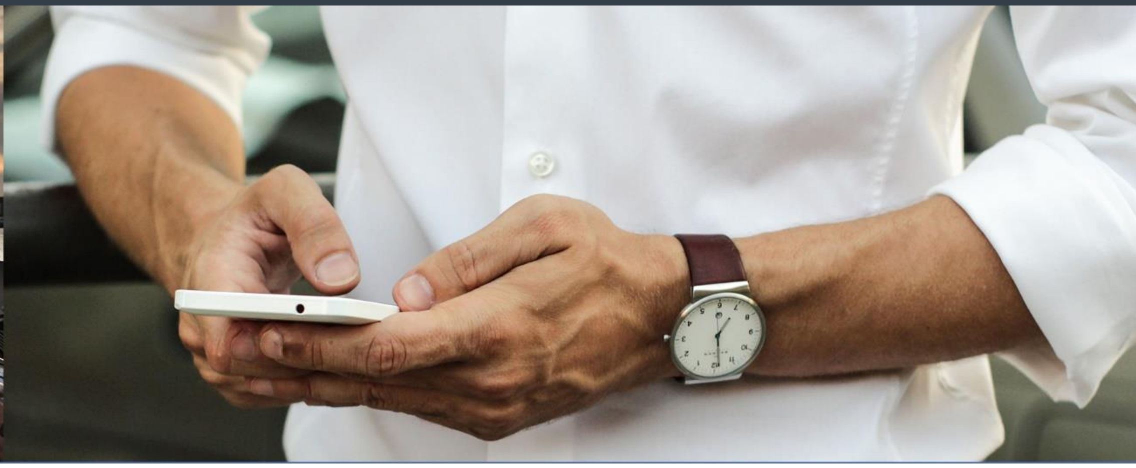
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



17 April 2019

Review period: March 2019

Domestic Overview

South African equity markets continued to rally in March, albeit at a slower rate than the previous month. The uptick came on the back of a weakening of the rand - that was supportive to rand-hedge counters - which drove returns of large-caps and thereby lifted the overall index despite the downturn in small-caps and mid-caps.

Domestic Highlights in March 2019

- SARB Monetary Policy Committee (MPC)
- Moody's credit rating

SARB Monetary Policy Committee

The South African Reserve Bank unanimously decided to keep the benchmark repo rate unchanged at 6.75% in its March 2019 meeting, in line with market expectations. The central bank further went on to revise its growth forecast of the SA economy downward, highlighting global and domestic headwinds. Low business confidence and power supply issues were cited as key domestic headwinds confronting the SA economy, as these would weigh negatively on consumers' disposable income. In terms of inflation, the central bank assessed the South African outlook to be evenly balanced and for the inflation forecast to remain broadly the same for the following two years, and slightly lower in 2021. Core inflation was revised marginally downward on the back of what the MPC observed as a moderation in unit labour costs.

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Moody’s credit rating

South Africa escaped a downgrade and junk status rating yet again as Moody’s rating agency decided not to release its sovereign debt rating for the country. The market was generally expecting a result and had priced in a downgrade from stable to negative. Moody’s not only gave some leeway for the country’s imminent elections but also gave the country another opportunity to improve its economic policy outlook and implement some of the reforms being spoken about by the current political regime. Seemingly the rating agency has taken a “wait and see” stance until its next credit rating report. South Africa was not the only country that Moody’s decided to skip, as the scheduled rating of a few other sovereign issuers was also postponed. The rating agency did not provide a reason for not releasing its rating and is not compelled by any regulation to provide a rating at a scheduled date.

South Africa: Economy

The seasonally adjusted Absa Purchasing Managers’ Index fell to 45 points in March, down from 46.2 points in February. This was led by a fall in new orders output and business activity, all resulting from Eskom’s recent power cuts. The negative economic picture was further exacerbated by a fall in business confidence. The RMB/BER confidence index declined to 28 point in the first quarter of 2019, down from 31 points in the previous quarter. Construction, retail, manufacturing and new vehicle sales were amongst the leading contributors to the decline. Domestic economic growth faces headwinds relating to global growth slowdown and power supply issues emanating from the financially-troubled power utility, Eskom.

