# Monthly Market Commentary.

July 2019

## *SA Market Overview*

South African markets are on the back foot following a tumultuous month. Various political, economic and fiscal events have put pressure on all asset classes especially as we neared the end of the month.

A fractured leadership in the ANC has brought with it serious concerns over the stability of South African financial markets. The Public Protector Busisiwe Mkhwebane, head of the country's top anti-corruption unit (the Public Protector), has continued attacks on both the Minister of Public Enterprises Pravin Gordhan, and The President of South Africa Cyril Ramaphosa. This coupled with her now many and mounting adverse High Court review rulings and her recent alleged ties to the Gupta family and Zuma regime has raised significant questions over her suitability for this keep oversight role.

The South African Reserve Bank Governor Lesetja Kganyago announced on 18$^{th}$ July that the Reserve Bank would lower its benchmark repo rate by 25bps to 6.5%, the first rate cut since March last year. The cut was widely expected by the financial markets and was largely priced into most financial instruments. Policymakers noted however that the current and future policy decisions are aimed at anchoring inflation near the midpoint of its target range, thus future rate decisions are likely to be heavily data-dependent.

As has been the case in preceding months, Eskom has made up a large portion of the news cycle. On the back of Finance Minister Tito Mboweni's announcement of an increase of the annual Eskom Bailout to R59 billion, the embattled state-owned entity released its annual financial results which reported a net loss of R20.7 billion for the year ended March 2019. At the end of the previous month there were already questions being raised over the effect of Eskom on the SA fiscal position going forward, the reported loss will likely highlight to investors once again the risks present in South Africa's sovereign backed debt.

## *Global Market Overview*

With trade tensions cooling across the globe on the back of renewed US/ China trade negotiations Global asset class returns were mostly driven by moves and shifts in interest rates and regional events.

The continuation of trade talks between the US and China has brought some stability to the market, but with trade negotiations concluding on 31 July with no clear breakthrough, markets struggled for clear direction. The uncertainty was not helped by the mixed bag of US and EU bank earnings reports during the month.

Interest rates have been the talk of the town of late, with expectations being that most central banks will cut rates. The ECB opted to delay any interest rate decision but released a statement that it expects rates to remain "at their current or lower levels" at least through the first half of 2020. The current European refinancing rate remains at 0.0% with the deposit rate being (0.4)%.
The US Federal Reserve Bank cut rates by 25 bps on 31st July, confirming the move anticipated in the market. Many analysts have warned that the global 'rate-cutting cycle' will be much less pronounced than initially expected. This could result in unexpected negative returns for investors, as many asset class prices already contain expectations of a continuous and deep sequence of rate-cuts. Fed Chairman Jerome Powell confirmed these analysts' views by attempting to moderate expectations of aggressive cuts following this announcement.

Boris Johnson took over the office of former UK Prime Minister Theresa May on 23 July. May stepped down after another unsuccessful attempt to get her Brexit deal through parliament. Johnson is now faced with the task of guiding the British through these uncertain times, all the while facing other pressures such as the pound falling to 10-year lows against the dollar. His hard-line approach to Brexit remains, thus causing investors to seriously consider the mounting risk of a no-deal Brexit.

At month-end the gold price was trading at $1 420.40 per ounce up 11.06% YTD. The price rise has largely driven by policy uncertainty in global financial and political circles. Over the past couple of weeks sharp declines in the price of gold were likely driven by the series of anticipated rate cuts by major central banks. There is a strong possibility for further declines pending a rate decision by the Bank of England.

Brent crude oil was trading at $65.17 per barrel at month-end. Recent rises in the price, +18.69% YTD, is mainly attributable to low levels of oil reserves in the US as well as increased political tensions in the Persian Gulf.

## *Asset Class Performance (ZAR)*

| As at 31 July 2019 | MTD | YTD | 1 Year | 3 Years* | 5 Years* |
|---|---|---|---|---|---|
| Global Equity – MSCI ACWI | 0.84 | 15.05 | 10.89 | 11.29 | 13.12 |
| Global Property - FTSE EPRA Nareit DR | 1.29 | 14.29 | 17.37 | 3.85 | 12.67 |
| Global Bond - JPM GBI Global Traded | 0.08 | 3.37 | 14.45 | 1.34 | 7.08 |
| Global Cash - ICE LIBOR 1 Month | 0.74 | (0.02) | 10.82 | 2.34 | 6.86 |
| SA Equity - FTSE/JSE All Share | (2.37) | 9.55 | 2.19 | 5.63 | 5.15 |
| SA Property - FTSE/JSE SA Listed Prop | (1.20) | 4.77 | 0.08 | (3.70) | 4.99 |
| SA Bond - Beassa ALBI | (0.74) | 6.85 | 8.06 | 8.80 | 8.21 |
| SA Cash - STeFI Call Deposit | 0.55 | 3.85 | 6.64 | 6.76 | 6.47 |

## *Asset Class Performance (USD)*

| As at 31 July 2019 | MTD | YTD | 1 Year | 3 Years* | 5 Years* |
|---|---|---|---|---|---|
| Global Equity – MSCI ACWI | 0.33 | 16.77 | 2.48 | 10.47 | 6.96 |
| Global Property - FTSE EPRA Nareit DR | 0.77 | 16.00 | 8.47 | 3.09 | 6.54 |
| Global Bond - JPM GBI Global Traded | (0.44) | 4.91 | 5.77 | 0.59 | 1.25 |
| Global Cash - ICE LIBOR 1 Month | 0.23 | 1.47 | 2.41 | 1.58 | 1.05 |
| SA Equity - FTSE/JSE All Share | (2.87) | 11.18 | (5.56) | 4.85 | (0.57) |
| SA Property - FTSE/JSE SA Listed Prop | (1.70) | 6.33 | (7.51) | (4.41) | (0.72) |
| SA Bond - Beassa ALBI | (1.25) | 8.44 | (0.14) | 8.00 | 2.33 |
| SA Cash - STeFI Call Deposit | 0.04 | 5.40 | (1.45) | 5.98 | 0.68 |



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