



BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017

# GLOBAL IMPACTS ON MARKETS

WEEKLYWRAP 01 June 2018

► **Political risk reared its ugly head again last week, but this time in Italy.** Not much news out of Europe has influenced markets over the last while but last week bucked this trend. To set the stage, Europe's political landscape was on shaky ground after Brexit. This all changed when Angela Merkel remained in power in Germany, Geert Wilders' populist party in the Netherlands did not feature in their elections after the European migrant crisis and finally, and Emmanuel Macron became France's president, after beating anti-EU populist competitor Marine Le Pen. This seemed to end populist anti-EU momentum.

**In March, Italy's election crept under the radar somewhat.**

In this election, the populist Eurosceptic Five Star Movement party won the majority of the seats in parliament. All the while, coalition talks between them and the remaining pro-EU establishment politicians have been taking place to form a coalition government. Things quickly turned South when current Italian President Sergio Mattarella (pro-Euro and pro-austerity) controversially rejected a deal where the proposed finance minister was a Eurosceptic, which means that Italy now face the prospects of an interim government and more importantly, a fresh election.

**With the Italian economy not performing too well under austerity policies over the last while, fears surged that the populist anti-EU party popularity had grown, which could lead to the unbundling of the EU down the line.** It was no surprise that demand for safe haven assets therefore grew with the yield on Germany's 10Y bund and France's 10Y Government bond ending the week -0.03% and -0.10% lower respectively. Conversely, the Italian 10Y government bond sold off substantially with its yield ending 0.50% up at 2.81%. European equity markets ended lower with the Italian MIB, German DAX and the French CAC40 indices shedding -1.29%, -1.65% and -1.39% respectively. An element of calm was added to the markets late last week when more time was handed to incumbent parties to form a coalition, in an attempt to stave off another election.

► **In the US, markets initially traded sideways as Americans had a shortened work week.** As the week neared and end however, President Trump dropped a bombshell when he announced that tariffs will be placed on EU, Canadian and Mexican imports of metal and aluminum products from the 1st of June (last Friday). This was followed with immediate threats of retaliation on US exports to those countries and fears of a global trade war were reignited. Besides this, St. Louis Fed President James Bullard was rather dovish when he stated that he believes the Fed should slow their monetary policy tightening process to realign interest rate expectations around the Fed's 2% target level and thereby preserve credibility.

► **Further North, the Bank of Canada (BOC) kept interest rates on hold at 1.25% as expected.**

## GLOBAL ECONOMIC NEWS

► **ADP employment change for May showed that the private sector in the US added 178k jobs, which was slightly higher than the April figure of 163k jobs created.** The non-farm payroll print followed this, also beating expectations for May. At the same time, the US unemployment rate fell from 3.9% in April to 3.8% in May. The US employment market is extremely tight and these figures are thus likely to add to US inflation sooner rather than later, which should impact the Fed's policy decision making process.

► **Business confidence in the EU rose in May.**

The main factor that contributed to the pick up in confidence was a rise in the export order book in the region. Then EU unemployment came in at 8.5% in April from 8.6% reported in March. Inflation should therefore keep ticking higher making it easier on the European Central Bank to embark on tightening monetary policy further.

► **In the East, both the unemployment rate and consumer confidence in Japan squared with market expectations. Nevertheless, China's NBS manufacturing PMI for May rose slightly to 51.9pts from 51.3pts.** This index is made up of mainly larger state-owned companies and a rise in new orders and export orders were the main contributors.

Market expectations for China's Caixin manufacturing PMI (focuses on small to medium sized companies) was for 51.1pts, which was slightly below the April print of 51.3pts. In the event, these expectations were met in May with new order export sales growing at a slower pace.

## INFLUENCES ON WEEKLY SA MARKET

► **The JSE All Share index had a volatile week amidst all the global uncertainty.** After trading in the red for most of the period, a bounce late on Friday led to the index ending the week 0.65% up. Of the main subsectors, the JSE Resource 10 index made the largest contribution ending 3.51% higher. The financials board also made a slight positive contribution (+0.09%) but the industrials board gave back -0.34% over the week.

► **South Africa's 10Y Government Bond yield added 0.16% to end the week at 8.61%.** Despite the rise in demand over the week, foreigners have turned net sellers of the asset class of late as cash seems to be moving back to developed markets as risk aversion entered markets once again. Interestingly, the main theme last year was local in nature (ex-President Zuma and corruption in State Owned Enterprises and the likes). Since then, markets (as well as ratings agencies) seem to have believed in the "new dawn" promised by new President Ramaphosa.

However, the theme has now changed to be more global in nature as global risk has been driving domestic flows. This is likely to be South Africa's greatest risk in the short to medium term look ahead.

