



BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017

GLOBAL MARKETS

WEEKLYWRAP 16 February 2018

► INTEREST RATES IN THE US ARE MORE OR LESS EXPECTED TO RISE THIS YEAR .

As a base case scenario, two to three interest rate hikes are currently being priced in. Nevertheless, when the Federal Open Market Committee Meeting (FOMC) minutes were released last week, markets were still caught off guard by the level of hawkishness. More specifically, the minutes showed that the Fed are confident that growth will continue in the US, that the labour market will tighten some more and this, according to them, will result in higher inflation down the line. As such, the tone struck opens the door for interest rate hikes more than the base case scenario, which sent the US 10Y treasury 0.02% higher over the week to close at 2.94% meaning the psychological barrier of 3% is fast approaching. Similarly, the dollar strengthened against most major currencies to end the week at 1.23/EUR (+0.91%) and 1.40/GBP (+0.46%).

► FED OFFICIALS GAVE SPEECHES THAT WERE RATHER MIXED.

Philadelphia Fed President Patrick Harker said he favoured two interest rate hikes in 2018 whilst Neel Kashkari (Minneapolis Fed President) mentioned he would not mind seeing the labour market tighten further before hiking again. On the other hand, Dallas Fed President cautioned that if the Fed waited too long to normalize interest rates, financial imbalances could result and this would lead to faster hikes in the future and hence a higher risk of a recession.

► THE DAX AND THE CAC40 INDICES ROSE BY 0.26% AND 0.68%,WHILST THE FTSE100 INDEX LOST -0.69%.

European Central Bank meeting minutes revealed that policy makers were wary of making a token change to the bank's policy wording as this could signal premature policy normalization to the markets in the face of stubbornly low inflation in the EU.

The result of this perhaps might be a disorderly market reaction and a spike in volatility of the euro, which policy makers fear.

► US EXISTING HOME SALES SHRANK IN JANUARY.

The shortage of houses (lower supply) over the last while was blamed for pushing house prices higher and keeping first time buyers out the market resulting in lower home sales. This was followed by better than expected manufacturing and services PMI's indicating the most rapid improvement in US business conditions since October 2014.

► EU PMI'S (SERVICES AND MANUFACTURING) FOR FEBRUARY CAME IN BELOW THE JANUARY NUMBERS, ALTHOUGH STILL IN EXPANSIONARY TERRITORY.

High base effects seemed to be the main culprits.

► ECONOMIC NEWS OUT OF THE UK CONTINUED TO DISAPPOINT.

The unemployment rate for December of 4.4% was higher than the November figure as well as what markets were expecting. GDP growth for Q4 of 1.4% y/y also surprised on the downside and came in lower than previously.

► JAPANESE EXPORTS ROSE BY 12% Y/Y, WHILST IMPORTS ROSE BY A SLOWED 7.9% LEADING TO A BETTER THAN EXPECTED TRADE BALANCE.

Japanese inflation then returned 1.4% y/y for January, which is above the December figure of 1.0% and expectations of 1.3%. Despite the Bank of Japan being at the earliest point in the contractionary policy cycle out of all the major countries, it would not be surprising to see them ramp up their tapering process as inflation keeps rising.

DOMESTIC MARKETS

► AFTER THE PROMISING STATE OF THE NATIONS ADDRESS DELIVERED BY PRESIDENT CYRIL RAMAPHOSA, FOCUS SHIFTED TO THE BUDGET SPEECH.

Before the speech, markets were expecting a key theme of fiscal consolidation owing to the massive debt burden, which free higher education did no favours at alleviating. In the event, Finance Minister Malusi Gigaba did not disappoint. His main proposals, amongst others, for generating R36bn (to plug the fiscal deficit) were raising VAT from 14% to 15%, raising personal income tax brackets by less than inflation (resulting in bracket creep and higher tax revenues), a 52c per liter fuel levy and an increase of between 6% and 10% duty on alcohol and tobacco products (sin tax).

► FITCH AND S&P GLOBAL RATINGS AGENCIES COMMENTED THAT THE AUSTERITY PROPOSALS WERE PROMISING, AS THE TRAJECTORY OF THE DEBT TO GDP RATIO SHOULD BE MOVING LOWER.

Another vital element to alleviating the debt burden are the growth forecasts. President Rampahosa's proposed key structural changes in mining, agriculture, manufacturing and tourism, mentioned in the SONA, are thus pivotal in staving off further downgrades. Speaking of which, Moody's have their rating review due in the not too distant future. Let's hope the SONA as well as the Budget speech have done enough.

► SOUTH AFRICA'S 10Y GOVERNMENT BOND ENDED THE WEEK -0.09% DOWN AT 8.02% AFTER THE PROMISING BUDGET SPEECH.

