

22 July 2019

Review period: June 2019

Domestic Overview

South African equity markets ended the month of June higher, erasing losses of the previous month. The recovery was on the back of a shift in global sentiment from risk-off to risk-on as trade tensions between the US and China eased alongside global market expectations for the US Federal Reserve to cut rates

Domestic Highlights in June 2019

- State of the Nation Address (SONA)
- Gross Domestic Product (GDP) growth

SONA

On the 20th of June 2019, President Cyril Ramaphosa delivered his third SONA though his first as the newly-elected President of South Africa. Notable highlights from the SONA include:

- The tabling of an appropriation bill to allocate R230 billion to Eskom over the next 10 years. This is on top of the R69 billion bailout that was allocated by the Finance Minister in his February budget speech.
- The re-affirmation of the constitutional mandate of the South African Reserve Bank (SARB) which was on the back of threats from some leaders of the ruling party.
- The commitment from the President to recover public funds that were stolen by civil servants, amounting to approximately R14.7 billion.

- The implementation of a plan to create 2 million jobs for young people over the next 10 years.
- The identification and release of public land that is suitable for urban settlement and farming.

GDP growth

South Africa's economy declined 3.2% in the first quarter of 2019. The fall was much more marked than expected and the largest quarterly decline in a decade as slowing global growth and the impact of power outages were the key factors of the slump. The main drivers of the decline were agriculture (-13.2%), mining (-10.8%) and manufacturing (-8.8%). On the expenditure side, exports contracted alongside a decline in household expenditure and fixed capital formation. In contrast, government spending increased. In terms of the future outlook and projections, the World Bank has revised South Africa's growth forecast down to 1.1% for 2019.

South Africa: Economy

Business confidence (as measured by the RMB/BER BCI) was flat at 28 on the back of a slump in the South African economy. This is the lowest level since mid-2017. While sentiment marginally improved in building, retail and wholesale, confidence amongst new vehicle dealers and manufacturers declined. Consumer confidence, however, rose from 2 points in the first quarter to 5 points in the second quarter as power outages at Eskom subsided and the election outcome lifted confidence. The ABSA PMI rose to 46.2 in June, up from 45.4 in the prior month with business activity and new sales order falling at a slower rate.

	Jan'19	Feb'19	Mar'19	Apr'19	May'19	June'19
CPI (y/y)	4.0%	4.1%	4.5%	4.4%	4.5%	-
PPI (y/y)	4.1%	4.7%	6.2%	6.5%	6.4%	-