## DOMESTIC ECONOMIC NEWS

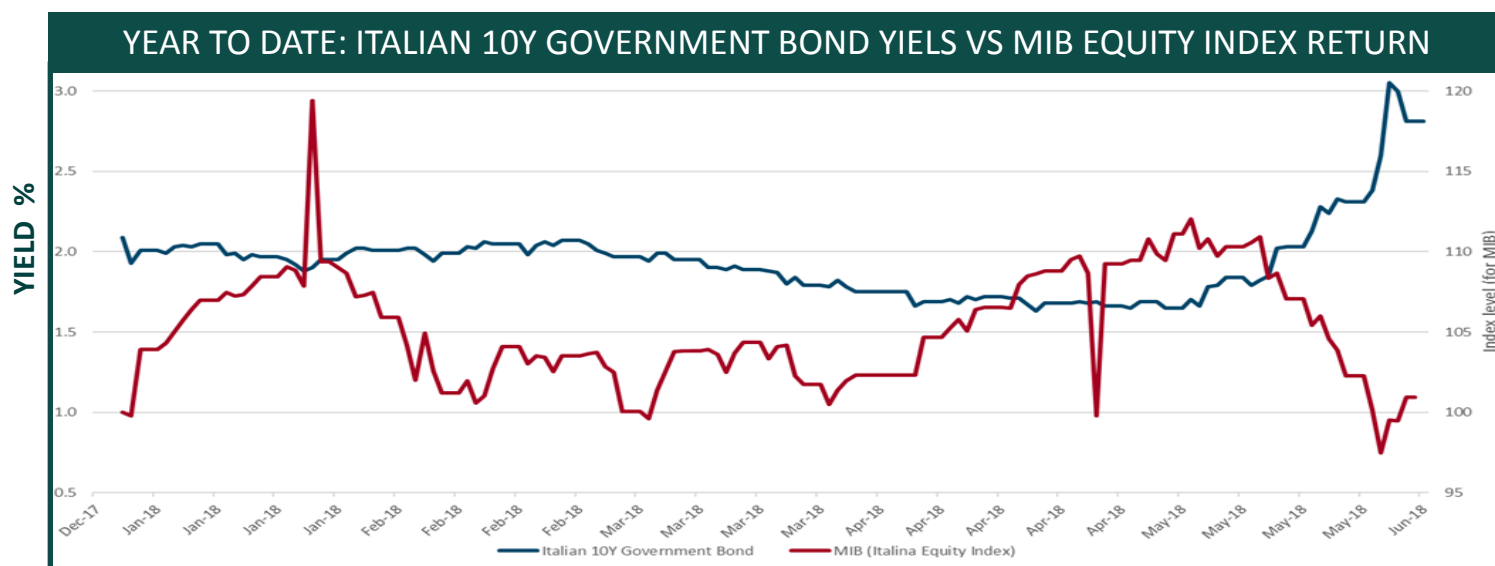
► **South Africa's trade surplus fell to ZAR1.14Bn in April from a surplus of ZAR9.30Bn in March.** Markets were left disappointed as expectations were for a figure closer to ZAR3.7Bn.

► **After being in expansionary territory in April, the ABSA manufacturing PMI swung back into contractionary territory in May coming in at 49.8pts.** Upon further investigation, new sales orders fell whilst output growth slowed, and these were the main culprits.

► **During May, NAAMSA vehicle sales revealed that 42 984 new vehicles were sold.** This was well above the 36 346 vehicles sold in April.

