ECONOMIC REPORT

by Glacier Research

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REVIEW PERIOD: JUNE 2018

DOMESTIC OVERVIEW

The contraction of the South African economy was by far the biggest highlight in the month of June, as domestic markets wrestled to stay afloat in the midst of global uncertainty. The end of the first semester of 2018 has seen property and mid cap stocks taking the largest knocks, while conservative asset classes such as bonds and cash have taken the lead. In terms of domestic sectors, resources was the only sector that posted gains year-to-date, while all other sectors detracted.

Key Domestic Highlights in June 2018

- Negative GDP growth
- Business confidence index

Negative growth in GDP

In the first quarter of 2018, SA GDP declined by 2.2% on a seasonally adjusted quarter-on-quarter basis, reversing from a 3.1% growth in the last quarter of 2017. This is the biggest contraction since the first quarter of 2009. The worse-than-expected GDP performance was driven by sharp contractions in the agricultural, manufacturing and mining sectors which declined 24.2%, 9.9% and 6.4% respectively. Leading contributors were Government services (+1.8%), Personal services (+1.2%) and Financial services (+1.1%).

Business Confidence Index

The RMB/BER business confidence index in South Africa fell six points to 39 in the second quarter of 2018 from 45 in the prior period. This therefore means that respondents are now of the view that business conditions in South Africa are less attractive. This decline was driven by worsening conditions in the retail and manufacturing sectors which recorded the leading losses of business confidence. This is one of the indicators of the evaporation of the euphoria that resulted from the newly elected President of the Republic.

South Africa: Economy

The month of June got off to a rocky start as fuel price hikes came into effect alongside a contraction in the South African economy. The increase in fuel prices is a reflection of a weaker rand coupled with higher oil prices. Stats SA released retail sales data for the month of April, reporting a concerning decline of 1.2% month-on-month. The retail data suggests that consumer activity remained sluggish, therefore raising concerns around economic growth.

However, the planned government salary adjustments set to take effect in July could improve retail spending. The inflation rate decreased to 4.4% in May, down from 4.5% in the previous month and below market consensus. The decrease was driven by lower prices of food and non-alcoholic drinks. South Africa's quarter 1 current deficit widened sharply to -4.8% of GDP, worse than the previous period's deficit of -2.9% of GDP.

	Jan'18	Feb'18	Mar'18	Apr'18	May'18	June'18
CPI (y/y)	**4.4%**	**4.0%**	**3.8%**	**4.5%**	**4.4%**	**4.6%**
PPI (y/y)	**5.1%**	**4.2%**	**3.7%**	**4.4%**	**4.6%**	**-**

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

	30 June 2016	30 June 2017	30 June 2018
USD/ZAR	**14.69**	**13.06**	**13.73**
GBP/ZAR	**19.56**	**16.97**	**18.12**
EUR/ZAR	**16.31**	**14.91**	**16.04**

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

South Africa: Markets

The All Share gained 2.8% despite the emerging markets' sell off. Cash was the second-best performing asset class in June, delivering a sluggish 0.55%. Local property was the worst performer for the month, returning -3.45%, followed by local bonds which surrendered 1.17% as foreign investors sold more than R30 billion of their domestic bond holdings, marking the biggest monthly net sale of bonds on record. In terms of market capitalisation, the Top 40 was the leading performer, returning +3.62% as the rand depreciated. SA mid-caps lost 2.14%, while small-caps gave up 3.31%. Foreigners were net sellers of R31.4 billion worth of SA bonds, and net buyers of R4.5 billion worth of SA equities. In terms of sectors, Consumer services (+9.37%) led the gains followed by Resources (+5.96%), while SA Industrials (+4.18%) and Consumer goods (+1.72%) also advanced. The leading detractors were General retailers (-6.85%) and Financials (-2.88%).

LOCAL RETURNS IN ZAR

2017	April 2018	May 2018	June 2018	Year-to-date
SA TOP 40 23.07%	SA PROPERTY 7.68%	SA CASH 0.59%	SA TOP 40 3.62%	SA BONDS 3.97%
SA EQUITY 20.95%	SA TOP 40 5.72%	SA BONDS -1.95%	SA EQUITY 2.78%	SA CASH 3.52%
SA PROPERTY 17.15%	SA EQUITY 5.37%	SA SMALL CAPS -2.44%	SA CASH 0.55%	SA TOP 40 -0.52%
SA BONDS 10.24%	SA MID CAPS 3.54%	SA TOP 40 -3.06%	SA BONDS -1.17%	SA EQUITY -1.70%
SA CASH 7.56%	SA SMALL CAPS 1.24%	SA EQUITY -3.48%	SA MID CAPS -2.14%	SA SMALL CAPS -5.72%
SA MID CAPS 7.36%	SA CASH 0.58%	SA PROPERTY -5.92%	SA SMALL CAPS -3.31%	SA MID CAPS -10.53%
SA SMALL CAPS 2.95%	SA BONDS -0.70%	SA MID CAPS -8.37%	SA PROPERTY -3.45%	SA PROPERTY -21.37%

