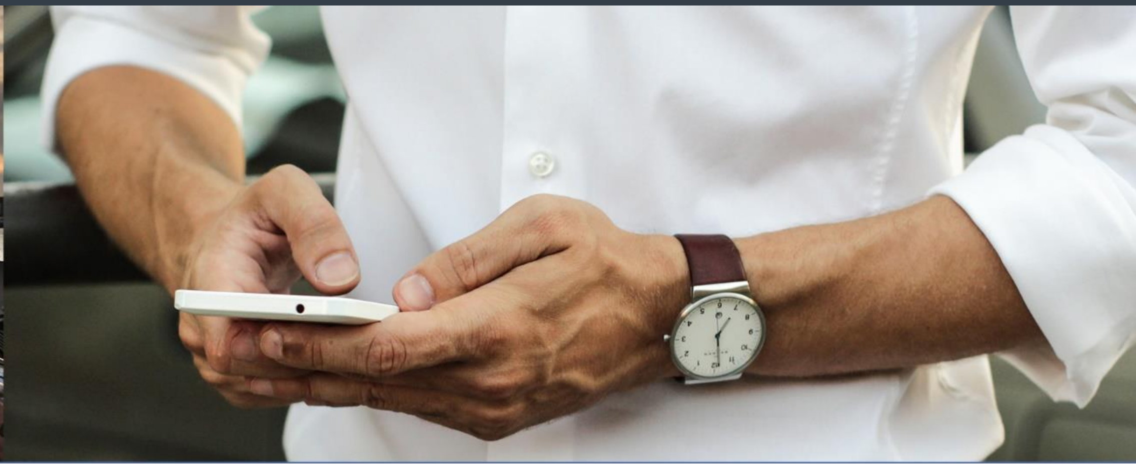
ECONOMIC REPORT
by Glacier Research

glacier by Sanlam



29 January 2020

Review period: December 2019

Domestic Overview

Domestic equities buoyantly staged a recovery in December as the resource sector lifted equity markets out of last month's negative territory, characteristic of a "Santa Claus rally". The SA economy recorded negative growth in the third quarter, reflective of the prevailing fiscal quagmire, exacerbated by the slow pace of reforms (particularly in state-owned institutions such as Eskom). The rand firmed up strongly over the month while inflation continues to taper down. Globally, positive sentiment continued to prevail as talks of the first phase of the deal between the US and China led to an agreement between the two powers. As a result, developed and emerging market equities recorded strong performance in their base currency. However, returns in rand terms were dampened due to the sharp firming of the rand.

Domestic Highlights in December 2019

- SA GDP contraction

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SA GDP contraction

On the back of the 3.2% recovery recorded in the second quarter of 2019, South Africa's GDP contracted 0.6% in Q3 on a seasonally adjusted annualized basis – worse than the consensus estimate of a 0.1% expansion. The main industry detractors were mining (-6.1%), manufacturing (-3.9%) and transport, storage and communication (-5.4%). Trade (+2.6%), government services (+2.4%) and finance (+1.6%) were the only sectors that recorded an expansion. The agricultural sector is a cause of concern after having recorded its third consecutive quarter of contraction alongside the construction sector which recorded its fifth consecutive quarter of contraction. On an annual-unadjusted basis, GDP rose 0.1% year-on-year in Q3, while growing 0.3% for the first nine months of 2019.

SA economy

The South African economic environment remains one characterised by policy uncertainty, a slow pace of reform and enormous fiscal woes. The situation is exacerbated by the power outages experienced during the month of December. However, there remains some level of stability as inflation has continued to slow alongside interest rates and yields that are arguably still very attractive to investors. Despite prevailing economic headwinds, gross fixed capital formation recorded yet another increase in the third quarter, albeit slower than the previous quarter. Another positive was the narrowing of the current account deficit from 4.1% of GDP in Q2 to 3.7% of GDP in Q3, largely attributed to an improvement in the trade balance. December also saw the rand rally, strengthening 4.41%.

