



21 May 2018

REVIEW PERIOD: APRIL 2018

DOMESTIC OVERVIEW

The month of April saw a slightly renewed sense of confidence in the South African economy as the IMF revised its growth outlook. Domestic equities rallied on the back of a depreciating local currency while the more conservative asset classes weighed down on the market. The effect of political changes continue to influence the domestic landscape although the market is becoming less driven by domestic politics.

Key Domestic Highlights in April 2018

- IMF growth outlook for South Africa
- Consumer Confidence Index

IMF growth outlook for South Africa

The International Monetary Fund upwardly revised its economic growth outlook for South Africa to 1.5% in 2018 and to 1.7% in 2019, citing new political developments related to the election of President Cyril Ramaphosa, whose leadership is seen to reduce political instability and bolster business confidence. The international lender however, also gave a warning of potential growth challenges if no structural economic reforms are addressed. Recommended reforms include: improving infrastructure, reducing barriers to entry in key sectors, improving efficiency of government spending and promoting growth and job creation.

Consumer Confidence Index

The FNB/Bureau of Economic Research (BER) Consumer Confidence Index (CCI) skyrocketed to a record high of +26 index points in the first quarter of 2018. This is the highest level in over a decade, having jumped from -8 index points in 2017. The FNB/BER report stated that the massive CCI upturn in the first quarter was driven by the

positive economic outlook over the next 12 months, including the change in political leadership and an optimistic household financial outlook.

South Africa: Economy

The Consumer Price Index fell further to 3.8% year-on-year in March 2018, down from 4% in the month before. This is the lowest inflation figure since February 2011. The largest contributor to the decline was the lower prices recorded in the food, non-alcoholic beverages and transport sectors. The trade balance recorded a R9.47 billion surplus in March.

	Nov'17	Dec'17	Jan'18	Feb'18	Mar'18	Apr'18
CPI (y/y)	4.6%	4.7%	4.4%	4.0%	3.8%	-
PPI (y/y)	5.1%	5.2%	5.1%	4.2%	3.7%	-

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

	30 April 2016	30 April 2017	30 April 2018
USD/ZAR	14.21	13.36	12.46
GBP/ZAR	20.56	17.25	17.15
EUR/ZAR	16.30	14.56	15.05

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

South Africa: Markets

Property led the April rally by delivering +7.7%, while domestic equities strengthened +5.4%, driven by gains in Resources (+8.5%), Industrials (+3.6%) and Financials (+3.2%). Rand hedge stocks and commodity counters advanced on the back of a weakening rand (+5.4%). In terms of market capitalisation, large-cap stocks delivered a return of 5.7% followed by Mid-cap stocks (+3.5%) and small-cap stocks (+1.2%). Meanwhile, less risky asset classes recorded mediocre returns as Cash delivered a sluggish 0.6% while Bonds surrendered 0.7% as global bond yields rose. Foreigners were net buyers of R7.64 billion worth of SA equities while SA bonds to the value of R4.79 billion were sold.

LOCAL RETURNS IN ZAR				
2017	Feb 2018	March 2018	April 2018	Year-to-date
SA TOP 40 23.07%	SA BONDS 3.93%	SA BONDS 2.07%	SA PROPERTY 7.68%	SA BONDS 7.30%
SA EQUITY 20.95%	SA CASH 0.54%	SA CASH 0.60%	SA TOP 40 5.72%	SA CASH 2.35%
SA PROPERTY 17.15%	SA SMALL CAPS 0.34%	SA PROPERTY -0.96%	SA EQUITY 5.37%	SA SMALL CAPS -0.05%
SA BONDS 10.24%	SA MID CAPS -0.13%	SA SMALL CAPS -1.33%	SA MID CAPS 3.54%	SA MID CAPS -0.22%
SA CASH 7.56%	SA EQUITY -1.97%	SA MID CAPS -3.42%	SA SMALL CAPS 1.24%	SA EQUITY -0.92%
SA MID CAPS 7.36%	SA TOP 40 -2.32%	SA EQUITY -4.18%	SA CASH 0.58%	SA TOP 40 -0.96%
SA SMALL CAPS 2.95%	SA PROPERTY -9.90%	SA TOP 40 -4.28%	SA BONDS -0.70%	SA PROPERTY -13.43%

