ECONOMIC REPORT

by Glacier Research

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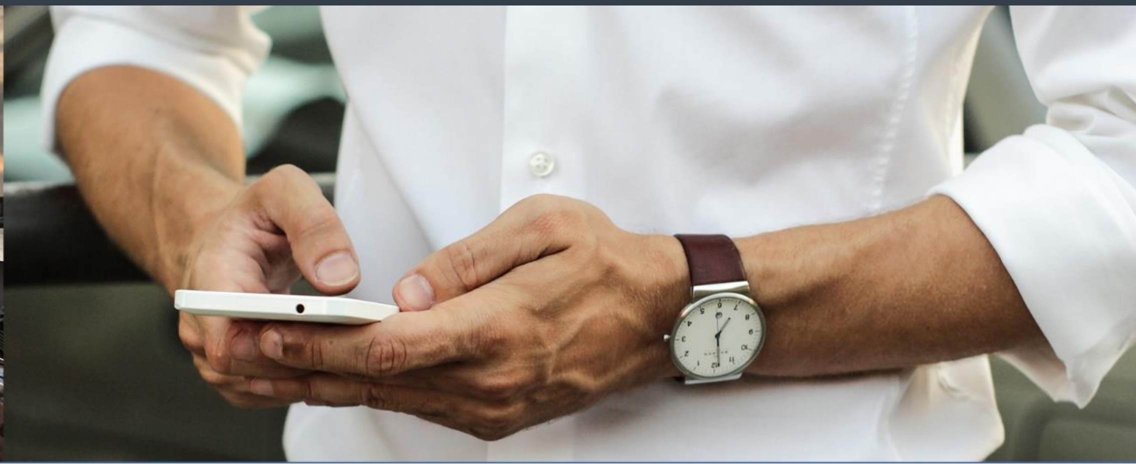

21 June 2019

Review period: May 2019

Domestic Overview

South African equity markets ended the month of May lower, erasing all the gains of the previous month. It was a classic case of the investment adage “sell in May and go away” as equity markets offered no place for investors to hide. Global risk-off sentiment (resulting from escalating trade tensions between the US and China) dampened emerging market equities while investors sought refuge in global bonds.

Domestic Highlights in April 2019

- Rand weakness
- South African Reserve Bank (SARB) interest rate decision

Rand weakness

The South African rand suffered a seven-month low, breaching the R14.80/dollar mark on the 29th of May to end the month 2.0% lower. The dip in the rand came as a result of global trade tensions between the US and China which escalated, leaving emerging market sentiment dampened once more. Another key factor that sent the currency on a downward spiral was the rebalancing of the MSCI Emerging Marker Index which reduced the weighting of South Africa, triggering outflows from index funds. Local political uncertainty, following the general elections, was not helpful either as President Cyril Ramaphosa delayed the announcement of his new cabinet.

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SARB interest rate decisions

The SARB kept interest rates unchanged at 6.75% and in line with consensus. Of interest to the market were the voting patterns of the monetary policy committee. Two of the five committee members voted for a rate cut, signaling the dovish disposition that the SARB could express in future. It went further to highlight that risks were on the downside as a result of US-China trade war. The SARB revised its CPI forecast to 4.5%, 5.1% and 4.6% for 2019, 2020, and 2021, respectively. The downward revision of the forecast was on the back of lower food inflation, services inflation, rentals, and unit labour costs.

South Africa: Economy

The much anticipated general elections saw the ANC regain yet another majority status in South Africa, albeit having experienced a voter decline. The hype and euphoria of the elections were met with the release of deteriorating unemployment figures. SA unemployment for the first quarter of 2019 ticked up another 0.5% to 27.6%, the highest it has been since the last quarter of 2017. Adding fuel to the fire, the OECD cut SA's growth forecast from 1.7% to 1.2%, citing unemployment and structural reforms as key hurdles for growth. This came after the IMF revised their forecast the previous month. The SARB, in its May meeting, also reduced SA's growth forecast to 1%, down from 1.3%.