	July'19	Aug'19	Sep'19	Oct'19	Nov'19	Dec'19
CPI (y/y)	4.0%	4.3%	4.1%	3.7%	3.6%	4.0%
PPI (y/y)	4.9%	4.5%	4.1%	3.0%	2.3%	-

Sources: Trading Economics

	31 December 2017	31 December 2018	31 December 2019
USD/ZAR	12.38	14.35	14.00
GBP/ZAR	16.74	18.32	18.56
EUR/ZAR	14.86	16.47	15.69

Source: IRESS

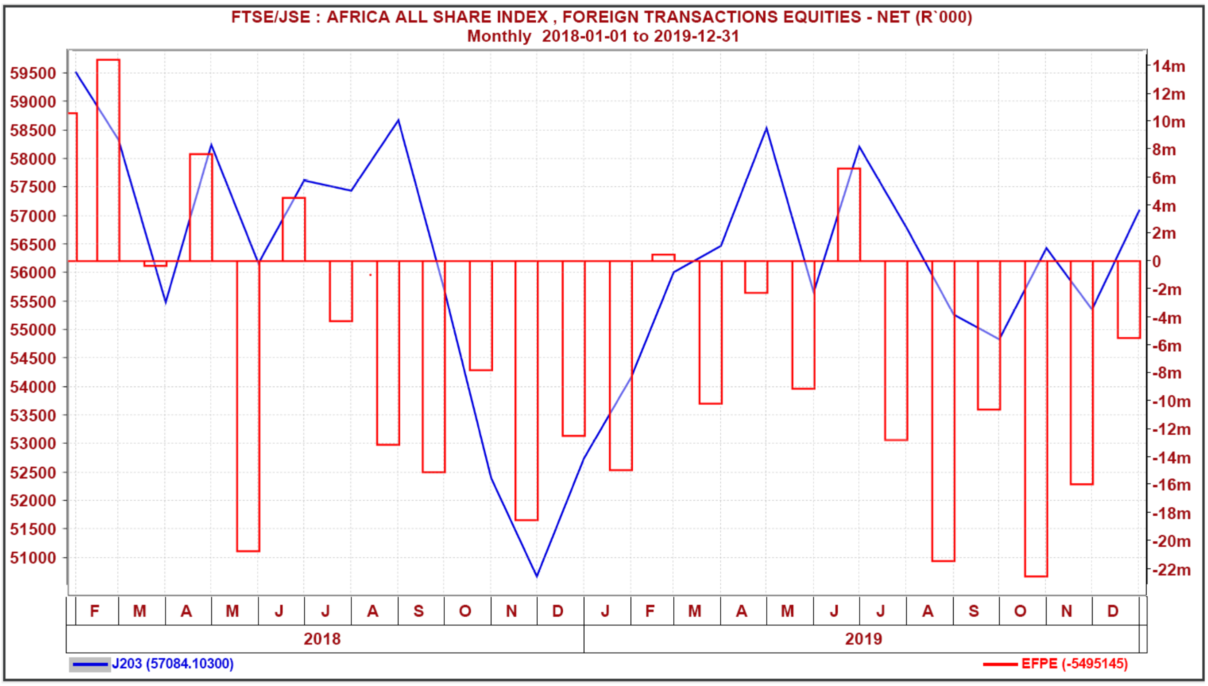
South Africa: Markets

Following the negative performance in November, local equity markets staged a rebound in December despite the sharp strength of the rand which typically tends to exert pressure on large-cap stocks (which are mostly rand-hedges). The resource sector rally continues to be one of the key features of domestic equity market performance. As a result, the All Share Index (ALSI) delivered 3.30% for the month. Mid-caps (4.70%) extended gains to be the best performing layer of the market. Large-caps delivered 3.64% while small-caps delivered muted returns of 0.21%. Property, the worst-performing local asset class, posted -1.57%. On the fixed income side, cash and bonds delivered 0.58% and 1.86%. Resource counters led the rally with Impala (27.46%), Gold Fields (24.59%) and Sibanye-Stillwater (24.27%) taking the crown.

