ECONOMIC REPORT

by Glacier Research

19 October 2018

REVIEW PERIOD: SEPTEMBER 2018

DOMESTIC OVERVIEW

The economic and market environment in South Africa remains in distress, owing to protracted volatility in emerging markets coupled with rising US yields and global trade uncertainties. September has been a month strongly characterised by negative to low return numbers as markets experienced broad headwinds that saw downturns in almost all asset classes, with the exception of sluggish positive returns from “safe haven” asset classes.

Domestic Highlights in September 2018

- Technical recession
- SARB interest rates
- Stimulus package

Technical recession

The month of September began on a negative note as Stats SA reported that the South African economy officially entered a technical recession, which is defined as two consecutive quarters of negative growth in the economy. GDP declined 0.7% in the second quarter, following a contraction of 2.2% in the preceding quarter, which was later revised to a 2.6% contraction. This was South Africa’s first technical recession since 2009. The agricultural sector (-29.2%) was the largest driver of the negative growth as the production of field crops and horticultural products declined on the back of a drought in the Western Cape and uncertainties about land expropriation.

SARB interest rates

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Stimulus package

Following Cabinet's approval of the third version of the Mining Charter and the request for the withdrawal of the bill amending the Minerals & Petroleum Resource Development Act (MPDRA), President Cyril Ramaphosa announced an economic stimulus package designed to resuscitate the economy. The stimulus package contained key initiatives to be taken immediately by government on the back of a recession coupled with deteriorating employment figures. Such initiatives include (but are not limited to):

- The establishment of a R400 billion SA infrastructure fund
- The review of the Visa regime to boost the tourism sector
- 50 billion in reprioritised expenditure targeted at agriculture, rural areas and townships
- The employment tax incentive to be extended to 10 years

South Africa: Economy

SA inflation was 4.9% in August, down from 5.1% in July and below market expectations. The downturn was driven by transport, miscellaneous goods and alcoholic beverages and tobacco. The South African Reserve Bank revised its economic growth forecast for South Africa downwards to 0.7%, down from 1.2% in the July forecast. The MPC further maintained its view that the current challenges in South Africa are primarily structural in nature. The SA economic fundamentals remain weak as political uncertainty and currency volatility continue to weigh on investors; however, government is trying to put measures for growth and stability in place.

	Apr'18	May'18	June'18	July'18	Aug'18	Sep'18
CPI (y/y)	**4.5%**	**4.4%**	**4.6%**	**5.1%**	**4.9%**	**-**
PPI (y/y)	**4.4%**	**4.6%**	**5.9%**	**6.1%**	**6.3%**	**-**

Sources: SA Reserve Bank, Statistics SA, I-Net, BER, Trading Economics, MorningStar, Reuters

	30 September 2016	30 September 2017	30 September 2018
USD/ZAR	13.71	13.54	14.15
GBP/ZAR	17.59	18.02	18.44
EUR/ZAR	15.42	16.01	16.42

Sources: SA Reserve Bank, Statistics SA, I-Net, BER, Trading Economics, MorningStar, Reuters

South Africa: Markets

South African markets ended the month of September mostly lower with muted and subdued gains from conservative asset classes. Cash returned a sluggish 0.57%, making it the lead performer for the month. Bonds delivered a muted return of 0.3% after having lost 1.87% in the preceding month. After delivering positive performance in August, SA property had a bad month in September, surrendering 2.60%. Equities was the worst performing asset class, delivering a –negative 4.17% return.

In terms of market capitalisation, the Top 40 delivered the lowest gains for the month, giving up 4.7%. Mid-caps lost 3.68%, while small-caps surrendered 1.70%. Foreigners were net sellers of R3.9 billion worth of SA bonds and R15 billion worth of SA equities.

In terms of sectors, Resources (+1.05%) took the crown as the best performing and only sector that recorded positive gains for the month. Financials and General Retailers took second and third place, returning -2.02% and -2.28% respectively. Consumer services (-5.86%), Industrials (-6.42%), SA Industrials (-7.86%) and Consumer Goods (-8.95%) all plummeted for the month.

LOCAL RETURNS IN ZAR				
2017	**July 2018**	**August 2018**	**September 2018**	**Year-to-date**
SA TOP 40 23.07%	SA BONDS 2.42%	SA TOP 40 2.42%	SA CASH 0.57%	SA CASH 5.37%
SA EQUITY 20.95%	SA CASH 0.61%	SA EQUITY 2.34%	SA BONDS 0.30%	SA BONDS 4.81%
SA PROPERTY 17.15%	SA MID CAPS 0.53%	SA PROPERTY 2.15%	SA SMALL CAPS -1.70%	SA TOP 40 -3.23%
SA BONDS 10.24%	SA EQUITY -0.25%	SA MID CAPS 1.48%	SA PROPERTY -2.60%	SA EQUITY -3.84%
SA CASH 7.56%	SA TOP 40 -0.33%	SA SMALL CAPS 1.23%	SA MID CAPS -3.68%	SA SMALL CAPS -7.81%
SA MID CAPS 7.36%	SA PROPERTY -0.50%	SA CASH 0.59%	SA EQUITY -4.17%	SA MID CAPS -12.08%
SA SMALL CAPS 2.95%	SA SMALL CAPS -1.74%	SA BONDS -1.87%	SA TOP 40 -4.70%	SA PROPERTY -22.16%

