WEEKLY REPORT

OVERBERG MARKET REPORT

Tuesday 14th May 2019

IN THIS WEEK'S BOTTOM LINE

Contributed by Kirk Swart

- The 'Cyril effect' came through very strongly for the ANC. It is believed that as many as 200 000 voters voted for the ANC nationally, while voting for the DA provincially. Statistics like these places Cyril in a very strong position within the ANC. Without Cyril, the ANC`s support might very well have dipped below the 50% mark in this election.

SOUTH AFRICA ECONOMIC REVIEW

Contributed by Werner Erasmus

- Manufacturing production for March surprised to the upside, increasing by 1.2% year-on-year compared to expectations of a 0.2% decline. The largest contributions were made by the following divisions: Petroleum, chemical products, rubber and plastic products increased 7%; basic iron and steel, non-ferrous metal products, metal products and machinery increased 3.2%; food and beverages increased 1%. Seasonally adjusted month-on-month manufacturing production for March 2019 also increased by a stronger than expected 0.8%. Regardless of the relatively upbeat March figures, seasonally adjusted manufacturing production for the first quarter of 2019 declined 2.4% compared to the fourth quarter of 2018. Seven of the ten sub divisions recorded a decline with the following divisions making the biggest negative contribution: Petroleum, chemical products, rubber and plastic products declined 3.8%; motor vehicles, parts and accessories, and other transport equipment declined 0.6%; wood, paper and publishing and printing declined 3.6%. The decline in production figures in the first quarter of 2019 can be attribute to weak local demand and the re-emergence of load shedding which weighed heavily on production volumes.

- Mining production fell less than expected, decreasing by 1.1% year-on-year in March 2019 although marking the fifth consecutive decline in annual mining output. The following sub-divisions made the biggest negative contribution to mining production: Gold declined by 17.7%; other non-metallic minerals declined 8.1%; chromium ore declined 6.4%; and iron ore declined 1.6%. The single largest positive contribution was made by coal which increased 5.7%. On a month-on-month basis the seasonally adjusted mining production increased by 3,8% in March 2019. This followed month-on-month changes of -2.3% in

February and 0.0% in January. On a quarterly basis the seasonally adjusted mining production for the first quarter of 2019 decreased by 3.4% compared to the fourth quarter of 2018. The mining divisions making the largest negative contributions to the quarter included the following: Diamonds declined 35.4%; iron ore declined 5.3%; and manganese declined 9.4%. Mining production in the first quarter of 2019 was severely hit by load shedding and the five-month strike by AMCU at various gold mines across the country. The decline in mining and manufacturing production combined with weak retail and wholesale sales point to a substantial contraction in real GDP in the first quarter of 2019.

- Business confidence for April 2019, as measured by the South-African Chamber of Commerce and Industry's Business Confidence Index (SACCI BCI), increased to 93.7 points, up 1.9 points from its reading of 91.8 in March. Although business confidence increased in April, year-on-year the reading is 2.3 points lower than the 96.1 points recorded in April 2018. Of the thirteen sub-indices that make up the SACCI BCI, five indices increased, five remained the same and three declined. The sub-indices that contributed to the month-on-month increase in business confidence include the following: The strengthening rand exchange rate, higher share prices on the JSE, increased real value building plans passed, real retail sales, and merchandise import volumes. Business confidence for May is expected to continue to increase given the positive outcome of the May 8th elections. The number of votes received by the ANC is expected to give Ramaphosa the required power to implement growth inducive economic policies and reduce corruption, which will effectively improve the economic environment in South-Africa.

SOUTH AFRICA: THE WEEK AHEAD

Contributed by Werner Erasmus

- South-African unemployment rate for the first quarter of 2019: Due Tuesday, 14 May 2019 at 11h30. The South-African unemployment rate is expected to increase to 27.6% for the first quarter of 2019 up from 27.1% for the last quarter of 2018, attributed to an increase in the number of unemployed people from 6.1 million to 6.2 million.

- South-African retail sales for March 2019: Due Wednesday, 15 May 2019 at 13h00. The South-Africa retail sales for March 2019 is expected to decrease by 0.4% month-on-month from February 2018 and is expected to increase 1.5% year-on year from March 2018.

