



BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017

GLOBAL MARKETS

WEEKLYWRAP 09 February 2018

► **VOLATILITY ENTERED GLOBAL MARKETS LAST WEEK AS MARKETS ADJUSTED TO EXPECTATIONS OF A TIGHTER THAN EXPECTED MONETARY POLICY BY THE FED.**

The Volatility Index (VIX), which is widely assumed to be a barometer of fear in global markets, spiked quickly to close the week 67.9% higher. At the same time, the Dow Jones Industrial Average, S&P500 and Nasdaq indices ended -5.08%, -5.16% and -5.06% in the red, experiencing daily sell-offs never seen before. As the week came to a close, market practitioners were left perplexed as to whether the market moves were merely a healthy market correction (after complacent investor behaviour sent equity markets to all time high levels) or a market crash. This will no doubt continue to keep investors captivated.

► **FED OFFICIALS COMMENTED ON RECENT EVENTS IN THE US, IN AN ATTEMPT TO CALM MARKETS.**

St. Louis Fed President James Bullard cautioned with a dovish tone that the market seemed to be getting ahead of itself due to the wage data and the Fed's future interest rate hiking path. Nevertheless, he still favours three gradual interest rate hikes this year. Similarly, Chicago Fed President Evans said the Fed could still hold off hiking till mid 2018 as inflation has been slow to rise. He would favour more interest rate hikes this year but only if/when inflation picks up.

► **THE BANK OF ENGLAND (BOE) KEPT INTEREST RATES ON HOLD IN THE UK BUT STRUCK A MORE HAWKISH THAN EXPECTED TONE BY PROPOSING THAT THE BANK COULD HIKE BY THREE TIMES IN THE NEXT FEW YEARS.**

Meanwhile, the BOE also lifted their growth expectations in the UK, which could be a sign that the uncertainty surrounding Brexit may be beginning to fade. The UK 10Y government bond ended the week having risen 0.13% at 1.64%.

► **THE RESERVE BANK OF AUSTRALIA (RBA) ALSO KEPT INTEREST RATES ON HOLD AS EXPECTED.** Wage growth in Australia has been sluggish and one of the reasons why inflation has been consistently below the RBA's target band.

► **BRENT CRUDE OIL CLOSED THE WEEK AT USD62.66/BBL, WHICH IS AT ITS LOWEST LEVEL FOR THE YEAR.** As mentioned previously, the US increased oil production but when news surfaced last week that US oil inventories had risen, the oil price was pushed down further.

► **THE US TRADE DEFICIT FOR DECEMBER CAME IN AT USD53.1BN COMPARED TO USD50.4BN IN NOVEMBER.** This was the largest deficit since October 2008 as US imports rose to new record levels.

► **PROMISING ECONOMIC RELEASES CONTINUED IN EUROPE WITH THE JANUARY PMI BEATING MARKET EXPECTATIONS.** This makes it easier on the European Central Bank to tighten monetary policy. The same is unfortunately untrue in the UK where UK Services PMI for January surprised on the downside, coming in at a sixteen month low.

► **THE SERVICES PMI FOR JANUARY CAME IN ABOVE THE DECEMBER FIGURE IN BOTH JAPAN AND CHINA.** In China, the increase was due to new orders and additional hiring whilst in Japan, a rise in input cost inflation resulted in the higher number. The rise in food and fuel prices in Japan resulted in input cost inflation and will most likely lead to higher actual inflation. This is key at enabling the Bank of Japan to clamp down on monetary policy and is a main global theme at present. In China, CPI and PPI for December matched market expectations by coming in lower than the November prints. Fears that China (world's second largest economy) is running out of steam were extinguished as long Lunar New Year celebrations in January most likely led to business and price distortions.

DOMESTIC MARKETS

► **THE ANC FOUND THEMSELVES IN UNCHARTERED TERRITORY LAST WEEK.** After the top 6 ANC National Executive Committee (NEC) met with President Zuma the weekend before, clarity on the outcome of Zuma's future was not forthcoming. As such, it looked like the NEC were hoping for a resignation from the president and when this did not occur, they called an emergency meeting with the National Working Committee (NWC) for further discussions. This was followed by the ANC releasing a statement saying that the State of the Nation Address (SONA) would be postponed for the first time ever (it was originally scheduled for Thursday). Delving deeper into the unknown, if Zuma were to deliver the SONA, it would be to the ANC's detriment and they realised this.

Along the way during a topsy-turvy week in SA politics, an emergency NEC meeting got cancelled and as the week came to an end, uncertainty over Zuma's future, the SONA and whether the Budget Speech would take place reigned supreme. Amidst all the uncertainty, the saga continues and will be closely monitored as events unfold.

► **THE MSCI EMERGING MARKET INDEX LOST -7.15% OVER THE WEEK AND UNDERPERFORMED THE MSCI WORLD INDEX, WHICH LOST -5.56% AS RISK SENTIMENT TURNED NEGATIVE.** As such, the JSE All Share index could not escape the negative sentiment evidenced by the -4.70% drop.

