ECONOMIC REPORT

by Glacier Research

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REVIEW PERIOD: NOVEMBER 2018

DOMESTIC OVERVIEW

Low returns from aggressive asset classes continue to characterise the South African market - with low growth, global volatility and the enormous selling of South African equities being key factors. Conservative asset classes delivered positive returns for the month, with bonds taking the crown as the best performing asset class.

Domestic Highlights in November 2018

- S&P Global ratings reprieve
- IMF outlook
- SARB interest rate hike

S&P Global ratings reprieve

The rating agency kept South Africa's foreign-currency and local-currency credit rating unchanged at sub-investment grade. This is on the back of the depressed economic landscape of the country. Surprisingly, the rating agency adopted a positive stance on land expropriation which comes on the back of reassurances from President Ramaphosa. In his visit to Germany, the South African president explicitly stated that there will be no land grabs and that a smooth land reform process will be followed.

IMF outlook

The IMF visited South Africa in November. They commended the South African government's initiatives to improve governance. These initiatives are intended to provide a stable environment for investments.

While acknowledging the tailwinds on governance, the IMF continued to caution that the country is facing challenges in implementing its reforms. Such reforms include improving SOEs, creating better labour practices for job creation and promoting a competitive environment. The IMF also noted the impact of global trade tensions on the local markets and how that has caused investors to sell South African assets.

SARB interest rate hike

Interest rates for South Africa increased on 23 November. The South African Reserve Bank (SARB) announced an interest rate hike of 25 basis points to 6.75%, marking the first hike since March 2016. This sets the prime lending rate at 10.25%. The rate hike comes on the back of the risk of inflationary pressure caused by higher oil prices and a weaker exchange rate. The governor of the reserve bank, Mr Lesetja Kganyago, further stated that the bank was looking at four 25 basis point hikes by the end of 2020.

South Africa: Economy

Stats SA released the Labour Force Survey for the third quarter of 2018. The survey findings highlight that South Africa is struggling to create formal sector jobs and that the number of discouraged workers is on the rise. The seasonally adjusted ABSA PMI recorded a lower figure, falling by 0.8 index points from 43.2 to 42.4. Stats SA released retail sales data for September which fell 0.6% on a month-to-month basis.

	June'18	July'18	Aug'18	Sep'18	Oct'18	Nov'18
CPI (y/y)	**4.6%**	**5.1%**	**4.9%**	**4.9%**	**5.1%**	**5.2%**
PPI (y/y)	**5.9%**	**6.1%**	**6.3%**	**6.2%**	**6.9%**	**6.8%**

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

	30 November 2016	**30 November 2017**	**30 November 2018**
USD/ZAR	**14.08**	**13.65**	**13.86**
GBP/ZAR	**17.62**	**18.56**	**17.66**
EUR/ZAR	**14.92**	**16.18**	**15.69**

