



BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017

INFLUENCES ON WEEKLY GLOBAL MARKET

WEEKLYWRAP 25 May 2018

► **Last week was somewhat of a topsy-turvy week for markets with different factors pushing and pulling markets in various directions.** On the one hand, the dollar retreated from five month high levels whilst the US 10Y Treasury yield pulled back from levels last seen seven years ago when reports emerged that China agreed to cut tariffs on imports of cars and car parts and both China and the US saw eye to eye on guidelines over controversial Chinese telecom company ZTE.

Additionally, the US announced that the “trade war” with China was placed on hold, which meant risk-on sentiment was then very much in play. This was followed by President Trump mentioning that he was not pleased with the outcome of the trade talks, which rocked market sentiment. Risk assets thereafter took a pounding, which most likely indicates that markets jumped the gun to some degree considering trade talks were still ongoing between the world’s two largest economies and key issues like intellectual property rights were still very much up in the air.

Sentiment was further dampened when Trump called off his meeting with North Korea’s Supreme Leader next month, which sparked fears that North Korea will continue with its nuclear program. Nevertheless, North Korea showed signs that they were still open for dialogue with the US, which alleviated concerns somewhat. As the week came to a close, Trump reported that the meeting was again scheduled to happen and that a US delegation in North Korea was already making arrangements for the Summit. US markets ended in positive territory with the Dow and S&P500 indices closing 0.18% and 0.31% in the green respectively.

► **After much anticipation, the Federal Open Market Committee (FOMC) minutes revealed a surprising level of dovishness from the Fed.** Upon further investigation, the Fed were happy for inflation to rise above their 2% target level for a period of time.

More importantly however, all committee members were in agreement that smaller interest rate adjustments should be the way forward. That means rates can change by increments of 0.20% instead of 0.25% as present. The market reacted favourably, evidenced by the US 10Y treasury yield ending the week -0.20% down at 2.93%. Despite decreasing rates over the week, it would be surprising if interest rates didn’t keep ticking higher into year-end as inflation in the US is definitely on an upward trend and the employment market is extremely tight and likely to lead to higher wages (inflation) down the line.

GLOBAL ECONOMIC NEWS

► **New and existing home sales in the US for April came in slightly below expectations.** Nonetheless, markets seemed little impacted by these prints.

► **Over the Atlantic, EU consumer confidence in May fell slightly and came in below consensus.**

At the same time, EU Composite PMI’s for May fell to eighteen month low levels despite still being in expansionary territory. One wonders how this will influence the European Central Bank’s decision and ability to tighten monetary policy in the EU.

► **In Japan, a surplus trade balance was posted once again for April.** Digging deeper revealed that exports (7.8%) rose at a faster pace than imports (5.9%). This is a good sign for global growth as demand for Japan’s top exports (vehicles, machinery and electronics) are still intact. In the meanwhile, although Japan’s manufacturing PMI came in slightly lower, it remained in expansionary territory. The main culprits causing the tapering in growth were a slow down in output and new orders.

INFLUENCES ON WEEKLY SA MARKET

► **Amidst the uncertainty which created volatility, emerging markets ended somewhat flat with the MSCI Emerging Markets index losing -0.10% over the week.** The JSE All Share index was an exception and ended -1.50% lower. The resource board weighed the most on performance and lost -5.05%. Also detracting was the JSE Industrial 25 (-0.91%) whilst the JSE Financial 15 index added 1.15% over the same period. South Africa's 10Y Government Bond yield lost -0.16% over the week to close at 8.45%, most likely on the back of the more dovish than expected FOMC meeting minutes.

► **The African National Congress (ANC) held a land reform workshop.** The outcome of this showed that the ANC will not be seeking to change the Constitution to give effect to land expropriation without compensation. This should add some calmness surrounding the topic. However, the ANC are under huge pressure to provide clarity on this issue as it is standing in the way of potential investment and economic reform in SA.

► **Public sector unions aligned to the Congress of South Africa Trade Unions (COSATU) reached an agreement for wage settlements with the South African government.** The wage settlement was above inflation, which should push the general price level higher on the whole.

However, it was below the government's forecasts (from the Budget) and this stands to reduce pressure on the fiscus, which is a promising sign.