All three of the main sub-indices detracted from performance, however, the JSE Financial 15 index fell the least (-0.55%). On the other end of the spectrum, the resource and industrial boards fell a mammoth -6.53% and -6.06% respectively.

► **THE STANDARD BANK MANUFACTURING PMI FOR JANUARY CAME IN AT 49.0PTS COMPARED TO 48.4PTS IN DECEMBER.** Although moving in the right direction, it is still in contractionary territory indicating a deterioration of business conditions.

► **ON THE OTHER HAND, BUSINESS CONFIDENCE REBOUNDED WITH THE SACCI BUSINESS CONFIDENCE INDEX FOR JANUARY COMING IN ABOVE THAT IN DECEMBER.** The positive political sentiment created by the election of Cyril Ramaphosa for sure led to the spike in business confidence.

► **MINING PRODUCTION FOR DECEMBER CAME IN BELOW EXPECTATIONS WHILST MANUFACTURING PRODUCTION SURPRISED ON THE UPSIDE.** A decrease in production of coal and Platinum Group Metals were the main culprits for the poor mining statistic. At the same time, a pick up in basic iron and steel as well as in machinery and motor vehicles production drove the manufacturing print higher.

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CHART OF THE WEEK

VOLATILITY ENTERED MARKETS LAST WEEK RESULTING IN A SIGNIFICANT SELL



WEEKLY TICKER

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CURRENCIES							
Description	Classification	Currency	Exchange Rate	Week	Month	Month-to-Date	Year-to-Date
ZAR/USD	ZAR/USD	ZAR	11.96	0.78%	3.56%	-0.90%	3.55%
ZAR/Pound	ZAR/GBP	ZAR	16.57	2.80%	1.23%	1.44%	0.93%
ZAR/Euro	ZAR/EUR	ZAR	14.67	2.49%	1.11%	0.24%	1.23%
Dollar/Euro**	USD/EUR	USD	1.23	-1.69%	-2.54%	-1.16%	2.21%
Yen/Dollar	YEN/USD	YEN	108.71	1.24%	2.37%	0.44%	3.66%

COMMODITIES							
Description	Classification	Currency	Commodity Price	Week	Month	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1321.02	-1.26%	-0.02%	-1.79%	1.40%
Brent Crude Oil	ICE Brent Futures	USD	64.19	-8.44%	-8.64%	-6.82%	-3.39%
Platinum	Platinum Spot	USD	968.29	-2.60%	-0.63%	-3.36%	4.31%
Copper	LME 3 month Copper	USD	6755.00	-2.84%	-4.31%	-5.10%	-6.79%
Silver	Silver Spot	USD	16.44	-1.36%	-3.60%	-5.21%	-2.93%

GLOBAL EQUITY INDEXES (TOTAL RETURN)							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	2050.90	-5.83%	-5.42%	-7.28%	-2.36%
United States	S&P 500	USD	5116.99	-8.51%	-5.99%	-7.15%	-1.84%
Europe	Euro Stoxx 50	EUR	6819.84	-4.14%	-6.28%	-6.15%	-3.24%
Britain	FTSE 100	GBP	6103.89	-3.66%	-7.42%	-4.51%	-6.38%
Germany	DAX	EUR	12354.01	-4.11%	-7.69%	-6.33%	-4.36%
Japan	Nikkei 225	JPY	33265.95	-5.94%	-7.97%	-7.43%	-6.06%
Emerging Markets	MSCI Emerging Markets*	USD	1142.85	-5.50%	-2.88%	-8.89%	-1.30%

SA EQUITY INDEXES (TOTAL RETURN)							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Share	JSE All Share	ZAR	7946.49	-3.45%	-5.71%	-6.06%	-5.96%
Top 40	JSE Top 40	ZAR	6991.31	-3.80%	-6.08%	-6.32%	-6.13%
Shareholder Weighted	JSE SWIX	ZAR	20483.26	-3.22%	-6.06%	-6.16%	-6.80%
Small Companies	JSE Small Cap*	ZAR	58995.14	-0.90%	-3.60%	-2.76%	-3.03%
Resources	JSE Resource 20	ZAR	2205.67	-5.60%	-6.61%	-6.92%	-3.52%
Industrials	JSE Industrial 25	ZAR	13922.99	-4.76%	-8.14%	-8.09%	-7.89%
Financials	JSE Financial 15	ZAR	9397.00	0.67%	1.14%	-0.90%	-3.19%
SA Listed Property	JSE SA Listed Property	ZAR	2130.63	4.43%	-9.37%	-4.02%	-13.52%
Preference Shares	JSE Pref Shares	ZAR	1813.88	0.50%	-1.51%	-1.34%	-1.99%

SA FIXED INTEREST							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Bond	BESA ALBI Index	ZAR	601.98	0.55%	1.86%	0.51%	2.43%
Inflation Linked Bonds	BESA CILI	ZAR	247.26	0.11%	-2.30%	-0.80%	-2.12%
Cash	STEFI Composite*	ZAR	386.30	0.12%	0.58%	0.23%	0.87%

** Price Index (not Total Return) Negative indicates Euro weakness

The WEEKLY TICKER report was compiled in association with Counterpoint Asset Management. www.cpm.co.za

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