	Oct’18	Nov’18	Dec’18	Jan’19	Feb’19	Mar’19
CPI (y/y)	5.1%	5.2%	4.5%	4.0%	4.1%	-
PPI (y/y)	6.9%	6.8%	5.2%	4.1%	4.7%	-

Sources: Trading Economics

	31 March 2017	31 March 2018	31 March 2019
USD/ZAR	13.41	11.82	14.49
GBP/ZAR	16.62	16.60	18.88
EUR/ZAR	14.29	14.58	16.26

Source: IRESS

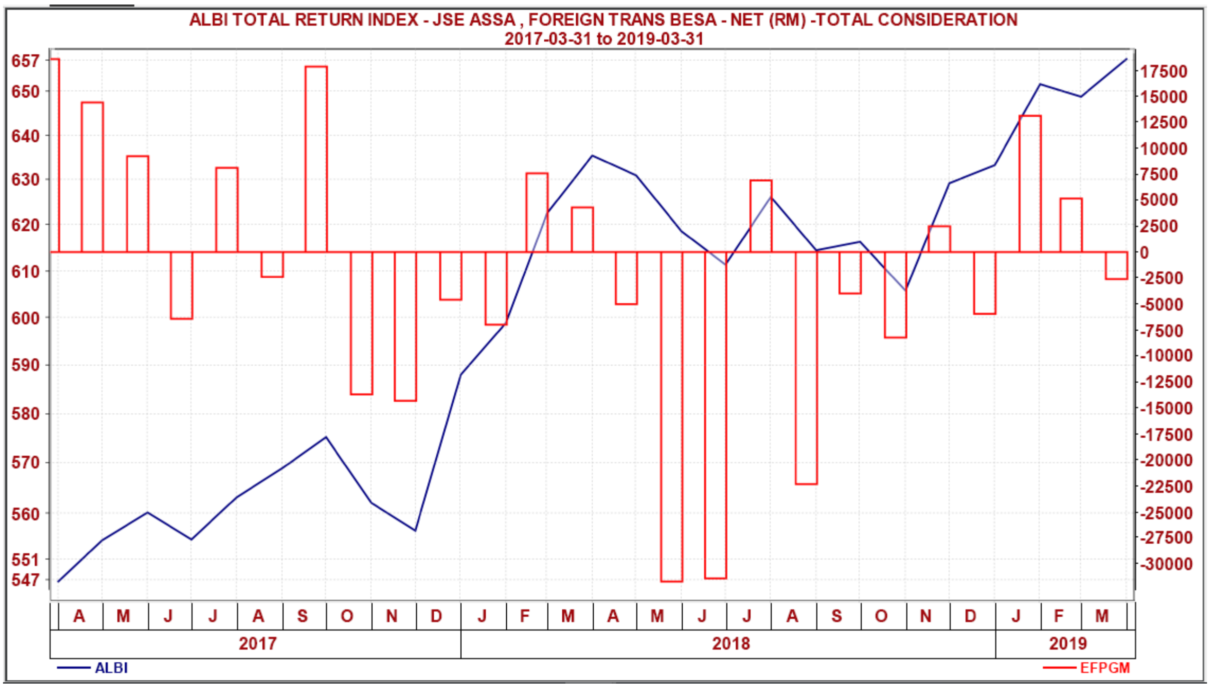
South Africa: Markets

The local equity market delivered a return of 1.56%. The weakening of the rand was supportive to rand-hedge counters, which drove the returns of large-caps and lifted the overall index, despite the downturn in small-caps and mid-caps. Small-cap shares were the biggest losers for the month, giving up 2.71%, alongside losses from mid-cap stocks which lost 1.82%. SA property continued its downward trend in March, booking a loss of 1.46%. SA bonds and SA cash were amongst the positive contributors for the month, albeit producing gains that were subdued. Bonds were up 1.33%, while Cash added 0.61% for the month.