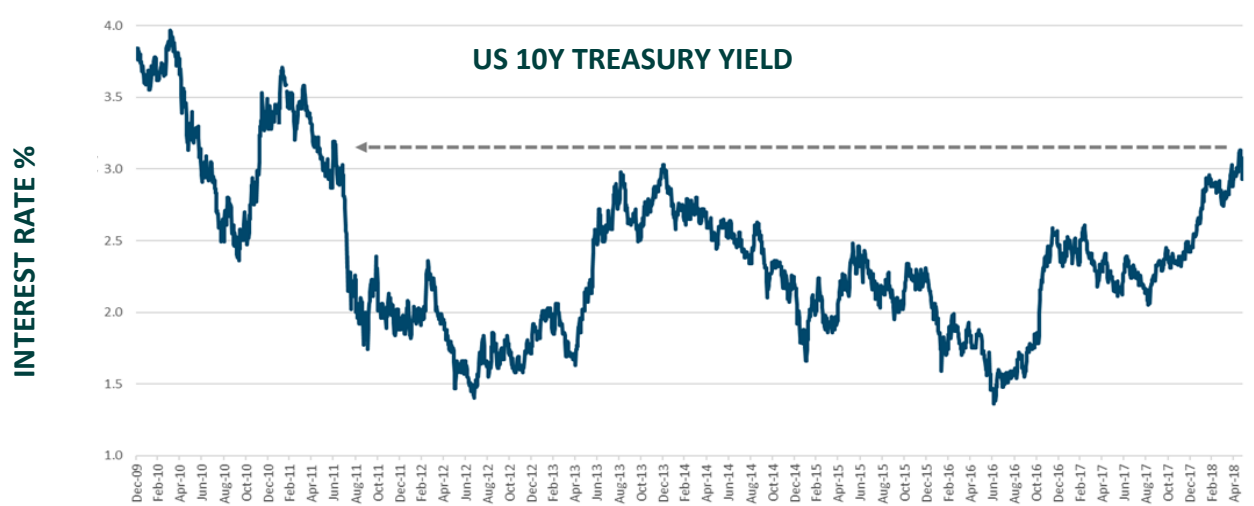
DOMESTIC ECONOMIC NEWS

► **The South African Reserve Bank kept interest rates on hold as expected, with the repo rate remaining at 6.5%.** Global risk has spiked and markets have therefore generally been more volatile in recent times (and in all likelihood, could continue to be so for the foreseeable future). Hence, it would have been tough for the SARB to cut interest rates further. Coupled with this, the US Fed has been tightening monetary policy and many other economies have begun following suit. Concurrently, with rising oil prices and the price of electricity moving higher too, inflation should push up. Looking forward, there is thus a fair chance that domestic interest rates have troughed.

► **Inflation for April rose to 4.5% y/y from 3.8% reported in March.** This was slightly below expectations of 4.7%. Price increases of food, non-alcoholic beverages, housing and utility products pushed the general price level to the highest rate reported since December last year.

CHART OF THE WEEK:

THE US10Y TREASURY YIELD FELL BY 0.20% LAST WEEK AFTER TRADING AT LEVELS NOT SEEN IN THE LAST SEVEN YEARS



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WEEKLY TICKER

CURRENCIES

Description	Classification	Currency	Exchange Rate	Week	Month	Month-to-Date	Year-to-Date
ZAR/USD	ZAR/USD	ZAR	12.45	2.06%	-0.50%	0.12%	-0.50%
ZAR/Pound	ZAR/GBP	ZAR	16.59	3.30%	4.03%	3.41%	0.77%
ZAR/Euro	ZAR/EUR	ZAR	14.58	3.09%	3.76%	3.18%	1.86%
Dollar/Euro**	USD/EUR	USD	1.17	-1.03%	4.19%	-2.98%	-2.39%
Yen/Dollar	YEN/USD	YEN	109.57	1.24%	0.02%	-0.21%	2.85%

COMMODITIES

Description	Classification	Currency	Commodity Price	Week	Month	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1296.14	0.71%	1.58%	-1.46%	-0.51%
Brent Crude Oil	ICE Brent Futures	USD	75.15	-2.64%	-4.38%	0.62%	14.77%
Platinum	Platinum Spot	USD	902.38	1.55%	1.10%	-0.24%	-2.79%
Copper	LME 3 month Copper	USD	6885.00	0.44%	1.76%	1.15%	-5.00%
Silver	Silver Spot	USD	16.46	0.41%	0.29%	0.79%	-2.81%

GLOBAL EQUITY INDEXES

(TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	2110.80	-0.47%	-1.64%	1.50%	1.56%
United States	S&P 500	USD	5347.31	0.33%	-3.32%	2.97%	2.58%
Europe	Euro Stoxx 50	EUR	7193.29	-1.48%	-1.89%	0.26%	2.05%
Britain	FTSE 100	GBP	6684.07	-0.59%	-5.34%	3.41%	2.52%
Germany	DAX	EUR	12938.01	-1.07%	-4.15%	2.58%	0.16%
Japan	Nikkei 225	JPY	35215.08	-2.40%	-1.06%	-0.08%	-0.56%
Emerging Markets	MSCI Emerging Markets*	USD	1136.62	-0.10%	0.32%	-2.19%	-1.23%

SA EQUITY INDEXES

(TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Share	JSE All Share*	ZAR	8189.96	-1.50%	0.03%	-2.18%	-3.08%
Top 40	JSE Top 40*	ZAR	7259.76	-1.42%	-0.70%	-1.59%	-2.53%
Shareholder Weighted	JSE SWIX*	ZAR	20750.64	-1.00%	0.40%	-2.91%	-5.58%
Small Companies	JSE Small Cap*	ZAR	58832.66	-1.58%	1.05%	-2.33%	-2.38%
Resources	JSE Resource 20*	ZAR	2505.52	-5.05%	-4.19%	3.07%	9.60%
Industrials	JSE Industrial 25*	ZAR	14248.25	-0.91%	-0.25%	-2.37%	-5.74%
Financials	JSE Financial 15*	ZAR	9364.44	1.15%	2.68%	-5.32%	-3.53%
SA Listed Property	JSE SA Listed Property	ZAR	2011.37	0.09%	3.69%	-5.70%	-18.36%
Preference Shares	JSE Pref Shares	ZAR	1961.39	-1.11%	-2.74%	2.18%	5.98%

SA FIXED INTEREST

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Bond	BESA ALBI Index	ZAR	621.52	1.43%	0.51%	-1.48%	5.76%
Inflation Linked Bonds	BESA CILI	ZAR	255.05	-0.36%	0.21%	-0.41%	0.97%
Cash	STEFI Composite*	ZAR	393.97	0.13%	-0.58%	0.48%	2.88%

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