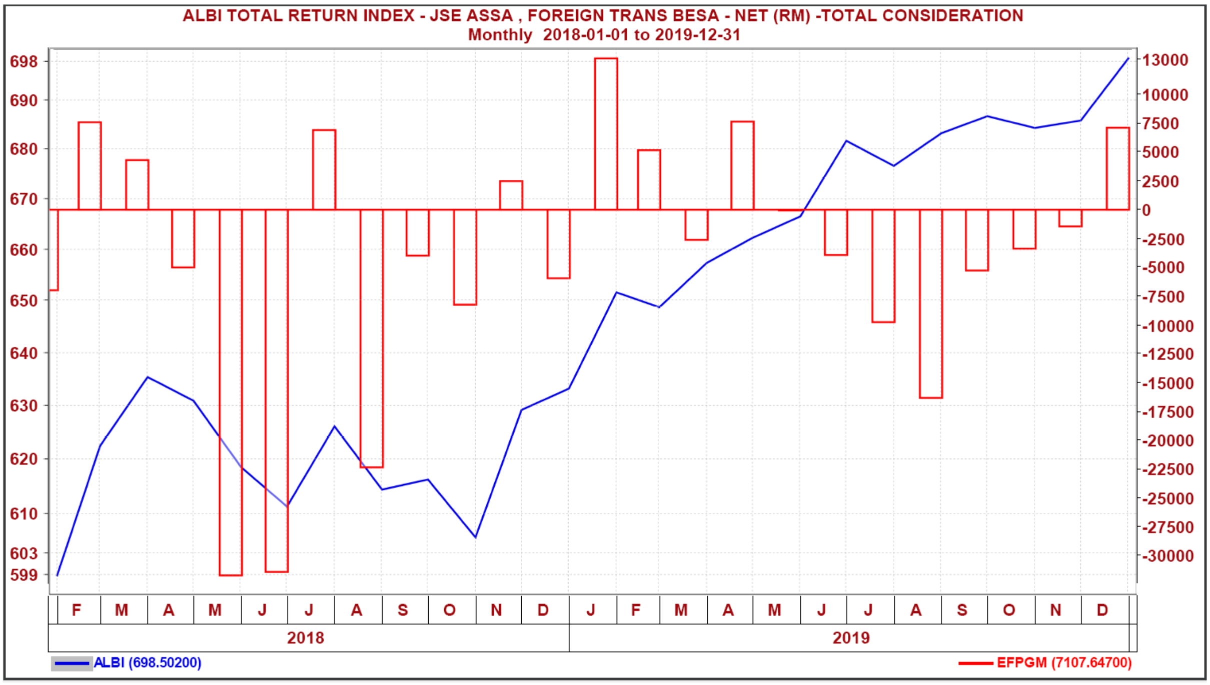
LOCAL RETURNS IN ZAR				
2018	October 2019	November 2019	December 2019	Year-to-date
SA BONDS 7.69%	SA MID CAPS 7.19%	SA MID CAPS 0.61%	SA MID CAPS 4.70%	SA MID CAPS 15.58%
SA CASH 7.25%	SA EQUITY 3.14%	SA CASH 0.56%	SA TOP 40 3.64%	SA TOP 40 12.41%
SA TOP 40 -8.31%	SA TOP 40 2.96%	SA BONDS 0.22%	SA EQUITY 3.30%	SA EQUITY 12.05%
SA EQUITY -8.53%	SA PROPERTY 2.80%	SA PROPERTY -0.02%	SA BONDS 1.86%	SA BONDS 10.32%
SA MID CAPS -9.73%	SA SMALL CAPS 1.74%	SA SMALL CAPS -1.20%	SA CASH 0.58%	SA CASH 7.29%
SA SMALL CAPS -14.59%	SA CASH 0.59%	SA EQUITY -1.80%	SA SMALL CAPS 0.21%	SA PROPERTY -0.40%
SA PROPERTY -24.98%	SA BONDS -0.35%	SA TOP 40 -2.03%	SA PROPERTY -1.57%	SA SMALL CAPS -4.10%

Source: Morningstar

Foreigners were net sellers of R5.49 billion worth of SA equities and net buyers of R7.11 billion worth in SA bonds.