	Dec'18	Jan'19	Feb'19	Mar'19	Apr'19	May'19
CPI (y/y)	4.5%	4.0%	4.1%	4.5%	4.4%	4.5%
PPI (y/y)	5.2%	4.1%	4.7%	6.2%	6.5%	-

Sources: Trading Economics

	31 May 2017	31 May 2018	31 May 2019
USD/ZAR	13.07	12.69	14.58
GBP/ZAR	16.83	16.88	18.42
EUR/ZAR	14.69	14.85	16.28

Source: IRESS

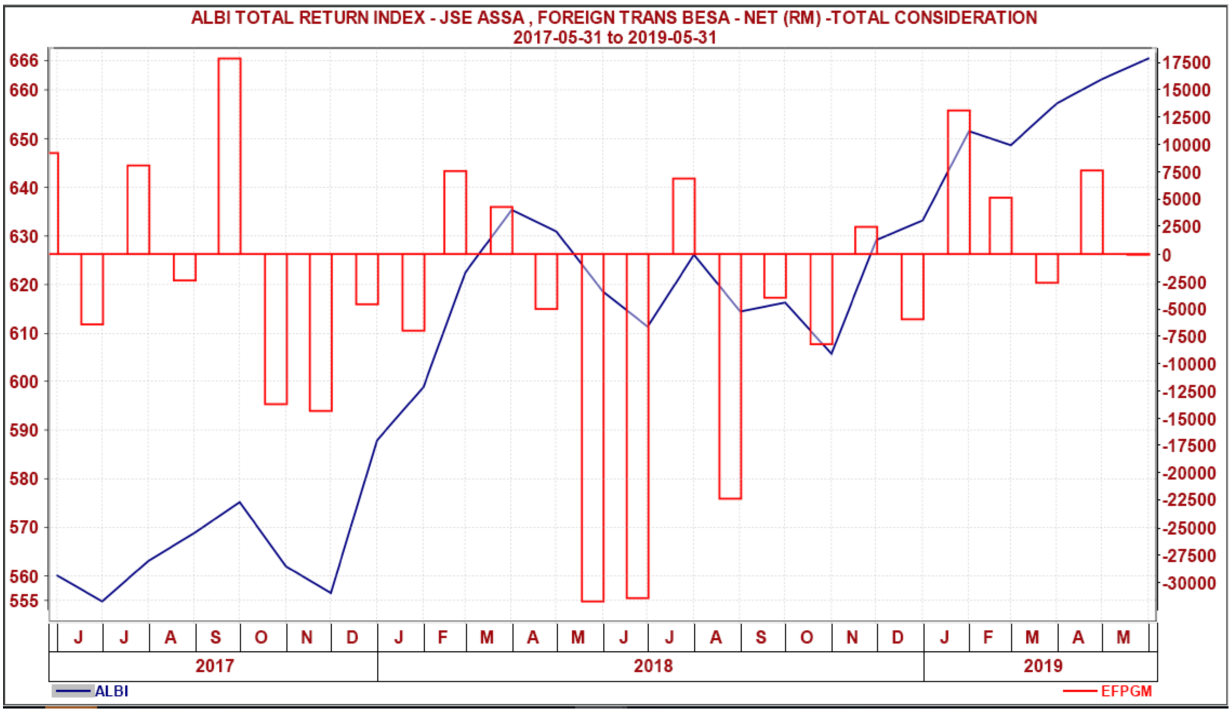
South Africa: Markets

Global risk-off sentiment drove the local equity market lower, suffering a loss of 4.84% for the month of May – wiping out and reversing all the gains made in the previous month. Equity markets offered no place to hide as all sectors ended the month in negative territory. Large-cap stocks were the losers of the month, shedding 5.09% despite the weaker rand which typically cushions rand-hedge counters in domestic downturns. Mid-cap and small-cap stocks gave up 3.53% and 2.68%, while SA property surrendered 2.04%. SA bonds and cash were the leading performers, delivering muted gains of 0.64% and 0.61%.