## CHART OF THE WEEK:

**ITALIAN EQUITIES SOLD OFF SIGNIFICANTLY WHILST BOND YIELD SPIKED LAST WEEK AMIDST HEIGHTENED POLITICAL RISK**



# WEEKLY TICKER

WEEKLYWRAP 01 June 2018

| Currencies                            |                        |          |                 |        |        |               |              |
|---------------------------------------|------------------------|----------|-----------------|--------|--------|---------------|--------------|
| Description                           | Classification         | Currency | Exchange Rate   | Week   | Month  | Month-to-Date | Year-to-Date |
| ZAR/USD                               | ZAR/USD                | ZAR      | 12.64           | -1.49% | 0.14%  | 0.44%         | -2.07%       |
| ZAR/Pound                             | ZAR/GBP                | ZAR      | 16.88           | -1.84% | 1.80%  | 0.02%         | -0.97%       |
| ZAR/Euro                              | ZAR/EUR                | ZAR      | 14.77           | -1.60% | 2.57%  | 0.55%         | 0.58%        |
| Dollar/Euro**                         | USD/EUR                | USD      | 1.17            | 0.07%  | 2.44%  | -0.11%        | -2.71%       |
| Yen/Dollar                            | YEN/USD                | YEN      | 109.63          | -0.12% | 0.27%  | -0.74%        | 2.79%        |
|                                       |                        |          |                 |        |        |               |              |
| Commodities                           |                        |          |                 |        |        |               |              |
| Description                           | Classification         | Currency | Commodity Price | Week   | Month  | Month-to-Date | Year-to-Date |
| Gold                                  | Gold Spot              | USD      | 1291.40         | -0.68% | 0.89%  | -0.55%        | -0.88%       |
| Brent Crude Oil                       | ICE Brent Futures      | USD      | 76.72           | 0.42%  | -5.28% | -1.08%        | 17.81%       |
| Platinum                              | Platinum Spot          | USD      | 900.45          | 0.35%  | -0.95% | -0.72%        | -2.99%       |
| Copper                                | LME 3 month Copper     | USD      | 6896.00         | 0.16%  | -1.11% | 0.64%         | -4.84%       |
| Silver                                | Silver Spot            | USD      | 16.39           | -0.60% | -0.22% | -0.23%        | -3.23%       |
|                                       |                        |          |                 |        |        |               |              |
| Global Equity Indexes (Total Return)  |                        |          |                 |        |        |               |              |
| Description                           | Index                  | Currency | Index Value     | Week   | Month  | Month-to-Date | Year-to-Date |
| Global                                | MSCI World*            | USD      | 2109.19         | -0.08% | -1.56% | 0.79%         | 1.55%        |
| United States                         | S&P 500                | USD      | 5376.29         | 0.54%  | -4.01% | 1.09%         | 3.14%        |
| Europe                                | Euro Stoxx 50          | EUR      | 7089.77         | -1.44% | 1.69%  | 1.38%         | 0.59%        |
| Britain                               | FTSE 100               | GBP      | 6664.66         | -0.29% | -2.65% | 0.31%         | 2.22%        |
| Germany                               | DAX                    | EUR      | 12724.27        | -1.65% | 0.61%  | 0.95%         | -1.50%       |
| Japan                                 | Nikkei 225             | JPY      | 34776.77        | -1.38% | 1.34%  | -0.14%        | -1.80%       |
| Emerging Markets                      | MSCI Emerging Markets* | USD      | 1130.22         | -0.56% | 1.84%  | 0.87%         | -1.72%       |
|                                       |                        |          |                 |        |        |               |              |
| African Equity Indexes (Total Return) |                        |          |                 |        |        |               |              |
| Description                           | Index                  | Currency | Index Value     | Week   | Month  | Month-to-Date | Year-to-Date |
| All Share                             | JSE All Share          | ZAR      | 8243.08         | 0.65%  | 1.94%  | 2.00%         | -2.45%       |
| Top 40                                | JSE Top 40             | ZAR      | 7307.59         | 0.66%  | 1.28%  | 2.19%         | -1.89%       |
| Shareholder Weighted                  | JSE SWIX               | ZAR      | 20845.40        | 0.46%  | 2.63%  | 2.38%         | -5.15%       |
| Small Companies                       | JSE Small Cap*         | ZAR      | 59043.03        | 0.36%  | 3.37%  | 0.59%         | -1.92%       |
| Resources                             | JSE Resource 20        | ZAR      | 2593.39         | 3.51%  | -5.24% | 1.85%         | 13.44%       |
| Industrials                           | JSE Industrial 25      | ZAR      | 14200.28        | -0.34% | 2.52%  | 2.54%         | -6.06%       |
| Financials                            | JSE Financial 15       | ZAR      | 9372.90         | 0.09%  | 5.72%  | 1.57%         | -3.44%       |
| SA Listed Property                    | JSE SA Listed Property | ZAR      | 2031.57         | 1.00%  | 3.87%  | 1.24%         | -17.55%      |
| Preference Shares                     | JSE PrefShares         | ZAR      | 1965.23         | 0.20%  | -1.64% | 0.21%         | 6.19%        |
|                                       |                        |          |                 |        |        |               |              |
| South African Fixed Interest          |                        |          |                 |        |        |               |              |
| Description                           | Index                  | Currency | Index Value     | Week   | Month  | Month-to-Date | Year-to-Date |
| All Bond                              | BESA ALBI Index        | ZAR      | 615.67          | -0.94% | 1.48%  | -0.46%        | 4.76%        |
| Inflation Linked Bonds                | BESA CILI              | ZAR      | 256.58          | 0.60%  | -0.09% | 0.06%         | 1.57%        |
| Cash                                  | STEFI Composite*       | ZAR      | 394.49          | 0.13%  | -0.57% | 0.02%         | 3.02%        |
| *Price Index (not Total Return)       |                        |          |                 |        |        |               |              |
| ** Negative indicates Euro weakness   |                        |          |                 |        |        |               |              |

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