Sources: Trading Economics

	30 June 2017	30 June 2018	30 June 2019
USD/ZAR	13.06	13.73	14.09
GBP/ZAR	16.97	18.12	17.88
EUR/ZAR	14.91	16.04	16.02

Source: IRESS

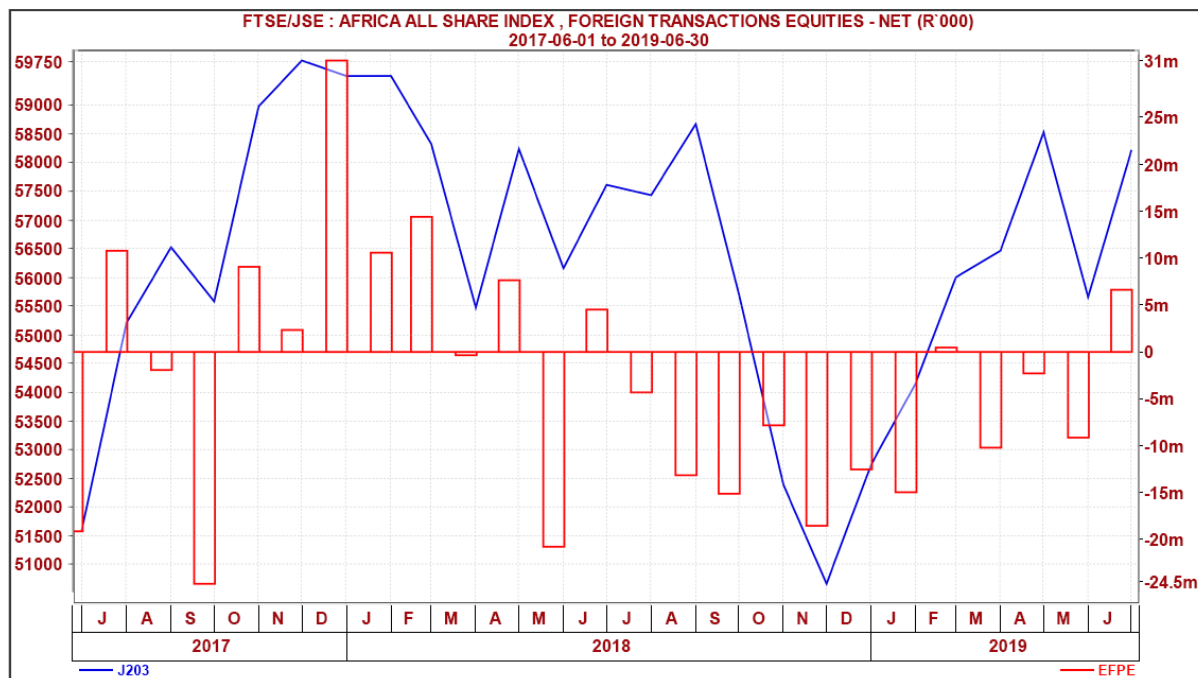
South Africa: Markets

Markets staged a recovery in June, reversing the sharp losses experienced in May as trade tensions between the US and China abated while market optimism on the potential easing of global monetary policy also helped lift sentiment. Equity markets rallied 4.78% for the month with large-cap stocks bagging the largest gains (+5.39%) despite the rand strength, while mid-cap stocks advanced 2.46%. Small-cap stocks, however, declined 0.16%. SA property recorded a gain of 1.54%. SA bonds delivered gains of 2.27% while SA cash recorded muted gains of 0.59%.

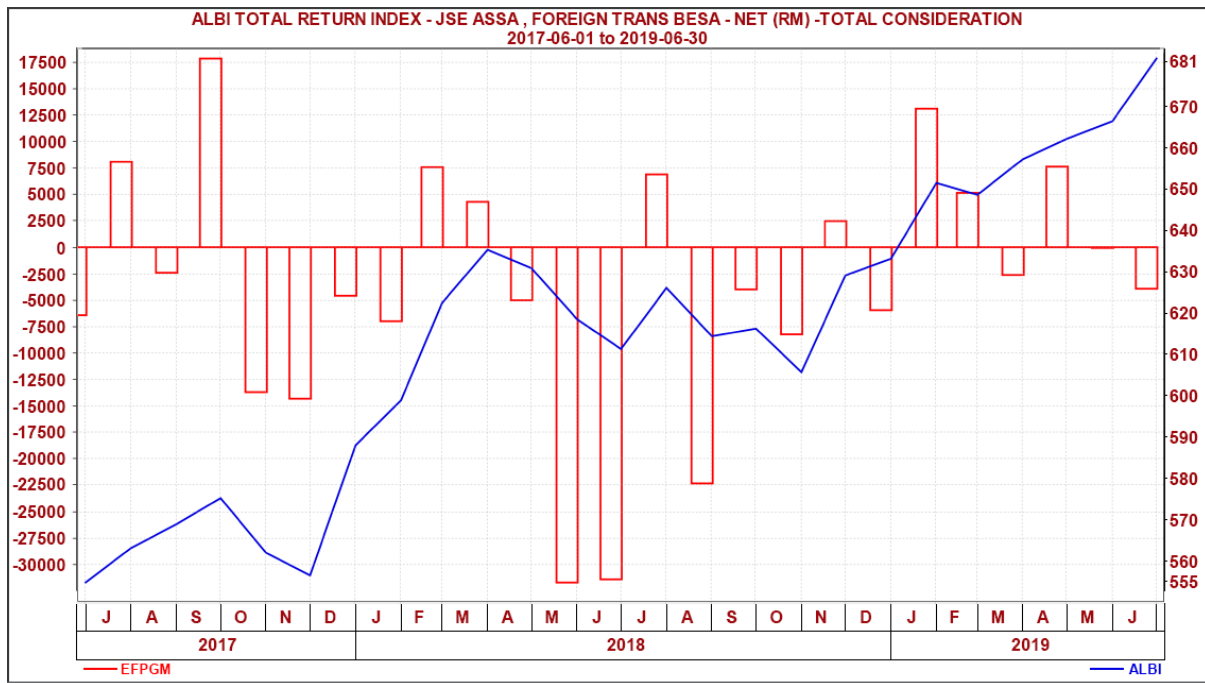
LOCAL RETURNS IN ZAR				
2018	April 2019	May 2019	June 2019	Year-to-date
SA BONDS 7.69%	SA SMALL CAPS 4.82%	SA BONDS 0.64%	SA TOP 40 5.39%	SA TOP 40 13.45%
SA CASH 7.25%	SA TOP 40 4.58%	SA CASH 0.61%	SA EQUITY 4.78%	SA EQUITY 12.21%
SA TOP 40 -8.31%	SA EQUITY 4.23%	SA PROPERTY -2.04%	SA MID CAPS 2.46%	SA BONDS 7.65%
SA EQUITY -8.53%	SA MID CAPS 2.64%	SA SMALL CAPS -2.68%	SA BONDS 2.27%	SA MID CAPS 4.26%
SA MID CAPS -9.73%	SA PROPERTY 2.03%	SA MID CAPS -3.53%	SA PROPERTY 1.54%	SA CASH 3.60%
SA SMALL CAPS -14.59%	SA BONDS 0.75%	SA EQUITY -4.84%	SA CASH 0.59%	SA PROPERTY 2.76%
SA PROPERTY -24.98%	SA CASH 0.59%	SA TOP 40 -5.09%	SA SMALL CAPS -0.16%	SA SMALL CAPS -1.63%