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

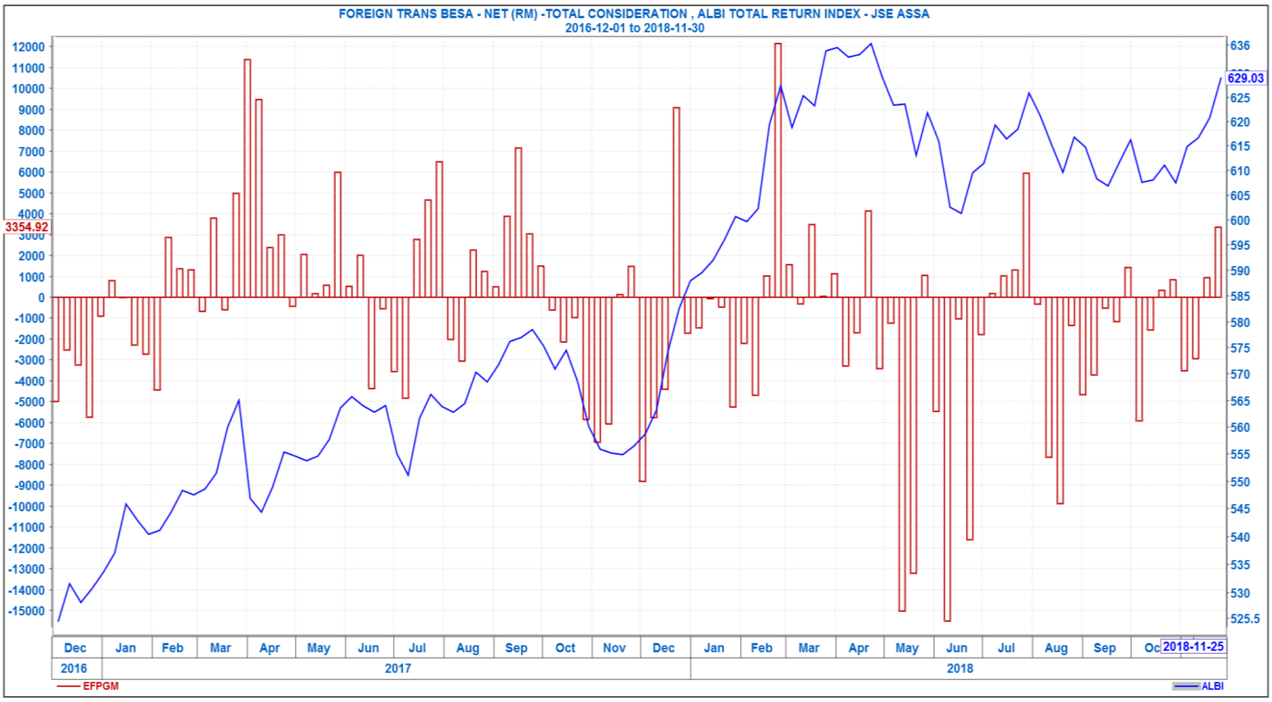
South Africa: Markets

South African markets delivered poor returns in November as only cash and bonds added to gains for the month. Bonds rebounded to advance by 3.87% after having detracted in the previous month. Cash delivered a muted return of 0.58% for the month. Property maintained its downward trend, delivering a loss of 1.29%. Similarly, equities continued a downward trajectory, delivering a negative return of 3.17%. In terms of market capitalisation, small-caps led the losses for the month, giving up 3.28%, followed by the Top 40 (-3.10%) which continued its losing streak. Mid-caps experienced a downturn, surrendering 1.40% for the month.

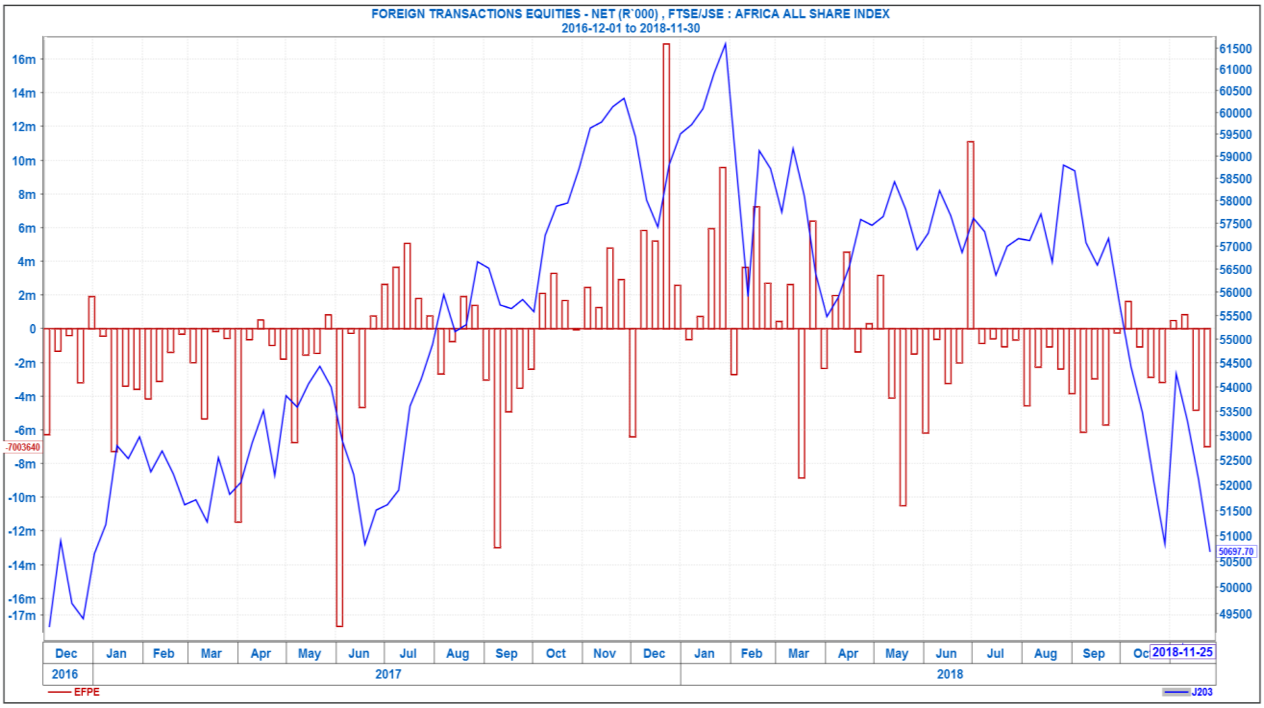
LOCAL RETURNS IN ZAR				
2017	**September 2018**	**October 2018**	**November 2018**	**Year-to-date**
SA TOP 40 23.07%	SA CASH 0.57%	SA MID CAPS 0.74%	SA BONDS 3.87%	SA BONDS 7.00%
SA EQUITY 20.95%	SA BONDS 0.30%	SA CASH 0.59%	SA CASH 0.58%	SA CASH 6.61%
SA PROPERTY 17.15%	SA SMALL CAPS -1.70%	SA PROPERTY -1.69%	SA PROPERTY -1.29%	SA EQUITY -12.26%
SA BONDS 10.24%	SA PROPERTY -2.60%	SA BONDS -1.71%	SA MID CAPS -1.40%	SA TOP 40 -12.48%
SA CASH 7.56%	SA MID CAPS -3.68%	SA SMALL CAPS -3.39%	SA TOP 40 -3.10%	SA MID CAPS -12.67%
SA MID CAPS 7.36%	SA EQUITY -4.17%	SA EQUITY -5.76%	SA EQUITY -3.17%	SA SMALL CAPS -13.86%
SA SMALL CAPS 2.95%	SA TOP 40 -4.70%	SA TOP 40 -6.67%	SA SMALL CAPS -3.28%	SA PROPERTY -24.46%

