst and second-worst performing shares, declining 39.9% and 39.3% month on month, respectively. The third worst-performing share was freight and financial services company, Grindrod Ltd, which declined 27.3% month on month. For a third month running, platinum miner Impala was the top-performing share year to date, having rocketed by an impressive 135.7%.

► MUTED ECONOMIC ACTIVITY CONTINUES

Economic activity remained in the doldrums during August, with a decline in the Absa Purchasing Manager's (PMI) Index. The PMI showed a decline in August's to 45.7 points, which was "larger than anticipated". The previous reading for July was more solid at 52.1 points. The neutral mark is 50-index points, any figure above that signals an improvement while a figure below that signals a deterioration. South Africa recorded a R2.88bn trade deficit for July, attributable to exports of R112.94 billion and imports of R115.82 billion, after recording a revised surplus of R5.4bn in June, according to a statement by the SARS. The consensus expectation was for a surplus of R2.9 billion.

► PROPERTY MARKET REMAINS UNDER PRESSURE

Increases in house prices have lagged inflation in the past two years, averaging about 3.6%, as reported in *Business Day*. SA's inflation rate, which slowed to 4% in July, averaged 4.7% and 4.5% in 2017 and 2018. Even some of the country's traditional top performers areas are experiencing a lull. Only 149 houses have been sold in Sea Point so far in 2019 compared with 265 in 2018, a drop of 44%. Cape Town's City Bowl house sales in 2018 so far are 69% down on the total for 2018.

Sources: Anchor Capital, Business Day, Momentum

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