Nonetheless, there was an element of volatility present in the bond market when short dated bond redemptions became due and National Treasury attempted to switch them to longer dated debt in a bond auction. Besides this, amidst all the positive news, the rand appreciated 6.70% year to date to end the week at 11.55/USD.

► THE JSE ALL SHARE INDEX LOST -0.69% OVER THE WEEK, WHICH IS MOST LIKELY DUE TO THE STRONGER RAND.

The resource and industrial boards ended -2.96% and -0.74% in the red respectively whilst the JSE Financial 15 index gained +1.38%.

► INFLATION FOR JANUARY SQUARED WITH MARKET EXPECTATIONS COMING IN AT 4.4% Y/Y.

This was lower than the 4.7% posted in December. Lower fuel prices as well as a drop off in food inflation were blamed for the lower print. This low inflation environment gives the South African Reserve Bank additional flexibility to cut interest rates, in an attempt to spur growth, when they meet next month at their MPC meeting.

R186 YIELD HAS FALLEN SIGNIFICANTLY AS SA'S NEW POLITICAL REGIME RESULTED IN A POSITIVE SONA AND A PROMISING BUDGET SPEECH. THIS MEANS THERE IS SIGNIFICANTLY LOWER RISK OF DOWNGRADES FROM MOODY'S.



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	11.66	3.31%	5.72%	1.67%	6.23%
ZAR/Pound	ZAR/GBP	ZAR	16.35	1.63%	3.97%	2.80%	2.28%
ZAR/Euro	ZAR/EUR	ZAR	14.47	1.98%	3.89%	1.65%	2.66%
Dollar/Euro**	USD/EUR	USD	1.24	1.26%	-1.81%	-0.01%	3.40%
Yen/Dollar	YEN/USD	YEN	106.55	2.38%	4.56%	2.48%	5.76%

COMMODITIES							
Description	Classification	Currency	Commodity Price	Week	Month	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1347.36	2.30%	1.52%	0.17%	3.42%
Brent Crude Oil	ICE Brent Futures	USD	65.32	3.26%	-6.03%	-5.18%	-1.69%
Platinum	Platinum Spot	USD	1012.41	4.14%	0.49%	1.04%	9.07%
Copper	LME 3 month Copper	USD	7233.00	6.32%	2.10%	1.62%	-0.19%
Silver	Silver Spot	USD	16.67	1.71%	-2.10%	-3.87%	-1.55%

GLOBAL EQUITY INDEXES (TOTAL RETURN)							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	2137.91	3.90%	-3.14%	-3.27%	1.86%
United States	S&P 500	USD	5340.82	5.92%	-2.37%	-3.09%	2.46%
Europe	Euro Stoxx 50	EUR	6906.92	1.93%	-6.02%	-4.95%	-2.01%
Britain	FTSE 100	GBP	6210.82	2.35%	-5.99%	-2.84%	-4.74%
Germany	DAX	EUR	12451.96	1.97%	-6.35%	-5.59%	-3.60%
Japan	Nikkei 225	JPY	33791.22	0.39%	-10.06%	-5.97%	-4.58%
Emerging Markets	MSCI Emerging Markets*	USD	1199.74	5.23%	-1.64%	-4.31%	3.65%

SA EQUITY INDEXES (TOTAL RETURN)							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Share	JSE All Share	ZAR	8404.17	6.49%	-1.80%	-0.64%	-0.55%
Top 40	JSE Top 40	ZAR	7391.80	6.65%	-2.25%	-0.96%	-0.76%
Shareholder Weighted	JSE SWIX	ZAR	21826.37	7.23%	-1.40%	0.00%	-0.69%
Small Companies	JSE Small Cap*	ZAR	61119.48	3.25%	-1.43%	0.74%	0.47%
Resources	JSE Resource 20	ZAR	2294.48	4.51%	-6.08%	-3.17%	0.36%
Industrials	JSE Industrial 25	ZAR	14912.18	7.87%	-2.65%	-1.57%	-1.35%
Financials	JSE Financial 15	ZAR	9948.83	7.26%	5.88%	4.92%	2.49%
SA Listed Property	JSE SA Listed Property	ZAR	2018.70	-2.72%	-12.66%	-9.06%	-18.07%
Preference Shares	JSE Pref Shares	ZAR	1825.75	0.21%	-0.83%	-0.70%	-1.35%

SA FIXED INTEREST							
Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Bond	BESA ALBI Index	ZAR	619.10	1.76%	2.67%	3.37%	5.35%
Inflation Linked Bonds	BESA CILI	ZAR	249.90	0.54%	-1.23%	0.26%	-1.07%
Cash	STEFI Composite*	ZAR	386.59	0.12%	0.58%	0.31%	0.95%

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

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

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