Source: Morningstar

Foreigners were net buyers of R2.4 billion worth of SA bonds and net sellers of R18.5 billion worth of SA equities.



Source: IRESS December 2018



Source: IRESS December 2018

In terms of sectors, November was a slightly better month than last month as General Retailers (+7.66%), Consumer Services (+5.96%), Industrials (+2.78%) and Financials (+0.52%) led the gains, alongside losses from SA Industrials (-0.69%), Resources (-11.5%) and Consumer Goods (-15.87%).

LOCAL SECTOR RETURNS IN ZAR

2017	September 2018	October 2018	November 2018	Year-to-date
CONSUMER SERVICES 52.66%	RESOURCES 1.05%	GENERAL RETAILERS -1.54%	GENERAL RETAILERS 7.66%	RESOURCES 2.86%
SA INDUSTRIALS 22.50%	FINANCIALS -2.02%	INDUSTRIALS -2.33%	CONSUMER SERVICES 5.96%	GENERAL RETAILERS -7.24%
FINANCIALS 20.61%	GENERAL RETAILERS -2.28%	FINANCIALS -3.19%	INDUSTRIALS 2.78%	FINANCIALS -9.32%
GENERAL RETAILERS 19.00%	CONSUMER SERVICES -5.86%	RESOURCES -3.96%	FINANCIALS 0.52%	INDUSTRIALS -13.80%
RESOURCES 17.90%	INDUSTRIALS -6.42%	CONSUMER GOODS -5.79%	SA INDUSTRIALS -0.69%	CONSUMER SERVICES -15.82%
INDUSTRIALS 14.73%	SA INDUSTRIALS -7.68%	SA INDUSTRIALS -8.00%	RESOURCES -11.50%	SA INDUSTRIALS -19.44%
CONSUMER GOODS -1.12%	CONSUMER GOODS -8.95%	CONSUMER SERVICES -11.28%	CONSUMER GOODS -15.87%	CONSUMER GOODS -25.31%

Source: Morningstar

GLOBAL OVERVIEW

Global equity markets ended the month of November in positive territory. Risk-off sentiment prevailed throughout most of the month as political events dominated headlines. However, signs that the Federal Reserve is preparing to slow down its interest rate rising programme, and increasing hopes of a truce between US-China was enough for global equity markets to deliver positively. The third quarter earnings reporting season was reasonably strong, mainly in the US, where earnings per share (EPS) grew in excess of 25%, while in Europe overall EPS growth was 10% year-on-year.