GLOBAL

Contributed by Nick Downing

- Two days after the Trump administration lifted tariffs on $200 billion in Chinese imports from 10% to 25% and threatened to impose 25% tariffs on the remaining $325 billion in imports not yet taxed, Chinese authorities retaliated. China announced plans to set tariffs at an average of 25% on $60 billion worth of US imports. The ratcheting up in the trade dispute was initiated after the US accused China of reneging on previous agreements to impose laws covering intellectual property protection, compulsory technology transfers and subsidies to state-owned enterprises. China insisted they are only willing to implement regulatory directives. However, in the past regulatory directives have not changed the behaviour of the Chinese and considered by the US to be insufficient. China's authorities may have miscalculated Trump's thirst for a trade deal ahead of the 2020 presidential elections. In recent weeks he has met accusations of being too soft from both the far-right wing of the Republican Party and the far-left wing of the Democratic Party. The new tariffs could shave up to 0.5 percentage points from Chinese GDP in 2019 and around 0.25 percentage points from US GDP. The implementation of tariffs on all remaining Chinese imports and a commensurate response from China could double the damage. There is hope that the G20 summit in Japan at the end of June will allow Trump and Chinese leader Xi Jinping to resuscitate the trade talks as they did in Buenos Aires in December last year.

- Following a prolonged absence from the market, the People's Bank of China announced that it increased its gold reserves in April by 480,000 ounces, marking the fifth straight monthly increase. China's move to lift its gold reserves follows the example of other emerging markets in their attempt to diversify reserves away from the US dollar. Last year Russia increased its gold holdings by the most in 47 years. The World Gold Council corroborates the trend, noting that central bank gold purchases were up 68% in the first quarter 2019 compared with the same quarter last year. So far, central bank demand has failed to ignite the gold price which for six years has been unable to break above the key resistance level of $1370. The gold price has been in consolidation mode since rising to a record high of $1900 in 2011 and in a tight trading range of $1150 to $1370 since 2013. According to some gold analysts, gold could move sharply higher if it breaks above $1370 potentially targeting its previous record high.

NORTH AMERICA

Contributed by Nick Downing

- Inflation data strengthened in April at both the consumer price inflation (CPI) and producer price inflation (PPI) levels. Headline CPI increased by 0.3% month-on-month lifting the year-on-year rate from 1.9% to 2.0% its highest since December last year. Core CPI, which strips out food and energy prices due to their volatility, increased by just 0.1% on the month but 2.1% on the year, up from 2.0% the previous month. Core CPI was boosted by rising shelter costs, which increased by 0.4% on the month for a second straight month. On a year-on-year basis, shelter costs which make up around 40% of the core CPI basket, increased by a solid 3.8% on the year. PPI, although below its mid-2018 peak of 3.4%, registered a reading of 2.2% in April unchanged from the previous month, and equal highest since last

December. Core PPI, which increased a solid 0.4% on the month, registered 2.4% on the year, also in line with the previous month's figure. Inflation is likely to maintain its gradual upward trend, exacerbated by increased trade tariffs and in response to a tightening labour market and increased wage pressure.

- The Bureau of Labor Statistics' Job Openings and Labour Turnover (JOLT) Survey shows the total number of job openings increased in March by 346,000 lifting the total to 7.5 million, exceeding the total number of unemployed by 1.28 million. Employment opportunities have exceeded the number looking for work for 13 straight months, indicative of a very strong labour market. Further evidence of a strong labour market is found in the quits rate, which measures voluntary separations initiated by the employee and is a useful measure of workers' willingness or ability to leave their jobs. The quits rate maintained an annualised rate of 2.3% for a fifth straight month, indicating confidence among employees that jobs are plentiful.

- According to the Wall Street Journal economist survey conducted in the week ending the 7th of May, 69.1% of respondents expect wage growth to increase from its current year-on-year rate of 3.2%. Wage growth has remained consistently above the 3% level since August last year when it was breached for the first time since the 2008/09 global financial crisis. Despite rising wage pressure and 65.5% of respondents expecting productivity to decline from the 2.4% year-on-year pace recorded in the first quarter, most respondents expect inflation to rise only modestly over the year. Only 35.7% of respondents expect the US to enter recession in 2020, an improvement on the last two economists' surveys in which around half expected the recession to start in 2020. However, the latest survey was taken prior to the recent escalation in the US/China trade dispute. The survey showed that 51% of respondents expect the Fed's next policy move to be a rate cut rather than a hike, up from 44% in the previous survey.