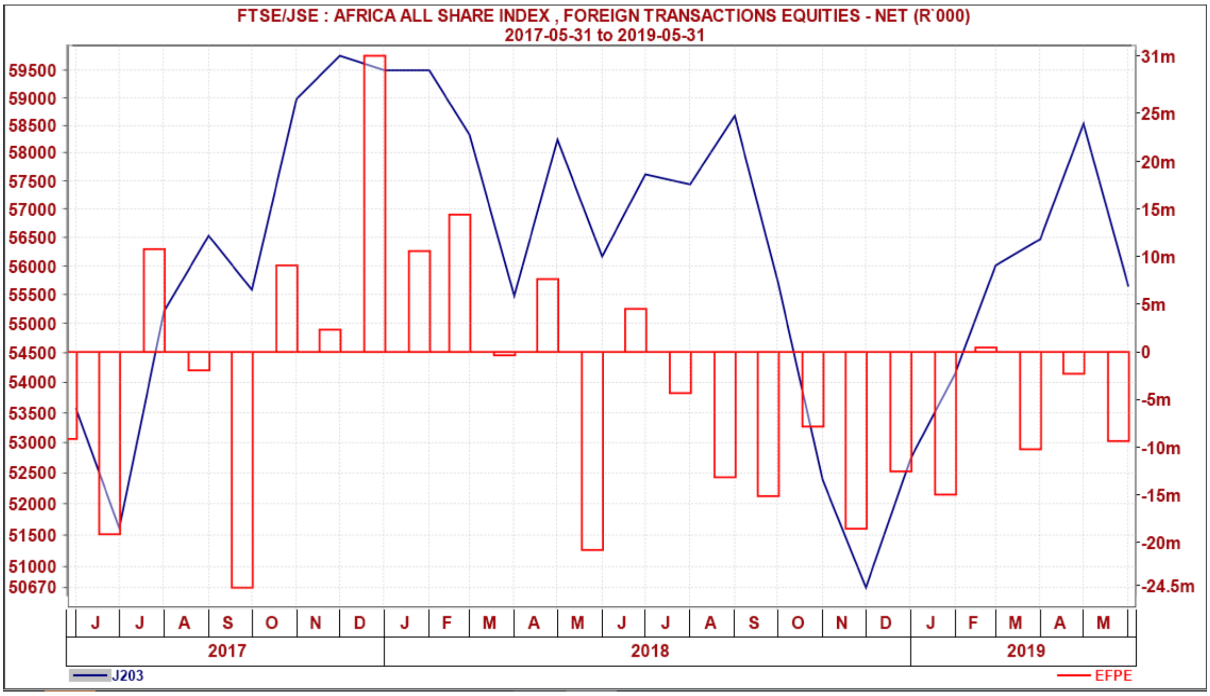
LOCAL RETURNS IN ZAR				
2018	March 2019	April 2019	May 2019	Year-to-date
SA BONDS 7.69%	SA TOP 40 1.94%	SA SMALL CAPS 4.82%	SA BONDS 0.64%	SA TOP 40 7.64%
SA CASH 7.25%	SA EQUITY 1.56%	SA TOP 40 4.58%	SA CASH 0.61%	SA EQUITY 7.09%
SA TOP 40 -8.31%	SA BONDS 1.33%	SA EQUITY 4.23%	SA PROPERTY -0.87%	SA BONDS 5.26%
SA EQUITY -8.53%	SA CASH 0.61%	SA PROPERTY 3.17%	SA SMALL CAPS -2.68%	SA PROPERTY 3.76%
SA MID CAPS -9.73%	SA PROPERTY -1.46%	SA MID CAPS 2.64%	SA MID CAPS -3.53%	SA CASH 3.00%
SA SMALL CAPS -14.59%	SA MID CAPS -1.82%	SA BONDS 0.75%	SA EQUITY -4.84%	SA MID CAPS 1.76%
SA PROPERTY -25.26%	SA SMALL CAPS -2.71%	SA CASH 0.59%	SA TOP 40 -5.09%	SA SMALL CAPS -1.47%

Source: Morningstar

Foreigners were net sellers of R9.33 billion worth of SA equities and R64.08 million worth of SA bonds.



Source: IRESS May 2019



Source: IRESS May 2019

In terms of sectors, resources continued their losing streak, giving up 5.09% for the month as lower commodity prices outweighed the effects of a weaker rand. Industrials (-3.88%) and financials (-2.31%) ended lower as well.

LOCAL SECTOR RETURNS IN ZAR

2018	March 2019	April 2019	May 2019	Year-to-date
RESOURCES 15.55%	RESOURCES 4.66%	GENERAL RETAILERS 10.05%	CONSUMER GOODS -2.06%	RESOURCES 9.56%
GENERAL RETAILERS -7.31%	SA INDUSTRIALS 2.86%	CONSUMER SERVICES 6.75%	FINANCIALS -2.31%	CONSUMER GOODS 9.49%
FINANCIALS -8.76%	CONSUMER GOODS 1.83%	SA INDUSTRIALS 6.59%	CONSUMER SERVICES -3.14%	SA INDUSTRIALS 7.68%
CONSUMER SERVICES -13.15%	CONSUMER SERVICES -2.23%	FINANCIALS 6.55%	INDUSTRIALS -3.88%	CONSUMER SERVICES 5.61%
INDUSTRIALS -15.56%	FINANCIALS -4.04%	INDUSTRIALS 6.33%	RESOURCES -5.09%	FINANCIALS 3.63%
SA INDUSTRIALS -17.55%	GENERAL RETAILERS -5.30%	CONSUMER GOODS -0.52%	SA INDUSTRIALS -5.95%	INDUSTRIALS -1.77%
CONSUMER GOODS -23.28%	INDUSTRIALS -5.32%	RESOURCES -2.05%	GENERAL RETAILERS -6.25%	GENERAL RETAILERS -11.48%