LOCAL SECTOR RETURNS IN ZAR				
2017	February 2018	March 2018	April 2018	Year-to-date
CONSUMER SERVICES 52.66%	GENERAL RETAILERS 3.45%	GENERAL RETAILERS 0.92%	RESOURCES 8.55%	GENERAL RETAILERS 8.06%
SA INDUSTRIALS 22.50%	FINANCIALS 2.58%	CONSUMER GOODS -1.16%	CONSUMER GOODS 6.56%	RESOURCES 4.39%
FINANCIALS 20.61%	CONSUMER SERVICES -1.26%	RESOURCES -2.08%	SA INDUSTRIALS 5.20%	INDUSTRIALS 1.78%
GENERAL RETAILERS 19.00%	INDUSTRIALS -2.27%	FINANCIALS -3.10%	CONSUMER SERVICES 4.86%	FINANCIALS -0.45%
RESOURCES 17.90%	SA INDUSTRIALS -3.02%	INDUSTRIALS -4.90%	INDUSTRIALS 3.55%	CONSUMER GOODS -1.45%
INDUSTRIALS 14.73%	RESOURCES -4.82%	SA INDUSTRIALS -5.53%	FINANCIALS 3.23%	SA INDUSTRIALS -3.21%
CONSUMER GOODS -1.12%	CONSUMER GOODS -7.98%	CONSUMER SERVICES -8.37%	GENERAL RETAILERS -1.06%	CONSUMER SERVICES -5.93%

GLOBAL OVERVIEW

Global equity markets ended the month of April in positive territory. This was mainly as a result of signs of easing trade tensions and a shift in focus onto the corporate earnings season. Although geopolitical headlines continued to play a significant role in troubling investors, US President Trump expressed optimism on a trade deal with China and hinted that the US may re-join the Trans-Pacific Partnership free-trade deal. As a result we saw a boost in the share prices of trade-sensitive sectors including commodities. Consequently the energy sector was the strongest performing US equity sector over the month with share prices rising further after an industry report showed that crude oil inventories fell. The price of crude oil rose to its highest level since 2014 – moving above US\$74 a barrel. Both Global Bonds and Global Equities were also positive in ZAR terms as the rand weakened against the US dollar.

United States

The US economy continued to grow above its long-term average rate in the first quarter, although at a slower pace than in the final quarter of 2017. GDP expanded at an annual rate of 2.3%, down from 2.9% at the end of 2017. A slowdown in first quarter growth had been widely expected, reflecting slower consumer spending, although the GDP data did exceed analysts' forecasts of 2%. The US 10-year Treasury yield hit 3% for the first time since 2014 after the increase in inflation. This has increased expectations for the number of Fed rate hikes this year to four.

Eurozone

Eurozone Purchasing Managers' Indices (PMIs) readings remained firmly in an expansionary region at 55.2% this month, confirming the sustainability of the recovery. On the monetary policy front, the European Central Bank (ECB) announced no changes to its existing policies. It remains committed to the bond-buying programme at a pace of €30bn per month until September 2018 and kept interest rates on hold.

United Kingdom

UK equity markets posted 2018's first positive monthly returns in April. The market was driven by the end of the sterling's rally against the dollar, with strength in the US currency bolstering the returns of the market's many international constituents. Weaker-than-expected domestic growth for the three months to April also saw a sharp weakening in sterling and lowered the likelihood of an interest rate increase at the Bank of England's Monetary Policy Committee meeting in May.

Spot Rates	30 April 2016	30 April 2017	30 April 2018
EUR/USD	1.14	1.08	1.20
GBP/USD	1.46	1.29	1.37
USD/JPY	106.33	111.52	109.33

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

Emerging Markets

Emerging markets registered negative returns in April, underperforming their developed market counterparts. This was largely due to a stronger US dollar, rising US Treasury yields and concerns around US-China trade wars. Strengthening commodity prices, however, provided some relief.

GLOBAL RETURNS IN ZAR				
2017	February 2018	March 2018	April 2018	Year-to-date
MSCI EM 24.28%	GLOBAL BONDS -1.47%	GLOBAL PROPERTY 3.61%	FTSE 100 10.52%	EURO STOXX 50 3.27%
EURO STOXX 50 12.50%	S&P 500 -4.25%	GLOBAL BONDS 1.45%	EURO STOXX 50 9.51%	MSCI EM 1.81%
FTSE 100 10.95%	MSCI WORLD -4.71%	FTSE 100 0.13%	GLOBAL PROPERTY 7.04%	FTSE 100 1.78%
MSCI WORLD 10.81%	MSCI EM -5.17%	EURO STOXX 50 -0.98%	MSCI WORLD 6.57%	MSCI WORLD 0.69%
S&P 500 10.29%	FTSE 100 -6.95%	SHANGHAI STOCK EXCHANGE -1.37%	S&P 500 5.76%	GLOBAL BONDS 0.57%
SHANGHAI STOCK EXCHANGE 4.78%	SHANGHAI STOCK EXCHANGE -7.15%	MSCI EM -1.49%	MSCI EM 4.89%	S&P 500 0.46%
GLOBAL PROPERTY -0.98%	EURO STOXX 50 -7.16%	MSCI WORLD -1.81%	GLOBAL BONDS 3.67%	GLOBAL PROPERTY -2.74%
GLOBAL BONDS -2.78%	GLOBAL PROPERTY -7.33%	S&P 500 -2.17%	SHANGHAI STOCK EXCHANGE 1.26%	SHANGHAI STOCK EXCHANGE -3.81%