Source: Morningstar

Foreigners were net buyers of R6.61 billion worth of SA equities and net sellers of R3.64 billion worth of SA bonds.



Source: IRESS June 2019



Source: IRESS June 2019

In terms of sectors, resources rebounded to end the month with double-digit gains of 10.16% as higher commodity prices outweighed the effects of a stronger rand. SA industrials advanced 3.76% and industrials declined -4.14%. Financials notched 1.29% higher.

LOCAL SECTOR RETURNS IN ZAR				
2018	April 2019	May 2019	June 2019	Year-to-date
RESOURCES 15.55%	GENERAL RETAILERS 10.05%	CONSUMER GOODS -2.06%	RESOURCES 10.16%	RESOURCES 20.69%
GENERAL RETAILERS -7.31%	CONSUMER SERVICES 6.75%	FINANCIALS -2.31%	CONSUMER GOODS 8.43%	CONSUMER GOODS 18.71%
FINANCIALS -8.76%	SA INDUSTRIALS 6.59%	CONSUMER SERVICES -3.14%	SA INDUSTRIALS 3.76%	SA INDUSTRIALS 11.73%
CONSUMER SERVICES -13.15%	FINANCIALS 6.55%	INDUSTRIALS -3.88%	FINANCIALS 1.29%	CONSUMER SERVICES 6.23%
INDUSTRIALS -15.56%	INDUSTRIALS 6.33%	RESOURCES -5.09%	GENERAL RETAILERS 0.84%	FINANCIALS 4.96%
SA INDUSTRIALS -17.55%	CONSUMER GOODS -0.52%	SA INDUSTRIALS -5.95%	CONSUMER SERVICES 0.59%	INDUSTRIALS -5.84%
CONSUMER GOODS -23.28%	RESOURCES -2.05%	GENERAL RETAILERS -6.25%	INDUSTRIALS -4.14%	GENERAL RETAILERS -10.74%