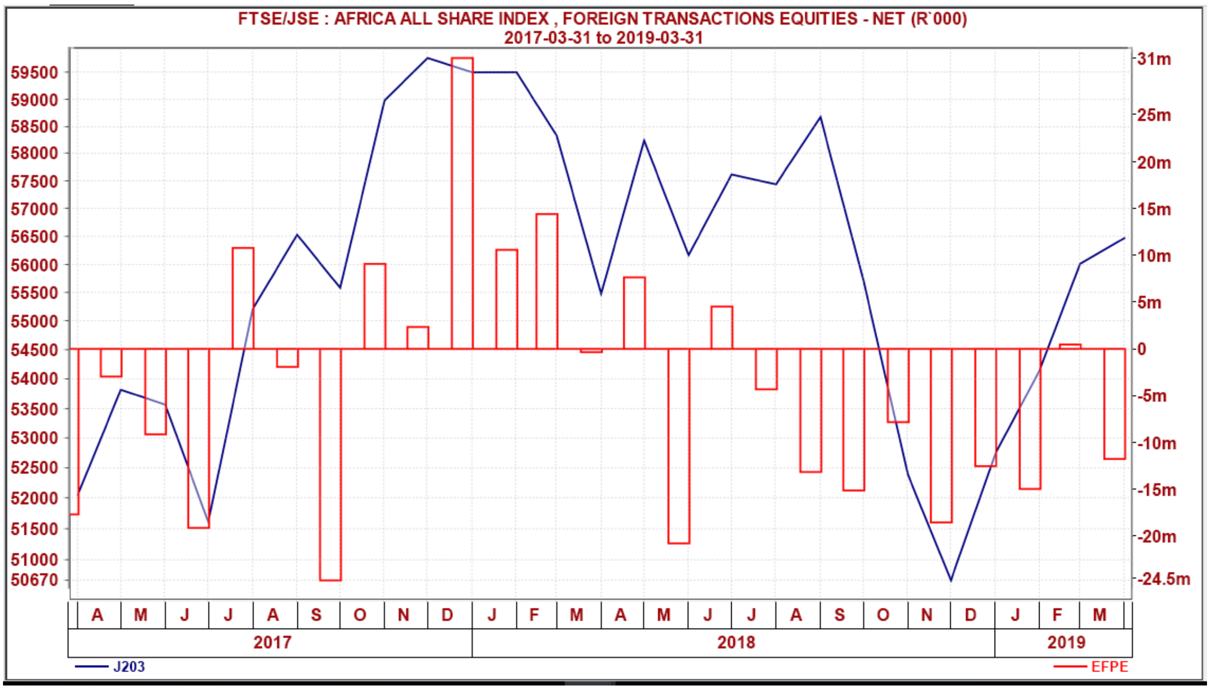
LOCAL RETURNS IN ZAR				
2018	**January 2019**	**February 2019**	**March 2019**	**Year-to-date**
SA BONDS 7.69%	SA PROPERTY 8.03%	SA TOP 40 3.57%	SA TOP 40 1.94%	SA TOP 40 8.45%
SA CASH 7.25%	SA TOP 40 7.61%	SA EQUITY 3.41%	SA EQUITY 1.56%	SA EQUITY 7.97%
SA TOP 40 -8.31%	SA EQUITY 7.18%	SA MID CAPS 2.28%	SA BONDS 1.33%	SA BONDS 3.81%
SA EQUITY -8.53%	SA MID CAPS 5.79%	SA CASH 0.55%	SA CASH 0.61%	SA MID CAPS 2.76%
SA MID CAPS -9.73%	SA BONDS 3.56%	SA BONDS -0.44%	SA PROPERTY -1.46%	SA CASH 1.77%
SA SMALL CAPS -14.59%	SA CASH 1.21%	SA SMALL CAPS -2.71%	SA MID CAPS -1.82%	SA PROPERTY 1.45%
SA PROPERTY -25.26%	SA SMALL CAPS 1.18%	SA PROPERTY -5.70%	SA SMALL CAPS -2.71%	SA SMALL CAPS -3.41%

Source: Morningstar

Foreigners were net sellers of R2.61 billion worth of SA bonds and were net sellers of R12.19 billion worth of SA equities



Source: IRESS March 2019



Source: IRESS March 2019

In terms of sectors, Resources continued to rally - delivering a return of 4.66% for the month - and led the sector followed by SA industrials (+2.86%). Financials, however, continued to take a dive and shed 4.04% for the month.

LOCAL SECTOR RETURNS IN ZAR				
2018	**January 2019**	**February 2019**	**March 2019**	**Year-to-date**
RESOURCES 15.55%	FINANCIALS 5.96%	CONSUMER GOODS 12.63%	RESOURCES 4.66%	RESOURCES 17.85%
GENERAL RETAILERS -7.31%	INDUSTRIALS 3.93%	RESOURCES 9.06%	SA INDUSTRIALS 2.86%	CONSUMER GOODS 12.38%
FINANCIALS -8.76%	RESOURCES 3.25%	SA INDUSTRIALS 3.53%	CONSUMER GOODS 1.83%	SA INDUSTRIALS 7.42%
CONSUMER SERVICES -13.15%	CONSUMER SERVICES 2.22%	CONSUMER SERVICES 2.22%	CONSUMER SERVICES -2.23%	CONSUMER SERVICES 2.15%
INDUSTRIALS -15.56%	SA INDUSTRIALS 0.88%	FINANCIALS -2.09%	FINANCIALS -4.04%	FINANCIALS -0.45%
SA INDUSTRIALS -17.55%	CONSUMER GOODS -2.02%	INDUSTRIALS -2.34%	GENERAL RETAILERS -5.30%	INDUSTRIALS -3.90%
CONSUMER GOODS -23.28%	GENERAL RETAILERS -5.28%	GENERAL RETAILERS -4.34%	INDUSTRIALS -5.32%	GENERAL RETAILERS -14.20%