CHINA

Contributed by Nick Downing

- China's exports unexpectedly fell in April by 2.7% year-on-year in stark contrast to the 14.2% increase recorded in March. The decline is attributed to general weakness in global demand and the diminishing impact of export front-loading ahead of tariff implementation. More encouragingly, China's imports grew by 4.0% on the year, improving from the 7.6% decline in March, helped by a boost to domestic demand from fiscal and monetary stimulus. On a bilateral basis, exports to the US fell 13.1% on the year more than reversing the 3.7% increase in March, while imports from the US declined by 25.7% similar to the previous month's 25.8% decline. In aggregate, the trade surplus, traditionally a reliable engine of China's GDP growth, fell sharply from $32.7 billion in March to $13.8 billion in April, putting pressure on the second quarter economic growth outlook.

JAPAN

Contributed by Carel la Cock

- The Nikkei-Markit manufacturing purchasing mangers' index (PMI) increased to 50.2 in April from 49.2 in March. The survey indicates that with the PMI rising above the neutral 50-level, Japan's manufacturing sector is expanding again. Although new orders were lower, it fell at a slower pace. Weak demand for exports remains a problem across the region impacted by the ongoing US-China trade dispute and is likely to intensify with the escalation in tariffs from both parties.

- Wages in Japan fell for a third consecutive month in March and were down 1.9% year on year following a drop of 0.7% in February. Real wages were also down in March by 2.5% year on year after a drop of 1% in February. The wage data was below the consensus view of a 0.5% fall. The Japanese government blamed the weak numbers on a change in the way they gathered the data and analysts have suggested that lower bonus and overtime payments impacted average wages negatively. The reading is surprising given the low unemployment rate in Japan which stood at 2.3% in February. However, economists point out that with the planned increase in consumption tax in the autumn and other headwinds including the fallout from the scuppered trade talks between US and China, unemployment could increase which will further lower wage growth. Lower wages will also further hamper the Bank of Japan's (BoJ) inflation target of 2%. The central bank will most likely have to rachet up its stimulus plans which could bolster the stock market.

- Japan's Cabinet office released its index for economic conditions for March, which was down 0.9% from February, prompting a downgrade in outlook from "weakening" to "worsening". The index provides policy makers with insights on the stages of the business cycle. Although chief cabinet secretary, Yoshihide Suga, insisted that the increase in consumption tax will go ahead in October, market observers have pointed out that there is a likelihood that it might well be postponed. It was postponed in 2016 by prime minster Shinzo Abe, when conditions were far more favourable than they are now.

EUROPE

Contributed by Carel la Cock

- German factory orders rose by a modest 0.6% month on month in March but were down 6% from the year before largely due to weak domestic demand offsetting an improvement in orders from abroad and especially from the Euro area. In contrast industrial output for March rose 0.5% month on month following an increase of 0.4% in February, marking the fourth consecutive increase. The increase came from construction activity which saw the best first quarter growth in three years helped by unusually good weather. The overall industrial output reading came in ahead of expectations of a 0.5% contraction and helps to dispel fears that the German economy might be heading for a recession. Furthermore, exports also rose unexpectedly in March by 1.5% month on month and 1.9% year on year while imports rose 0.4% in March and 4.5% from a year earlier. Economists predict that GDP figures being released this week might beat expectations. There is currently a divergence between sentiment surveys which point to gloomy conditions and hard data which point to economic resilience, although the German economic ministry has warned that industrial weakness is likely to remain for the remainder of the year.

UNITED KINGDOM

Contributed by Carel la Cock

- The Office of National Statistics (ONS) released initial estimates of the first quarter GDP growth for the UK last week. The UK economy grew by 0.5% in the first quarter and by 1.8% compared with the same quarter last year, which was in line with expectations and ahead of the 0.2% growth in the last quarter of 2018. Higher growth in the quarter is partly attributed to the low base effect from weak numbers in December. The services sector contributed 26 basis points (bps) while production added 19 bps to the quarterly 50 bps growth. Household expenditure was up 0.7% and contributed 42 bps, reflecting the strong labour market, while gross capital formation was the biggest contributor adding 194 bps. Higher imports which grew 6.8% in the first quarter, negatively impacted growth by 216 bps. Overall the growth was largely attributed to households and businesses stockpiling ahead of the 29th March initial Brexit deadline, driven by fear of a no-deal Brexit and supply chain disturbances. Economists have warned that the outlook for the rest of year will be subdued as there will be no repeat of the stockpiling seen in the first quarter and that uncertainty regarding Brexit remains. Household consumption however remains strong and could be the main driver of growth this year.