Source: Morningstar

Global Overview

Global equity markets ended the month of June in positive territory, buoyed by more dovish central banks globally and hopes for a truce between the US and China. In addition, expectations that the US Federal Reserve will not raise interest rates this year, further bolstered returns. As a result, the MSCI World delivered 6.46% in dollar terms over the month. The technology, materials and energy stocks were the strongest-performing sectors, all supported by optimism around global economic growth. Traditionally, defensive sectors such as healthcare, consumer staples, real estate and utilities were among the weaker performers. On a global equity style basis using the MSCI World style indices, growth was the top performing style (6.93%), followed by quality (6.91%), momentum (6.32%) and, lastly, value delivering 6.26% in dollar terms. The price of Brent crude oil rose slightly to close at US\$64.41 a barrel, supported by OPEC's decision to extend supply cuts, tensions in the Middle East and concerns surrounding Iran uranium enrichment beyond 2015. Both global bonds and global equities 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 resolution and a softer approach by the Federal Reserve on interest rates. As a result, the S&P 500 finished 6.89% higher in dollar terms. The US manufacturing purchasing managers' index (PMI) was revised upwards, marginally increasing to 50.6, while the new orders component increased at a quicker rate. US consumer confidence is proving resilient with the June reading increasing to 98.2 from 97.9 last month. The US unemployment rate rose to 3.7% in June, above expectation (3.6%), and wage growth picked up reaching 3.56% y/y. The US annual inflation rate fell to 1.6% from 1.8% in May 2019, below forecasts of 1.9%, while the core inflation rate edged up to 2.1%, below the expected 2%.

Eurozone

European equity markets closed positively for the month on the back of optimism over the US-China trade resolution and further loosening of monetary policy. ECB president Mario Draghi signalled that the central bank would further loosen monetary policy unless they see an improvement in economic data. The Eurozone composite PMI advanced to 52.2, above expectations (52.1) with growth driven by both the services and manufacturing components and new orders. Eurozone consumer confidence fell from -6.5 to -7.2 as pessimism increases on the back of growth concerns.

United Kingdom

UK equity markets returned positively during the month, amid an improving outlook for global economic growth, hopefulness of a US-China trade resolution and the accommodative tone from central banks. During the month, the Conservative Party leadership race took centre-stage with the odds suggesting Boris Johnson the favourite as the next prime minister. In its June meeting the Bank of England monetary policy committee decided to hold interest rates steady, indicating its growth forecast to be flat for the second quarter. The UK consumer confidence index declined in June, missing market consensus as global growth concerns and domestic policy uncertainty weighed on sentiment.

Spot Rates	30 June 2017	30 June 2018	30 June 2019
EUR/USD	1.14	1.16	1.13
GBP/USD	1.30	1.32	1.26
USD/JPY	112.38	110.69	107.89

Source: IRESS

Emerging Markets

Emerging markets registered positive returns in June, underperforming its developed market counterpart. The MSCI EM index returned 5.70%, while the MSCI World delivered 6.46% in dollar terms. This was largely as a result of sentiment lifted by an expectation of lower interest rates by central banks globally and optimism over the US-China trade resolution.

GLOBAL RETURNS IN ZAR				
2018	April 2019	May 2019	June 2019	Year-to-date
GLOBAL BONDS 14.80%	EURO STOXX 50 4.51%	GLOBAL BONDS 2.92%	EURO STOXX 50 4.93%	SHANGHAI STOCK EXCHANGE 21.61%
S&P 500 11.10%	S&P 500 3.44%	GLOBAL PROPERTY 1.72%	S&P 500 3.69%	S&P 500 16.20%
GLOBAL PROPERTY 10.72%	MSCI WORLD 2.94%	MSCI WORLD -4.32%	MSCI WORLD 3.25%	EURO STOXX 50 15.54%
MSCI WORLD 6.07%	FTSE 100 1.77%	EURO STOXX 50 -4.61%	MSCI EM 2.91%	MSCI WORLD 14.67%
FTSE 100 -0.16%	MSCI EM 1.50%	FTSE 100 -4.64%	FTSE 100 1.69%	GLOBAL PROPERTY 12.84%
MSCI EM -0.73%	SHANGHAI STOCK EXCHANGE -0.60%	S&P 500 -4.91%	SHANGHAI STOCK EXCHANGE 1.41%	FTSE 100 10.83%
EURO STOXX 50 -2.69%	GLOBAL BONDS -0.88%	MSCI EM -5.82%	GLOBAL BONDS -0.99%	MSCI EM 8.40%
SHANGHAI STOCK EXCHANGE -17.08%	GLOBAL PROPERTY -1.44%	SHANGHAI STOCK EXCHANGE -7.39%	GLOBAL PROPERTY -1.93%	GLOBAL BONDS 3.49%

Source: Morningstar