Source: Morningstar

Global Overview

Global equity markets ended the month of March in positive territory, buoyed by more dovish central banks and hopes for a truce on trade wars between the US and China. In addition, market expectations that the US Federal Reserve will not raise interest rates this year, further bolstered returns. As a result, the MSCI World Index delivered +1.01% in dollar terms over the month. The technology stocks were the strongest performing sector over the month, while financial stocks were amongst the weakest, primarily due to the decision to not to raise interest rates this year. The price of Brent crude oil closed at US$60 a barrel, amid signs of diminishing supplies from Siberia to the US shale fields as well as reduction in supply from major exporters such as Russia and Saudi Arabia. Both Global Bonds and Global Equity were positive in dollar terms during the month.

United States

US equity markets returned positively for the month, amid hopefulness over the US-China trade negotiations and a softer approach by the Federal Reserve on interest rates. As a result, the S&P 500 finished 1.79% higher in dollar terms. On the macroeconomic front, US economic growth slowed by more than initially reported last quarter, on revisions to consumer and government spending, indicating rising challenges to the economic expansion. Despite a weaker growth, US labour markets have held up well so far, with unemployment continuing to decline to 3.8% in February, and wage growth picking up.

Eurozone

European equity markets advanced during the month, delivering their third consecutive rally, despite a weaker growth forecast. Market returns were bolstered by a revised guidance to leave interest rates unchanged. The Eurozone manufacturing PMI declined to 47.5 and the new export orders component declined to 44.8, showing little sign of an improvement in the outlook. In addition, Eurozone industrial production is down 2.5% since its peak in December 2017. Despite a weaker growth, Eurozone labour markets have held up well so far, with unemployment continuing to decline to 7.8%. The European Central Bank (ECB) also kept the deposit rate stable at -0.4% and said it would not raise rates until at least next year.

United Kingdom

UK equity markets returned positively during the month, despite continued Brexit uncertainty. On the economic front, the UK Manufacturing Purchasing Manager's Index rose to 55.1 from 52.1 in February, showing an increase in activity during the month. The UK economy was supported by a strong labour market, with unemployment at 3.9% and wages rising by 3.4% y/y for January. The Bank of England's Monetary Policy Committee voted to maintain UK interest rates at 0.75% during its March meeting.

Spot Rates	31 March 2017	31 March 2018	31 March 2019
EUR/USD	1.06	1.24	1.12
GBP/USD	1.25	1.40	1.30
USD/JPY	111.40	106.28	110.83

Source: IRESS

Emerging Markets

Emerging markets registered positive returns in March, underperforming their developed market counterpart. The MSCI EM index returned 0.68%, while the MSCI World delivered 1.05% in dollar terms. This was largely as a result of sentiment lifted by a hold on US interest rate rises and optimism over the US-China trade negotiations.

GLOBAL RETURNS IN ZAR

2018	January 2019	February 2019	March 2019	Year-to-date
GLOBAL BONDS 14.80%	GLOBAL PROPERTY 2.25%	SHANGHAI STOCK EXCHANGE 21.81%	SHANGHAI STOCK EXCHANGE 8.25%	SHANGHAI STOCK EXCHANGE 30.27%
S&P 500 11.10%	MSCI EM 0.33%	EURO STOXX 50 9.79%	GLOBAL PROPERTY 6.04%	GLOBAL PROPERTY 14.76%
GLOBAL PROPERTY 10.72%	S&P 500 -0.36%	FTSE 100 9.59%	S&P 500 4.56%	S&P 500 13.93%
MSCI WORLD 6.07%	MSCI WORLD -0.57%	S&P 500 9.36%	MSCI WORLD 3.92%	MSCI WORLD 12.76%
FTSE 100 -0.16%	SHANGHAI STOCK EXCHANGE -1.21%	MSCI WORLD 9.14%	GLOBAL BONDS 3.85%	FTSE 100 12.31%
MSCI EM -0.73%	FTSE 100 -1.26%	MSCI EM 6.19%	FTSE 100 3.79%	EURO STOXX 50 10.46%
EURO STOXX 50 -2.69%	EURO STOXX 50 -2.31%	GLOBAL PROPERTY 5.84%	MSCI EM 3.43%	MSCI EM 10.19%
SHANGHAI STOCK EXCHANGE -17.08%	GLOBAL BONDS -6.35%	GLOBAL BONDS 5.34%	EURO STOXX 50 2.98%	GLOBAL BONDS 2.46%

Source: Morningstar