ECONOMIC REPORT
by Glacier Research

20 November 2018

REVIEW PERIOD: OCTOBER 2018

DOMESTIC OVERVIEW

The month of October saw depressed market returns across the board as cash was the only asset class that delivered positive returns. Despite investment building-block initiatives being driven by the government to boost the economy and exit the technical recession, SA economic fundamentals remain challenged.

Domestic Highlights in October 2018

- Jobs summit
- Investment summit
- Medium Term Budget Policy Statement (MTBPS)

Jobs summit

The beginning of October saw government, labour, civil society and the private sector gather at what some dubbed as one of the most important events initiated by the South African presidency. The Jobs Summit came as a result of the rising rate of unemployment in the country, which is currently at a high of 27.5%. In an economy that is plagued by low growth, policy uncertainly and inequality, the current levels of unemployment are adding fuel to the economic fire. The much needed Jobs Summit deliberated and concluded on measures to be taken for addressing the unemployment hurdle. These measures include:

- The creation of 275 000 jobs annually over the next five years
- A commitment by banks to a R100 billion fund for black business

- Rebuilding trust and confidence in public sector institutions, and uprooting corruption

Investment summit

In a bid to reach his investment target of $100 billion, President Cyril Ramaphosa hosted an investment summit for government and the private sector. The purpose of the summit was to gather captains of industry in an attempt to find ways of lifting the South African economy out of the triple crisis of unemployment, poverty and inequality by focusing on growth-enabling investments. The summit enjoyed resounding support from global and local captains of industry as more than R130 billion was pledged to the SA economy. Notable investment pledges came from corporations such as Anglo American (R71.5 billion pledge), Vedanta (R21.4 billion pledge) and Mercedes-Benz South Africa (R10 billion pledge).

Medium Term Budget Policy Statement (MTBPS)

The month of October saw the appointment of a new and market-friendly finance minister, Tito Mboweni, following the voluntary resignation of former finance minister, Nhlanhla Nene. In his debut mini budget speech, Tito Mboweni affirmed the need for a faster and more inclusive growth of the South African economy. The MTPBS painted the current state of the economy by highlighting the following key challenges:

- Despite the VAT increase in the beginning of the year, R24.7 billion revenue shortfall is forecasted
- Dent service cost are one of the fastest growing items and are increasing by 10.9% per year. The current service cost is approximately R181 billion, and this figure is expected to increase to R247 billion in three years' time. Government debt is well above 50% of GDP
- The National Treasury decreased its growth forecast to 0.7%, aligning itself to projections of the IMF, World Bank and SARB
- State-owned enterprises remain financially weak with South African Airlines' R5 billion bailout and the South African Post Office's R2 billion bailout being reprioritized
- The increasing public sector wage bill is a cause for concern as it is driven less by an increase in employment, but by wages and employee benefits of existing government employees

South Africa: Economy

The SA balance of trade recorded a R2.95 billion deficit in September, following last month's surprise surplus of R8.8 billion. Exports fell 2.6% to R113 billion driven by lower sales of vegetable products, and machinery & electronics, while imports increased by 8% to R116 billion, driven by purchases in mineral products. SA manufacturing production was reported to have advanced modestly by 0.1% in August, on a month-to-month basis. This could potentially have a positive impact on Q3 GDP figures as manufacturing was the key detractor in the negative economic growth figure of Q2.

	May'18	June'18	July'18	Aug'18	Sep'18	Oct'18
CPI (y/y)	**4.4%**	**4.6%**	**5.1%**	**4.9%**	**4.9%**	**-**
PPI (y/y)	**4.6%**	**5.9%**	**6.1%**	**6.3%**	**6.2%**	**-**

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

	31 October 2016	31 October 2017	31 October 2018
USD/ZAR	**13.46**	**14.11**	**14.77**
GBP/ZAR	**16.47**	**18.76**	**18.86**
EUR/ZAR	**14.77**	**16.45**	**16.70**

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

South Africa: Markets

South African markets delivered lacklustre returns in October as only cash added gains for the month, albeit muted and subdued gains at 0.59%. Bonds recorded a negative return of 1.71% after having gained a sluggish 0.30% in the preceding month. Property maintained its downward trend this month, delivering a loss of 1.69% for the month, which was slightly lower than the 2.60% it surrendered in the prior month. Equities continued to have another worst-performing month, delivering a negative return of 5.76%. Foreigners were net sellers of 8.2 billion worth of equities and also net sellers of 7.8 billion worth of equities.