Source: Morningstar

Global Overview

Global equity markets ended the month of May in negative territory amidst escalating trade tensions and fears of slower global economic growth. During the month, trade negotiations broke down when the US increased the tariff rate on Chinese imports and announced that it may impose a 25% tariff on the remaining USD300 billion worth of Chinese imports. This led to China retaliating by increasing the tariffs on USD60 billion worth of imports from the US. As a result, the MSCI World delivered -6.08% in dollar terms over the month. Real estate stocks were the only positive performing sector over the month. Energy stocks were the weakest performing sector amid concerns over global demand. Tech stocks fell, following moves by the US government against the telecoms giant, Huawei. The price of Brent crude oil fell sharply to close at US$64 a barrel, which reached a three-month low in May. Global equity was negative and global bonds were positive in dollar terms during the month.

United States

US equity markets returned negatively for the month, on the back of weaker market sentiment in the face of escalating trade wars. In addition, sentiment further soured as President Donald Trump threatened higher tariffs on Mexican goods. As a result, the S&P 500 finished negatively delivering -6.58% in dollar terms. On the macroeconomic front, the US manufacturing purchasing managers' index (PMI) fell in May. The PMI fell to 50.6 (revised to 50.5), while the new orders component fell below 50 into contractionary territory. US consumer confidence is proving resilient with May's reading increasing to a strong 134.1 from 129.2 last month. The US unemployment rate remained at 3.6% in May and wage growth picked up to 3.4% y/y.

Eurozone

European equity markets sold off during the month, ending the four consecutive month rally. The European Parliament elections was the focus during the month, yielding a generally positive result. On the macroeconomic front, the Eurozone manufacturing PMI fell to 47.7 with the new export orders component still in contractionary state. The Eurozone consumer confidence picked up in May to its highest level this year. The unemployment rate fell slightly to 7.6% in the May.

United Kingdom

UK equity markets returned negatively during the month, amid renewed trade tensions and the fall in the price of Brent Crude oil. During the month the prime minister, Theresa May announced that she would be stepping down on 7 June as the factions in parliament refused to back her deal. In its May meeting the Bank of England monetary policy committee, decided to hold the interest rate steady, whilst raising its growth forecast for the year to 1.6%. The unemployment rate remained at 3.8%, while consumer spending rose, supported by strong employment data and improved trading conditions.

Spot Rates	31 May 2017	31 May 2018	31 May 2019
EUR/USD	1.12	1.16	1.11
GBP/USD	1.28	1.32	1.26
USD/JPY	110.86	108.81	108.29

Source: IRESS

Emerging Markets

Emerging markets registered negative returns in May, underperforming its developed market counterpart. The MSCI EM Index returned -7.53%, while the MSCI World delivered -6.08% in dollar terms. This was largely as a result of renewed US-China trade tension and global growth concerns.

GLOBAL RETURNS IN ZAR

2018	March 2019	April 2019	May 2019	Year-to-date
GLOBAL BONDS 14.80%	SHANGHAI STOCK EXCHANGE 8.25%	EURO STOXX 50 4.51%	GLOBAL BONDS 2.92%	SHANGHAI STOCK EXCHANGE 19.92%
S&P 500 11.10%	GLOBAL PROPERTY 6.04%	S&P 500 3.44%	GLOBAL PROPERTY 1.72%	GLOBAL PROPERTY 15.06%
GLOBAL PROPERTY 10.72%	S&P 500 4.56%	MSCI WORLD 2.94%	MSCI WORLD -4.32%	S&P 500 12.06%
MSCI WORLD 6.07%	MSCI WORLD 3.92%	FTSE 100 1.77%	EURO STOXX 50 -4.61%	MSCI WORLD 11.06%
FTSE 100 -0.16%	GLOBAL BONDS 3.85%	MSCI EM 1.50%	FTSE 100 -4.64%	EURO STOXX 50 10.11%
MSCI EM -0.73%	FTSE 100 3.79%	SHANGHAI STOCK EXCHANGE -0.60%	S&P 500 -4.91%	FTSE 100 8.99%
EURO STOXX 50 -2.69%	MSCI EM 3.43%	GLOBAL BONDS -0.88%	MSCI EM -5.82%	MSCI EM 5.33%
SHANGHAI STOCK EXCHANGE -17.08%	EURO STOXX 50 2.98%	GLOBAL PROPERTY -1.44%	SHANGHAI STOCK EXCHANGE -7.39%	GLOBAL BONDS 4.52%

Source: Morningstar