FAR EAST AND EMERGING MARKETS

Contributed by Carel la Cock

- There has been a flight from risky assets since last week when US president, Donald Trump, upped the stakes in the ongoing US-China trade talks. Increased trade uncertainty has prompted investors to move assets to relative safe havens and out of emerging markets (EM), impacting both the EM bourses and the currencies. Risk pricing gathered momentum on Monday 13th May, exacerbated by China announcing tariffs on $60 billion of US imports. On the day, Taiwan and South Korea's stock markets lost 1.6% and 1.3% respectively as investors outlook on these export-dominated economies soured. US Treasury yields were pushed lower and the Japanese yen strengthened by 0.9%, both countries seen as safe havens. Of the emerging market currencies, the Turkish lira was the poorest performer losing 1.9% to the dollar. The broad MSCI FX index fell by 0.7%. Michael Hanson, head of global macro strategy at TD Securities, predicts that the Chinese renminbi will weaken by as much as 5 to 6% and would act “as a shock absorber to the economic impact of heavier tariffs”. With the escalation in the US-China trade war and with no resolution in sight, it could be a bumpy road ahead for emerging market stocks and currencies.

KEY MARKET INDICATORS (YEAR TO DATE % AND LEVEL)

JSE All Share	+ 6.90	56373
JSE Fini 15	+ 5.18	17228
JSE Indi 25	+ 9.23	69561
JSE Resi 20	+ 6.18	43581
R/$	+ 0.15	14.33
R/€	+ 2.38	16.08
R/£	- 1.36	18.58
S&P 500	+ 12.17	2811
Nikkei	+ 5.88	21191
Hang Seng	+ 11.94	28550
FTSE 100	+ 6.47	7163
DAX	+ 12.48	11876
CAC 40	+ 11.24	5262
MSCI Emerging	+ 5.26	1016
MSCI World	+ 10.75	2086
Gold	+ 0.21	1283
Platinum	+ 7.40	852

Brent oil	+ 28.42	69.91

BOTTOM LINE

Contributed by Kirk Swart

- The outcome of the National Election will be one that pleases most South Africans. The ANC managed to attract 57.6% of the national vote which gives Cyril Ramaphosa the needed mandate to implement stage 2 structural reforms. The DA came in with 20.8% of the national vote and the EFF with 10.8% of the vote.

- The 'Cyril effect' came through very strongly for the ANC. It is believed that as many as 200 000 voters voted for the ANC nationally while voting for the DA provincially. Statistics like these places Cyril in a very strong position within the ANC. Without Cyril, the ANC`s support might very well have dipped below the 50% mark in this election. The ANC managed to hold onto the economic power hub of South Africa, Gauteng, with 50.2% of the vote. We can expect economic growth and the rebuilding of brand South Africa as the biggest projects in his upcoming reign.

- However, digging deeper into the statistics of the 2019 elections indicates that there are very valuable lessons that political leaders must learn. Today the ANC is seen as a political party, not as a revolutionary organisation anymore. The numbers show an ever-increasing decline in ANC support as they are being punished for poor governance. Their support declined from 62% in 2014 to 57% in 2019. They are being measured against the same yardstick as the other parties now.

- The 'Old Guard' must make way for the youth. In 2019, 26.779 million people were registered to vote. Of that figure, only 66% voted. This translates to a decline of 983 155 votes nationally from the 2014 election where the voter turnout was 73.48%. The voter turnout has been declining with every election since 1999, where the voter turnout was 89.3%.

- A more alarming statistic is that around 10 million voters are eligible to vote but have not registered to do so. Of that figure, the majority are 'born free'. The 'Old Guard' will have to sit up and listen. The youth is trying to tell them something. There is no party that they resonate with or feel any loyalty to. There is a big youth vacuum that needs to be filled. Have the current political leaders asked the youth what is important to them? Are they perhaps tired of identity politics? Unfortunately, using scare tactics and finger pointing is not getting them to the ballot box. Politicians need to adapt or run the risk of losing 10 million votes to somebody that does offer them an alternative.

- The 2019 elections were a good one. Cyril received the strong mandate that South Africa desperately needs. The South Africa of tomorrow feels much better than the South Africa of yesterday. Stage 2 economic reforms can now begin. However, the elections have shown us that political parties will have to adapt or die. Too many South African citizens feel that the current political landscape doesn`t offer them anything. This needs to be addressed before the 2023 and 2028 elections. If not, the current political parties won`t be around for much longer.

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