In terms of market capitalisation, the Top 40 led the losses for the month, giving up 6.67%. Mid-caps surprisingly added 0.74% while small-caps continued to plunge, surrendering 3.39% for the month. Foreigners were net sellers of R8.2 billion worth of SA bonds and R7.8 billion worth of SA equities. In terms of sectors, October was a disappointing month for all sectors as no sector delivered positive returns. Consumer Services (-11.28%), SA Industrials (-8%) and Consumer Goods (-5.79%) led the losses for the month alongside losses from General Retailers (-1.54%), Industrials (-2.33%), Financials (-3.19) and Resources (-3.96%).

LOCAL RETURNS IN ZAR				
2017	August 2018	September 2018	October 2018	Year-to-date
SA TOP 40 23.07%	SA TOP 40 2.42%	SA CASH 0.57%	SA MID CAPS 0.74%	SA CASH 6.00%
SA EQUITY 20.95%	SA EQUITY 2.34%	SA BONDS 0.30%	SA CASH 0.59%	SA BONDS 3.02%
SA PROPERTY 17.15%	SA PROPERTY 2.15%	SA SMALL CAPS -1.70%	SA PROPERTY -1.69%	SA EQUITY -9.38%
SA BONDS 10.24%	SA MID CAPS 1.48%	SA PROPERTY -2.60%	SA BONDS -1.71%	SA TOP 40 -9.68%
SA CASH 7.56%	SA SMALL CAPS 1.23%	SA MID CAPS -3.68%	SA SMALL CAPS -3.39%	SA SMALL CAPS -10.94%
SA MID CAPS 7.36%	SA CASH 0.59%	SA EQUITY -4.17%	SA EQUITY -5.76%	SA MID CAPS -11.43%
SA SMALL CAPS 2.95%	SA BONDS -1.87%	SA TOP 40 -4.70%	SA TOP 40 -6.67%	SA PROPERTY -23.48%

LOCAL SECTOR RETURNS IN ZAR				
2017	August 2018	September 2018	October 2018	Year-to-date
CONSUMER SERVICES 52.66%	CONSUMER GOODS 6.80%	RESOURCES 1.05%	GENERAL RETAILERS -1.54%	RESOURCES 16.23%
SA INDUSTRIALS 22.50%	RESOURCES 5.59%	FINANCIALS -2.02%	INDUSTRIALS -2.33%	FINANCIALS -9.79%
FINANCIALS 20.61%	INDUSTRIALS 2.52%	GENERAL RETAILERS -2.28%	FINANCIALS -3.19%	CONSUMER GOODS -11.23%
GENERAL RETAILERS 19.00%	SA INDUSTRIALS 1.88%	CONSUMER SERVICES -5.86%	RESOURCES -3.96%	GENERAL RETAILERS -13.84%
RESOURCES 17.90%	GENERAL RETAILERS 1.44%	INDUSTRIALS -6.42%	CONSUMER GOODS -5.79%	INDUSTRIALS -16.13%
INDUSTRIALS 14.73%	CONSUMER SERVICES 1.39%	SA INDUSTRIALS -7.68%	SA INDUSTRIALS -8.00%	SA INDUSTRIALS -18.88%
CONSUMER GOODS -1.12%	FINANCIALS 0.26%	CONSUMER GOODS -8.95%	CONSUMER SERVICES -11.28%	CONSUMER SERVICES -20.55%

GLOBAL OVERVIEW

Global equity markets ended the month of October in negative territory. During the month, volatility returned to the markets, led by poor performance from big tech stocks, and signs of slowing global economic growth due to the continued trade tension between the US and China. In addition, Brexit uncertainty, concerns over the Italian government's fiscal position and a slowdown in China's growth all added fuel to weaker global sentiment. However, economic fundamentals remain supportive, with unemployment globally continuing to fall. The third-quarter earnings reporting season started on a positive note, mainly in the US, where over 85% of companies that have reported have beaten earnings-per-share estimates.

