# ECONOMIC REPORT

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## REVIEW PERIOD: MARCH 2018

## DOMESTIC OVERVIEW

The South African domestic outlook remains one that is still driven by what has been dubbed as the “Ramaphosa effect”, which is starting to give way to fundamentals as investors are beginning to look for concrete evidence of the ability of South Africa to deliver sustainable returns.

### Key Highlights in March 2018

1. Moody’s rating
2. SARB rate cut

### Moody’s rating

South Africa escaped junk status as Moody’s rating agency kept the credit assessment of the country unchanged at Baa3, the lowest investment-grade level, citing better policy transparency as well as increased certainty under the new leadership of the country as reasons for their decision. In addition, the country’s credit outlook was also positively revised from negative to stable. This decision not only helped South Africa escape a third junk rating but also ensured that SA was not excluded from global benchmark indices. Should this have occurred South Africa could have experienced estimated outflows in the region of R100 billion.

### SARB rate cut

The South African Reserve Bank cut the benchmark repo rate by 25 basis points, to 6.5%, on 28 March 2018. This was in line with market expectations, and lower inflation forecasts were cited as the primary reason. The Committee also added that the upside inflationary pressure from the increase in the VAT rate will be offset by the stronger exchange rate. Four MPC members voted for a rate cut against three who favoured an unchanged policy. The central bank forecasts inflation to be within the target band of 3% - 6% until the end of 2020.

## South Africa: Economy

The South African economy advanced an annualised 3.1% in the last quarter of 2017 as the agricultural sector and trade sector were the largest contributors to the growth. Inflation is at 3.8% for the month of March, however the annualised rate as at the end of February was down, at 4.0%. Positively, unemployment was down as at the end of 2017 with the final quarter's result coming in at 26.7%. While the trade balance remained positive overall, there was a decline owing to a sharp increase in imports. South Africa's current account deficit, however, widened in the final quarter of 2017, to -2.9% of GDP.

| | Oct'17 | Nov'17 | Dec'17 | Jan'18 | Feb'18 | Mar'18 |
|---|---|---|---|---|---|---|
| CPI (y/y) | **4.8%** | **4.6%** | **4.7%** | **4.4%** | **4.0%** | **3.8%** |
| PPI (y/y) | **5%** | **5.1%** | **5.2%** | **5.1%** | **5.1%** | **-** |

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

| | 31 March 2016 | 31 March 2017 | 31 March 2018 |
|---|---|---|---|
| **USD/ZAR** | **14.65** | **13.41** | **11.82** |
| **GBP/ZAR** | **21.08** | **16.62** | **16.60** |
| **EUR/ZAR** | **16.70** | **14.29** | **14.58** |

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

## South Africa: Markets

The month of March was challenging for risky assets as Equities shed -4.18% and Property surrendered -0.96%. This downturn in risky assets seems to have been mainly driven by offshore factors as there was a general weakening in global returns. In contrast the more conservative asset classes such as Bonds (+2.07%) and Cash (+0.60%) posted positive results with Inflation-linked Bonds being the best performer (+4.92%).

The All Share Index was down -4.18% at the backdrop of losses from SA Industrials (-5.53%), Industrials (-4.09%), Financials (-3.10%) and SA Resources (-2.08%). The Top 40 index fell -4.28% while both mid and small-cap stocks also ended the month lower producing -3.42% and -1.33%. Following the results for the month it seems appropriate that foreigners continued to be net buyers of R6.6 billion worth of SA bonds while SA equities to the value of R343 million were sold.

| LOCAL RETURNS IN ZAR | | | | |
|---|---|---|---|---|
| 2017 | Jan 2018 | Feb 2018 | March 2018 | Year-to-date |
| SA TOP 40 23.07% | SA BONDS 1.86% | SA BONDS 3.93% | SA BONDS 2.07% | SA BONDS 8.06% |
| SA EQUITY 20.95% | SA CASH 0.60% | SA CASH 0.54% | SA CASH 0.60% | SA CASH 1.76% |
| SA PROPERTY 17.15% | SA TOP 40 0.20% | SA SMALL CAPS 0.34% | SA PROPERTY -0.96% | SA SMALL CAPS -1.27% |
| SA BONDS 10.24% | SA EQUITY 0.10% | SA MID CAPS -0.13% | SA SMALL CAPS -1.33% | SA MID CAPS -3.63% |
| SA CASH 7.56% | SA MID CAPS -0.09% | SA EQUITY -1.97% | SA MID CAPS -3.42% | SA EQUITY -5.97% |
| SA MID CAPS 7.36% | SA SMALL CAPS -0.28% | SA TOP 40 -2.32% | SA EQUITY -4.18% | SA TOP 40 -6.32% |
| SA SMALL CAPS 2.95% | SA PROPERTY -9.91% | SA PROPERTY -9.90% | SA TOP 40 -4.28% | SA PROPERTY -19.61% |

