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Newsletter

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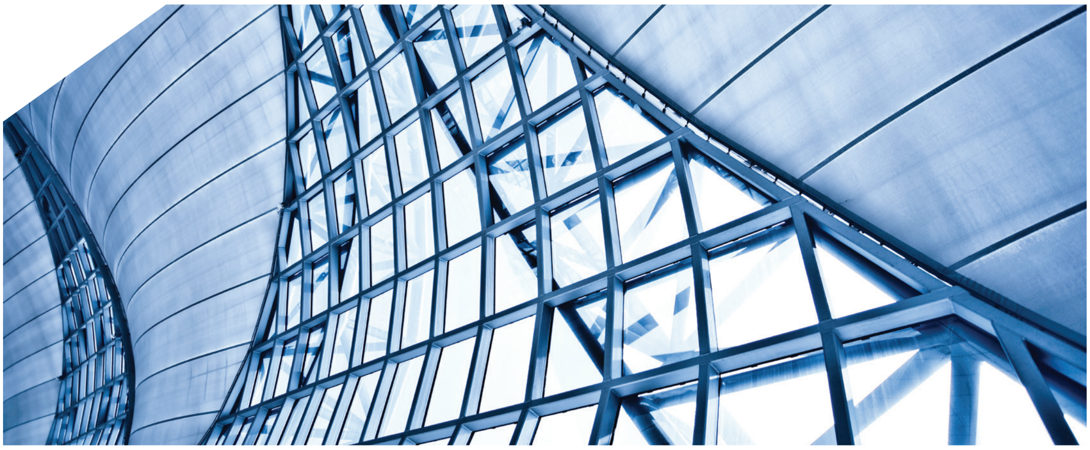

ECONOMIC COMMENTARY

- By Francois Stofberg

We're almost at the end of 2018!

For the last time before the festive season, let's recap on what has been making the markets move:

The drag of uncertainty

What should have been a good week on South Africa's market was turned sour by global uncertainty and the volatility that flows from it. After a favourable G20 (an acronym used to represent the group of the twenty largest economies in the world) summit, and strong local GDP figures, global investors were looking for higher-yielding, riskier assets, which briefly supported local stocks and the rand.

During the G20 summit, the much-anticipated talk between Presidents Donald Trump and Xi Jinping went as smooth as it possibly could. That is, the two global leaders from the US and China decided to enter a trade war ceasefire for 90 days – delaying the US tariffs that would have been imposed on Chinese imports in January, worth $200 billion. During this time no additional tariffs would be levied on one another and trade talks would commence to attempt reaching a peaceful agreement of sort. We don't have our hopes up; the truth is that talks haven't even come close to the real issue, the forced transfer of intellectual property and technology from US firms who want to do business in China.

Building on this spurt, positive sentiment was the strong GDP figures reported for SA's third quarter. Although analysts surveyed by Bloomberg only expected an increase of 1.6%, Statistics South Africa (StatsSA) reported a quarterly increase of 2.2%. Furthermore, as we expected, the second quarter was revised upwards from -0.7% to -0.4%. Both will most likely see SA reach an annual growth rate higher than our original 0.7% forecast, closer to 1%, maybe even slightly higher. Strong growth is mainly a result of low base effects; having contracted considerably in the first two quarters, both agriculture and mining have now returned to more "normal" output levels. During the third quarter, manufacturing increased 7.5% quarter on quarter (q-o-q) and agriculture increased by 6.5% (q-o-q). Other sectors that contributed substantially to the strong quarter were the transport (5.7%) and finance (2.3%) sectors. Unfortunately, mining was down 8.8% – lower investor sentiment, a delayed mining charter, power outages, strikes, and low global commodity prices are all making it difficult for miners in SA. Construction was also down by 2.7% and the electricity sector by 0.9%. These leading indicators emphasise the slow growth-environment SA is still in and will most likely remain in during 2019 and 2020.

Nevertheless, the trade war ceasefire and strong local GDP performance initially lead to healthier local markets and a recovering rand. But then, almost inevitably, markets were yet again shaken by uncertainty when the CFO of China's largest cell phone producer, Huawei, was arrested in Canada. Meng Wanzhou was arrested by Canadian authorities on 1 December on allegations that she committed fraud to sidestep sanctions against Iran. As a result, the US opened a case against Wanzhou and have ordered her extradition to the US. Chinese authorities are upset with the news and, as always, confessing innocence. Heightened tensions between the US and China convinced markets that trade wars might come back with a vengeance to drag down global growth and markets with it. Once again, we believe erratic markets have overreacted considerably. We expect a cool down over the next couple of weeks towards the new year and more positive market growth in the earlier parts of 2019.

Wishing you and your family compliments of the season and a very prosperous 2019!