The technology sector was the main driver of weakness during the month, with big tech companies such as Amazon predicting a slower pace during its festive season and Alphabet revealing weaker-than-expected performance in the third quarter. Sectors linked to a slower economic cycle such as consumer discretionary, energy and industrial were all negative while the more defensive consumer staples sector was the only positive performer. The price of crude oil slumped towards US$75 a barrel, industrial metals were broadly down 5% and copper sold off on global growth concerns. Global Bonds were positive in ZAR terms while Global Equity was negative as the rand strengthened against the US dollar for the month.

United States

US equity markets delivered negative returns for the month, as volatility spiked due to poor performance from major tech stocks and concerns about US-China trade tensions. US economic growth rose at an annual rate of 3.5% in the third quarter and beat consensus expectations. The strong growth was mainly driven by US consumer spending which accounts for over two-thirds of the economy. In addition the unemployment rate for September fell to 3.7%, which is the lowest in almost 50 years. The falling unemployment rate was supportive of consumer spending which remains close to record highs.

Eurozone

European equity markets delivered negative returns for the month, returning the weakest monthly performance in more than six years. 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. In economic releases the composite purchasing managers' indices (PMIs) fell to 52.7 for October, which was dragged lower by new and time-consuming car emissions tests. Political concerns in Europe remain high, as the Italian government submitted a budget plan to the European Commission that would see the 2019 deficit rise to 2.4% of GDP. Subsequently the European Union rejected Italy's draft budget and asked them to submit a new one within three weeks.

United Kingdom

UK equity markets fell during the month, following global markets as concerns over the on-going Brexit uncertainty and the intensifying trade war between the US and China weighed on sentiment. The risk-off sentiment was further spurred by fears of a weaker growth environment and a slowdown in corporate earnings in 2019. In economic releases, headline CPI inflation rate dropped to 2.4% from 2.7% in August, while the core rate (which excludes volatile items such as energy, food and alcohol) fell from 2.1% to 1.9%. UK unemployment remained unchanged at 4% and wage growth accelerated to 3.1%.

Spot Rates	31 October 2016	31 October 2017	31 October 2018
EUR/USD	1.09	1.16	1.13
GBP/USD	1.22	1.32	1.27
USD/JPY	104.83	113.65	112.95

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

Emerging Markets

Emerging markets registered negative returns in October, underperforming the developed market counterpart. This was largely due to rising global bond yields and mounting trade tensions between the US and China.

GLOBAL RETURNS IN ZAR

2017	August 2018	September 2018	October 2018	Year-to-date
MSCI EM 24.28%	S&P 500 15.50%	SHANGHAI STOCK EXCHANGE -0.99%	GLOBAL BONDS 3.18%	S&P 500 22.86%
EURO STOXX 50 12.50%	GLOBAL PROPERTY 13.60%	FTSE 100 -1.94%	GLOBAL PROPERTY 1.16%	GLOBAL PROPERTY 16.87%
FTSE 100 10.95%	MSCI WORLD 13.24%	S&P 500 -2.86%	FTSE 100 -2.72%	MSCI WORLD 16.52%
MSCI WORLD 10.81%	GLOBAL BONDS 11.97%	MSCI WORLD -2.87%	S&P 500 -2.79%	GLOBAL BONDS 15.15%
S&P 500 10.29%	MSCI EM 8.83%	EURO STOXX 50 -3.31%	MSCI WORLD -3.32%	FTSE 100 8.28%
SHANGHAI STOCK EXCHANGE 4.78%	FTSE 100 7.18%	MSCI EM -3.93%	EURO STOXX 50 -4.18%	EURO STOXX 50 5.27%
GLOBAL PROPERTY -0.98%	EURO STOXX 50 7.10%	GLOBAL BONDS -4.25%	MSCI EM -4.74%	MSCI EM 0.53%
GLOBAL BONDS -2.78%	SHANGHAI STOCK EXCHANGE 6.19%	GLOBAL PROPERTY -5.67%	SHANGHAI STOCK EXCHANGE -5.08%	SHANGHAI STOCK EXCHANGE -12.68%