The technology sector was the worst performing sector as volatility returned - led by a poor performance from Apple due to concerns that the company had reached a ‘peak iPhone’ moment. The share prices of Facebook, Snap and Twitter also fell. Facebook fell as its public image remained under pressure. Snap and Twitter dropped as social media shares were broadly sold off. The strongest performing sectors were Healthcare, Real Estate, Materials and Utilities, leading the market. The price of crude oil slumped from a peak of US$76 a barrel in October, to end the month at US$51 a barrel.

The sharp fall was a result of supply side changes including a massive increase in US production, higher production in Saudi Arabia and exemptions on Iran sanctions. The Organisation for Economic Co-operation and Development downwardly revised its 2019 global growth forecasts (from 3.7% y/y to 3.5% y/y) after citing risks from trade tensions. Both global bonds and global equities were negative in ZAR terms as the rand strengthened against the US dollar during the month.

United States

US equity markets showed positive returns during the month as a result of a potential trade truce between the US and China. In addition, signs that the central bank is preparing to slow down interest rates added to positive sentiment. US headline inflation increased to 2.5% year-on-year, in part as a result of the oil price rally that reached its peak at the beginning of October. The recent rapid decline of the oil price indicates that inflation will gradually ease in the coming months. More importantly, core inflation declined to 2.1%, emphasising there are still very few signs of a meaningful acceleration in the underlying pace of inflation.

Eurozone

European equity markets delivered negative returns as signs of weakness returned during the month. Weaker sentiment was as a result of continued Italian budget concerns, political uncertainty in Germany, Brexit negotiations and a falling oil price as well as US-China trade tensions. The earnings reporting season in Europe failed to support market sentiment as November observed more earnings misses than hits. In economic releases, consumer confidence in the Eurozone declined more than expected and PMI indicators for November were not pleasing. The composite index fell 0.7 to 52.4, services fell to 53.1 and manufacturing to 51.5. Of the composite components, future output and employment fell the most.

United Kingdom

UK equity markets delivered negative returns for a consecutive month, as ongoing Brexit uncertainty and rapid falling oil prices weighed on sentiment. In economic releases, during Q3 of 2018 the UK economy grew at its fastest rate since 2016 despite the uncertainty around the outcome of Brexit. The unemployment rate rose to 4.1% for September but wage growth slowly picked up. Headline consumer price index inflation stabilised at 2.4% while core inflation held at 1.9% for October.

Spot Rates	30 November 2016	30 November 2017	30 November 2018
EUR/USD	1.06	1.18	1.13
GBP/USD	1.25	1.34	1.27
USD/JPY	114.69	112.01	113.5

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

Emerging Markets

Emerging markets registered negative returns in November, outperforming their developed market counterparts. This was largely boosted by optimism of slower US interest rate hikes and anticipation of a truce between the US and China.

GLOBAL RETURNS IN ZAR				
2017	September 2018	October 2018	November 2018	Year-to-date
MSCI EM 24.28%	SHANGHAI STOCK EXCHANGE -0.99%	GLOBAL BONDS 3.18%	MSCI EM -2.23%	S&P 500 17.72%
EURO STOXX 50 12.50%	FTSE 100 -1.94%	GLOBAL PROPERTY 1.16%	GLOBAL PROPERTY -2.94%	GLOBAL PROPERTY 13.43%
FTSE 100 10.95%	S&P 500 -2.86%	FTSE 100 -2.72%	S&P 500 -4.18%	MSCI WORLD 10.66%
MSCI WORLD 10.81%	MSCI WORLD -2.87%	S&P 500 -2.79%	MSCI WORLD -5.03%	GLOBAL BONDS 8.47%
S&P 500 10.29%	EURO STOXX 50 -3.31%	MSCI WORLD -3.32%	SHANGHAI STOCK EXCHANGE -5.04%	FTSE 100 -0.09%
SHANGHAI STOCK EXCHANGE 4.78%	MSCI EM -3.93%	EURO STOXX 50 -4.18%	GLOBAL BONDS -5.80%	MSCI EM -1.71%
GLOBAL PROPERTY -0.98%	GLOBAL BONDS -4.25%	MSCI EM -4.74%	EURO STOXX 50 -6.83%	EURO STOXX 50 -1.91%
GLOBAL BONDS -2.78%	GLOBAL PROPERTY -5.67%	SHANGHAI STOCK EXCHANGE -5.08%	FTSE 100 -7.73%	SHANGHAI STOCK EXCHANGE -17.09%

Source: Morningstar