LOCAL SECTOR RETURNS IN ZAR

2017	April 2018	May 2018	June 2018	Year-to-date
CONSUMER SERVICES 52.66%	RESOURCES 8.55%	RESOURCES 4.01%	CONSUMER SERVICES 9.37%	RESOURCES 15.04%
SA INDUSTRIALS 22.50%	CONSUMER GOODS 6.56%	CONSUMER SERVICES -3.87%	RESOURCES 5.96%	CONSUMER SERVICES -1.10%
FINANCIALS 20.61%	SA INDUSTRIALS 5.20%	CONSUMER GOODS -4.26%	SA INDUSTRIALS 4.18%	CONSUMER GOODS -4.02%
GENERAL RETAILERS 19.00%	CONSUMER SERVICES 4.86%	SA INDUSTRIALS -5.14%	CONSUMER GOODS 1.72%	SA INDUSTRIALS -4.35%
RESOURCES 17.90%	INDUSTRIALS 3.55%	FINANCIALS -6.26%	INDUSTRIALS -2.52%	FINANCIALS -9.36%
INDUSTRIALS 14.73%	FINANCIALS 3.23%	INDUSTRIALS -10.20%	FINANCIALS -2.88%	INDUSTRIALS -10.90%
CONSUMER GOODS -1.12%	GENERAL RETAILERS -1.06%	GENERAL RETAILERS -12.65%	GENERAL RETAILERS -6.85%	GENERAL RETAILERS -12.07%

GLOBAL OVERVIEW

Global equity markets ended the month of June broadly flat, as concerns over the possibility of a US-China trade war continued. Markets focused on boiling trade tensions, including President Trump's decision to impose tariffs on US$50bn of Chinese imports, along with new signals that it would target an additional US$200bn in goods if Beijing retaliated. This could take its toll on markets amid concerns that global trade restrictions could curb global economic growth.

As a result, we saw that the industrial sector was negatively impacted after President Trump declared the $50bn tariffs on imported Chinese goods. These tariffs directly affect aerospace, industrial machinery, raw materials, and the automotive industry. Stocks such as Boeing and Caterpillar dropped after the tariffs were announced and the industrial sector ended the month on an unsatisfactory note.

The financial sector experienced its fifth straight month of declines and the longest such losing streak since September 2011. The consumer discretionary and energy sectors were among the strongest performers over the month on the back of upbeat quarterly results and a rising oil price. The price of crude oil rose above US$70 a barrel following reports that the US is pressing allies to halt imports of Iranian crude oil. Both Global Bonds and Global Equity were positive in ZAR terms as the rand weakened against the US dollar for the month.

United States

The US Federal Reserve raised interest rates in June for the second time this year, as expected. It also indicated that it expected two further increases this year which is one more than it had previously forecast. The change reflects continued robust growth and rising inflation in the world's largest economy. The US jobless rate hit 3.8% in May, the lowest level since 2000. Some 223,000 jobs were created in May in a continuation of one of the longest periods of growth in the country's recent history.

Eurozone

European equity markets ended June broadly flat against a backdrop of rising geopolitical tensions caused by protectionist rhetoric from the United States. Headline inflation rose to 2.0%, while core inflation slipped back to 1.0%, as expected, reflecting the impact of higher oil prices on energy inflation. Eurozone PMIs demonstrated resilience, having risen again in June, indicating that the pace of GDP growth remains fairly healthy. The increase in the index from May's 54.1 to 54.8 in June was better than expected by the consensus.

United Kingdom

The UK equity market fell modestly in June, as geopolitical tensions caused global market uncertainty. The Bank of England voted to hold interest rates at 0.5% following weak economic data released in May. The result suggests momentum is building for an interest rate rise later this year. Housing market data released during the month indicated that house price growth in the UK reached its slowest pace seen in five years, while average prices fell in London – a sign of the pressures facing the housing market at present.

Spot Rates	30 June 2016	30 June 2017	30 June 2018
EUR/USD	1.10	1.14	1.16
GBP/USD	1.33	1.30	1.32
USD/JPY	103.11	112.38	110.69

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

Emerging Markets

Emerging markets registered negative returns in June, underperforming their developed market counterparts. This was largely due to rising interest rates in the US and growing concerns over trade protectionism providing headwinds.

GLOBAL RETURNS IN ZAR

2017	April 2018	May 2018	June 2018	Year-to-date
MSCI EM 24.28%	FTSE 100 10.52%	S&P 500 3.90%	GLOBAL PROPERTY 10.75%	S&P 500 13.65%
EURO STOXX 50 12.50%	EURO STOXX 50 9.51%	GLOBAL PROPERTY 3.75%	S&P 500 8.89%	GLOBAL PROPERTY 11.76%
FTSE 100 10.95%	GLOBAL PROPERTY 7.04%	MSCI WORLD 2.09%	MSCI WORLD 8.17%	MSCI WORLD 11.19%
MSCI WORLD 10.81%	MSCI WORLD 6.57%	FTSE 100 0.75%	EURO STOXX 50 8.03%	FTSE 100 9.87%
S&P 500 10.29%	S&P 500 5.76%	GLOBAL BONDS 0.68%	GLOBAL BONDS 7.74%	GLOBAL BONDS 9.10%
SHANGHAI STOCK EXCHANGE 4.78%	MSCI EM 4.89%	SHANGHAI STOCK EXCHANGE 0.68%	FTSE 100 7.13%	EURO STOXX 50 6.59%
GLOBAL PROPERTY -0.98%	GLOBAL BONDS 3.67%	MSCI EM -2.14%	MSCI EM 3.73%	MSCI EM 3.34%
GLOBAL BONDS -2.78%	SHANGHAI STOCK EXCHANGE 1.26%	EURO STOXX 50 -4.45%	SHANGHAI STOCK EXCHANGE -4.05%	SHANGHAI STOCK EXCHANGE -7.07%