Source: IRESS December 2019



Source: IRESS December 2019

In terms of sectors, resources continued to be the best performer for the month, recording a gain of 6.97%, followed by financials which delivered subdued returns of 0.74%. Similarly, industrials also delivered 0.83% for the month.

LOCAL SECTOR RETURNS IN ZAR

2018	October 2019	November 2019	December 2019	Year-to-date
RESOURCES 15.55%	RESOURCES 7.32%	RESOURCES -0.89%	RESOURCES 6.97%	RESOURCES 28.53%
GENERAL RETAILERS -7.31%	CONSUMER SERVICES 6.15%	FINANCIALS -1.47%	SA INDUSTRIALS 2.32%	CONSUMER GOODS 18.31%
FINANCIALS -8.76%	INDUSTRIALS 3.69%	SA INDUSTRIALS -2.58%	INDUSTRIALS 0.83%	SA INDUSTRIALS 8.90%
CONSUMER SERVICES -13.15%	FINANCIALS 3.59%	CONSUMER GOODS -2.77%	FINANCIALS 0.74%	CONSUMER SERVICES 2.60%
INDUSTRIALS -15.56%	CONSUMER GOODS 3.23%	GENERAL RETAILERS -2.98%	GENERAL RETAILERS 0.47%	FINANCIALS 0.63%
SA INDUSTRIALS -17.55%	GENERAL RETAILERS 1.78%	CONSUMER SERVICES -3.08%	CONSUMER GOODS 0.12%	INDUSTRIALS -8.91%
CONSUMER GOODS -23.28%	SA INDUSTRIALS 0.33%	INDUSTRIALS -3.70%	CONSUMER SERVICES 0.02%	GENERAL RETAILERS -18.37%

Source: Morningstar

Global Overview

Global equity markets continued its advance during December amidst optimism over a US-China phase one trade deal and supportive central banks. Performance was further boosted by better-than-expected economic data and the Fed's projection of keeping interest rates on hold throughout 2020. As a result, the MSCI World delivered 3.39% in dollar terms. Energy and technology stocks were the strongest-performing sectors. Energy stocks were supported by a strong rally in oil prices after the Saudi Aramco oil-processing facilities were attacked by drones, sparking fears of supply shortages. Technology stocks continued their rally into the year-end, spurred on by Amazon and Apple. While Amazon reported a strong Christmas holiday session, Apple ventured into streaming video subscriptions and concerns over weaker demand for iPhones dwindled. The industrials sector was the only sector in negative territory. The continued trade conflict with China has hit industrials stocks the hardest. On a global equity style basis, using the MSCI World style indices, quality was the top-performing style (3.63%), followed by value (3.04%), growth (2.95%) and, lastly, momentum which delivered 2.46% in dollar terms. The price of Brent crude oil increased to close at US$66.15 per barrel on the back of global supply concerns. Both global equity and global bonds were positive in dollar terms.

United States

US equity markets returned positively for the month on the back of optimism around a phase one trade deal, combined with improving activity and a steady hold on interest rates. As a result, the S&P 500 delivered 2.86% in dollar terms. The proposed phase one trade agreement would see Washington reduce tariffs and Beijing increase purchases of US farm goods. The US manufacturing Purchasing Managers' Index (PMI) was revised slightly lower to 52.5 from the previous month's 52.6, in line with expectations. The change points to a small deceleration of factory activity, from a seven-month high seen last month. Although the reading was one of the strongest in 2019, it remained below levels seen in 2018. The US Services PMI increased to 52.2 in December, from 51.6 in the previous month. The reading pointed to the sharpest expansion in the services sector since July as new orders advanced to a five-month high and new export orders grew after four consecutive monthly declines. The US unemployment rate held steady at 3.5%, remaining at the lowest level since 1969 and in line with market expectations. The number of unemployed people decreased by 58,000 to 5.75 million, while employment rose by 267,000 to 158.80 million. Payrolls jumped by 266,000 (the most since January 2019) as wages surpassed estimates, while consumer sentiment increased to a seven-month high.