LOCAL SECTOR RETURNS IN ZAR				
2017	**July 2018**	**August 2018**	**September 2018**	**Year-to-date**
CONSUMER SERVICES 52.66%	FINANCIALS 4.66%	CONSUMER GOODS 6.80%	RESOURCES 1.05%	RESOURCES 21.02%
SA INDUSTRIALS 22.50%	CONSUMER GOODS 0.97%	RESOURCES 5.59%	FINANCIALS -2.02%	CONSUMER GOODS -5.77%
FINANCIALS 20.61%	INDUSTRIALS 0.45%	INDUSTRIALS 2.52%	GENERAL RETAILERS -2.28%	FINANCIALS -6.82%
GENERAL RETAILERS 19.00%	GENERAL RETAILERS 0.41%	SA INDUSTRIALS 1.88%	CONSUMER SERVICES -5.86%	CONSUMER SERVICES -10.46%
RESOURCES 17.90%	RESOURCES -1.40%	GENERAL RETAILERS 1.44%	INDUSTRIALS -6.42%	SA INDUSTRIALS -11.83%
INDUSTRIALS 14.73%	SA INDUSTRIALS -1.99%	CONSUMER SERVICES 1.39%	SA INDUSTRIALS -7.68%	GENERAL RETAILERS -12.49%
CONSUMER GOODS -1.12%	CONSUMER SERVICES -5.14%	FINANCIALS 0.26%	CONSUMER GOODS -8.95%	INDUSTRIALS -14.13%

GLOBAL OVERVIEW

Global equity markets ended the month of September posting positive gains, with the largest economy (US) still the leader in terms of growth. Trade tension between China and the US continued to escalate with the latest talks not resulting in any resolution. Overall, strong corporate earnings and economic growth was enough to support sentiment and see global equity markets reach new highs. In terms of performance, healthcare stocks were the strongest performing sector, indicating a relatively more defensive position given concerns around global trade.

This was followed by a strong performance in energy stocks on the back of rebounding oil prices. The price of crude oil passed US$82 per barrel at month end, driven higher by imminent US sanctions on Iran. Interest rate sensitive areas of the market such as financials were among the worst performers over the month. Both global bonds and global equities were negative in ZAR terms as the rand strengthened against the US dollar for the month.

United States

The US equity market closed the month delivering positive returns, in the face of intensifying trade tensions between the US and China. In addition the US Federal Reserve's (Fed) raised interest rates for the third time this year, citing more hikes to come. During the month US consumer confidence reached its highest level since 2000, while job and wage growth were healthier than expected. Wage growth reached its highest level since 2009, leading to an increase in retail sales growth of over 7% year-on-year.

Eurozone

European stock markets closed mostly unchanged, on the back of trade war and Italian budget challenges. As a result the financials sector was the best performing sector, closely followed by energy. Sectors such as real estate, IT and consumer staples were the weakest sectors. Eurozone headline inflation rose from 2% in August to 2.1% in September. The increase was as a result of stronger food and energy inflation.

United Kingdom

UK equity markets were weighed down by increased fears of a hard-Brexit and ongoing global trade tensions. In economic releases UK inflation as well as retail sales posted better-than-expected results, which were spurred by sustained hot weather and growth in real incomes.

Spot Rates	30 September 2016	30 September 2017	30 September 2018
EUR/USD	1.12	1.17	1.16
GBP/USD	1.29	1.33	1.30
USD/JPY	101.32	112.94	113.69

Sources: SA Reserve Bank, Statistics SA, I-Net, BER, Trading Economics, MorningStar, Reuters

Emerging Markets

Emerging markets registered negative returns in September, underperforming their developed markets counterpart. This was largely due to higher US interest rates and growing trade tensions between the US and China.

GLOBAL RETURNS IN ZAR				
2017	**July 2018**	**August 2018**	**September 2018**	**Year-to-date**
MSCI EM 24.28%	EURO STOXX 50 -0.46%	S&P 500 15.50%	SHANGHAI STOCK EXCHANGE -0.99%	S&P 500 26.38%
EURO STOXX 50 12.50%	S&P 500 -0.88%	GLOBAL PROPERTY 13.60%	FTSE 100 -1.94%	MSCI WORLD 20.52%
FTSE 100 10.95%	MSCI WORLD -1.45%	MSCI WORLD 13.24%	S&P 500 -2.86%	GLOBAL PROPERTY 15.53%
MSCI WORLD 10.81%	MSCI EM -2.33%	GLOBAL BONDS 11.97%	MSCI WORLD -2.87%	GLOBAL BONDS 11.60%
S&P 500 10.29%	GLOBAL PROPERTY -3.53%	MSCI EM 8.83%	EURO STOXX 50 -3.31%	FTSE 100 11.30%
SHANGHAI STOCK EXCHANGE 4.78%	FTSE 100 -3.61%	FTSE 100 7.18%	MSCI EM -3.93%	EURO STOXX 50 9.87%
GLOBAL PROPERTY -0.98%	GLOBAL BONDS -4.59%	EURO STOXX 50 7.10%	GLOBAL BONDS -4.25%	MSCI EM 5.53%
GLOBAL BONDS -2.78%	SHANGHAI STOCK EXCHANGE -5.84%	SHANGHAI STOCK EXCHANGE 6.19%	GLOBAL PROPERTY -5.67%	SHANGHAI STOCK EXCHANGE -8.01%