| LOCAL SECTOR RETURNS IN ZAR | | | | |
|---|---|---|---|---|
| 2017 | Jan 2018 | Feb 2018 | March 2018 | Year-to-date |
| CONSUMER SERVICES 52.66% | INDUSTRIALS 5.76% | GENERAL RETAILERS 3.45% | GENERAL RETAILERS 0.92% | GENERAL RETAILERS 9.22% |
| SA INDUSTRIALS 22.50% | GENERAL RETAILERS 4.60% | FINANCIALS 2.58% | CONSUMER GOODS -1.16% | INDUSTRIALS -1.71% |
| FINANCIALS 20.61% | RESOURCES 3.18% | CONSUMER SERVICES -1.26% | RESOURCES -2.08% | FINANCIALS -3.56% |
| GENERAL RETAILERS 19.00% | CONSUMER GOODS 1.69% | INDUSTRIALS -2.27% | FINANCIALS -3.10% | RESOURCES -3.83% |
| RESOURCES 17.90% | SA INDUSTRIALS 0.43% | SA INDUSTRIALS -3.02% | INDUSTRIALS -4.90% | CONSUMER GOODS -7.51% |
| INDUSTRIALS 14.73% | CONSUMER SERVICES -0.86% | RESOURCES -4.82% | SA INDUSTRIALS -5.53% | SA INDUSTRIALS -7.99% |
| CONSUMER GOODS -1.12% | FINANCIALS -2.98% | CONSUMER GOODS -7.98% | CONSUMER SERVICES -8.37% | CONSUMER SERVICES -10.30% |

# GLOBAL OVERVIEW

Global equity markets ended the month of March in negative territory led by a combination of the sell-off in the technology sector as well fears over of rising trade tensions between the US and China. Pressure on technology stocks in particular was driven by speculation around a regulatory crackdown related to data privacy and anti-trust concerns. The technology sell-off was sparked by company-specific news from Facebook and NVidia, triggering an unexpected reversal of fortune for the sector.

## United States

President Trump's decision to place tariffs on Chinese steel and aluminium imports heightened concerns of a trade war. As a result, the share prices of financials, materials and technology stocks - which are the sectors that have benefited the most from the strength in the global economy – saw the sharpest falls. Despite the rand weakening against the US dollar for the month, global equity (ZAR) was negative while global bonds produced positive returns.

At the first meeting chaired by Jerome Powell, the Federal Reserve (Fed) raised interest rates from the 1.25% - 1.50% range to the 1.50% to 1.75% range. Central bank officials released positive estimates about the US economy and inflation, supporting expectations that the central bank will raise interest rates three times this year.

## Eurozone

In the Eurozone inflation data released in March revealed that the core consumer price index (CPI) remained constant at 1%, while headline inflation withdrew to 1.1% from 1.3% in the previous month, falling below the expected 1.2%. Technology improvements and the large pull-back in labour markets are among the most cited reasons for the lower inflation, however the central bank officials remain confident that the economy's continued strength will eventually fuel higher inflation.

## United Kingdom

The Brexit transition deal has been agreed as the UK and EU successfully negotiated an extended transition period. The deal locked in existing trading rules for an additional 21 months and businesses will be able to operate 'as normal' until December 2020. UK wage growth rose at its fastest pace for more than two and a half years during the three months ended January. The 2.6% increase was in line with expectations and reflects a relative reduction in pressure on real incomes.

| Spot Rates | 31 March 2016 | 31 March 2017 | 31 March 2018 |
|---|---|---|---|
| EUR/USD | **1.13** | **1.06** | **1.23** |
| GBP/USD | **1.43** | **1.25** | **1.40** |
| USD/JPY | **112.52** | **111.4** | **106.28** |

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

## Emerging Markets

Emerging markets registered negative returns in March, underperforming their developed market counterparts. Increased trade tensions and the first US interest rate hike of 2018 provided headwinds for emerging equity markets during March with all regions registering losses.

**GLOBAL RETURNS IN ZAR**

| 2017 | Jan 2018 | Feb 2018 | March 2018 | Year-to-date |
|---|---|---|---|---|
| MSCI EM 24.28% | MSCI EM 3.90% | GLOBAL BONDS -1.47% | GLOBAL PROPERTY 3.61% | MSCI EM -2.94% |
| EURO STOXX 50 12.50% | SHANGHAI STOCK EXCHANGE 3.74% | S&P 500 -4.25% | GLOBAL BONDS 1.45% | GLOBAL BONDS -2.99% |
| FTSE 100 10.95% | EURO STOXX 50 2.58% | MSCI WORLD -4.71% | FTSE 100 0.13% | SHANGHAI STOCK EXCHANGE -5.00% |
| MSCI WORLD 10.81% | S&P 500 1.40% | MSCI EM -5.17% | EURO STOXX 50 -0.98% | S&P 500 -5.02% |
| S&P 500 10.29% | MSCI WORLD 0.97% | FTSE 100 -6.95% | SHANGHAI STOCK EXCHANGE -1.37% | MSCI WORLD -5.52% |
| SHANGHAI STOCK EXCHANGE 4.78% | FTSE 100 -1.15% | SHANGHAI STOCK EXCHANGE -7.15% | MSCI EM -1.49% | EURO STOXX 50 -5.70% |
| GLOBAL PROPERTY -0.98% | GLOBAL BONDS -2.95% | EURO STOXX 50 -7.16% | MSCI WORLD -1.81% | FTSE 100 -7.91% |
| GLOBAL BONDS -2.78% | GLOBAL PROPERTY -5.38% | GLOBAL PROPERTY -7.33% | S&P 500 -2.17% | GLOBAL PROPERTY -9.15% |