Eurozone

European equity markets advanced during the month on the back of optimism over the US-China trade negotiations. As a result, the Euro Stoxx finished 1.06% higher in euro terms. The Eurozone's manufacturing PMI dropped to 45.9 in December 2019 from 46.9 in the previous month. Output contracted the most since October 2012 and employment fell at its fastest pace for more than seven years. The Eurozone's services PMI was revised higher to a four-month high of 52.8 in December 2019. The reading pointed to the fastest growth in the services sector in four months.

United Kingdom

UK equity markets returned positively during the month, amid optimism over the US-China trade negotiations and a majority win for the Conservative party. Markets rallied sharply on the news of a Conservative majority victory, buoyed by the prospect of an end to the political deadlock and a period of stability. As a result, the FTSE 100 finished 2.67% higher in pound terms. The Bank of England's Monetary Policy Committee voted to hold the base rate at 0.75% during its December meeting. In addition, Andrew Bailey was announced as Mark Carney's successor as the new governor of the Bank of England. December economic data released, suggested some signs of weakness with UK retail sales for November falling despite consensus expectations of an increase. The PMI fell to 47.5 in December, signalling a contraction in economic activity.

Spot Rates	31 December 2017	31 December 2018	31 December 2019
EUR/USD	1.20	1.15	1.12
GBP/USD	1.35	1.28	1.33
USD/JPY	112.63	109.59	108.66

Source: IRESS

Emerging Markets

Emerging markets delivered positive returns in December, outperforming its developed market counterparts. The MSCI EM index returned 7.17% while the MSCI World delivered 3.39% in dollar terms. This was largely as a result of optimism around the US-China phase one trade deal and interest rate cuts in several countries, including Brazil and Russia.

GLOBAL RETURNS IN ZAR

2018	October 2019	November 2019	December 2019	Year-to-date
GLOBAL BONDS 14.80%	MSCI EM 3.54%	S&P 500 0.81%	SHANGHAI STOCK EXCHANGE 2.56%	S&P 500 27.82%
S&P 500 11.10%	EURO STOXX 50 2.76%	MSCI WORLD -0.02%	MSCI EM 2.55%	MSCI WORLD 24.11%
GLOBAL PROPERTY 10.72%	FTSE 100 2.37%	FTSE 100 -1.01%	FTSE 100 0.45%	EURO STOXX 50 22.37%
MSCI WORLD 6.07%	MSCI WORLD 1.88%	EURO STOXX 50 -1.17%	EURO STOXX 50 -1.68%	SHANGHAI STOCK EXCHANGE 21.81%
FTSE 100 -0.16%	GLOBAL PROPERTY 1.74%	MSCI EM -2.86%	S&P 500 -1.69%	GLOBAL PROPERTY 20.64%
MSCI EM -0.73%	S&P 500 1.50%	GLOBAL BONDS -3.46%	MSCI WORLD -1.71%	FTSE 100 18.63%
EURO STOXX 50 -2.69%	SHANGHAI STOCK EXCHANGE 1.35%	GLOBAL PROPERTY -3.84%	GLOBAL BONDS -4.01%	MSCI EM 15.12%
SHANGHAI STOCK EXCHANGE -17.08%	GLOBAL BONDS 0.01%	SHANGHAI STOCK EXCHANGE -4.26%	GLOBAL PROPERTY -4.24%	GLOBAL BONDS 3.86%

Source: Morningstar