Sygnals

October 2019

Market Review

The IMF made a fifth cut to its 2019 global growth forecast, reducing the forecast to 3% for 2019; this is its weakest level since 2009, caused by trade war tensions that are undermining investment and growth. The World Trade Organisation cut its forecasts for global trade growth for 2019 to 1.2%, also the lowest level in a decade. Central banks continue to do their best to support growth, with the US Federal Reserve Bank cutting interest rates for the third time and restarting quantitative easing, while the Reserve Bank of Australia cut rates to a record low of 0.75%. India also cut rates, and Russia's central bank cut their key interest rate from 7.0% to 6.5%. Enhanced liquidity from central banks, combined with a partial US-China trade deal, resulted in emerging markets reaching their strongest levels in three months. At quarter end, October flash PMIs also suggested a potential upturn in global manufacturing, which should see the market strength continue into year end. Despite renewed demand, however, oil remains sluggish at $56 a barrel, after Russia said it is still too early to talk about deeper output cuts.

SA – Shocking Medium-Term Budget Policy Statement

September's Manufacturing PMI fell sharply to 41.6 index points, its lowest level since August 2009. Another round of load shedding is likely to further hit confidence, and Eskom was awarded an additional R59 billion bailout. SA's unemployment climbed to its worst levels in more than 11 years, at 29.1%. The medium-term budget policy statement was shocking, offering no plans for the restructuring of Eskom's R450bn debt. In 2020/21, the budget deficit is expected to widen to 6.5%. Debt as a percentage of GDP is expected to climb to 71.3% in 2022/2023 without stabilising – and this excludes the taking over of Eskom's debt. The government took on R9.2bn of SAA debt, the first example of contingent liabilities being realised, and the SABC, Denel and SA Express also received cash. Government has given up on trying to contain the wage bill – "the expected savings from compensation and other measures announced in the 2019 Budget have been reversed." There is little evidence of anything being committed to in this budget, and there is consequently a high risk that Moody's will downgrade its outlook to negative.

US – Fed resumes QE

The ISM PMI for September came in at 47.8, its lowest reading since June 2009. The Fed announced it would begin purchasing T-bills at an initial rate of USD 60bn/month, at least into Q2 2020, to ensure sufficient reserves and "to mitigate the risk of money market pressures that could adversely affect policy implementation". This is effectively quantitative easing; the Fed will be buying Treasury Bills instead of Treasury Bonds but will still be increasing its balance sheet. The Fed also cut rates for the third time, by 25bps, to 1.50%–1.75%. Additional liquidity, combined with relatively strong Q3 earnings, pushed the S&P500 to new highs.

EU – Mario Draghi out, Christine Lagarde in

The European Manufacturing PMI fell to a seven-year low of 45.7, and ECB President Mario Draghi presided over his final Governing Council meeting. Draghi outlined his achievements and said his legacy was to "never give up." There was no change to policy, and Christine Lagarde will take up the reigns at the next meeting, in November.

UK – Brexit delayed again, general election announced

EU chair Donald Tusk said the bloc has agreed to the UK's request for a "flextension" until 31 January 2020, meaning that Britain could leave earlier if Parliament ratifies the fourth withdrawal agreement. However, the postponement comes with conditions, including a refusal to renegotiate the withdrawal agreement. Prime Minister Boris Johnson finally got his wish and a snap election is scheduled for 12 December, the third election in four years, which will see Johnson's Conservative party up against Jeremy Corbyn's Labour party. Voters must choose between Brexit and a more socialist outlook.

China – Growth at 29-year low

China's economic growth slowed to 6% in the third quarter, its slowest growth in 29 years, but real time data continues to stabilise. In addition, China said parts of the text for the first phase of a trade deal with the US are "basically completed", and Trump and Xi Jinping aim to sign a deal at the APEC conference in November. However, there is now uncertainty as to when this will happen, as Chile has cancelled the conference.

Key indicators

		1 month	3 months	6 months	1 year	2 years	3 years	5 years	10 years
J203T	FTSE/JSE All Share Index	3.1%	0.8%	-1.9%	11.5%	1.1%	7.1%	5.8%	11.2%
J200T	FTSE/JSE Top 40 Index	3.0%	0.2%	-2.4%	12.4%	0.8%	7.7%	5.6%	11.0%
J210T	FTSE/JSE Resources 10 Index	7.3%	5.7%	3.8%	17.5%	16.6%	18.8%	3.5%	3.2%
J211T	FTSE/JSE Industrials 25 Index	0.3%	-3.4%	-3.9%	13.4%	-5.9%	3.8%	5.0%	15.5%
J212T	FTSE/JSE Financials 15 Index	3.3%	2.6%	-5.2%	5.5%	6.4%	8.2%	5.5%	12.7%
J403T	FTSE/JSE SWIX Index	2.6%	0.4%	-4.4%	9.5%	-1.3%	4.5%	4.5%	11.3%
J433T	FTSE/JSE Capped SWIX Index	3.6%	1.5%	-3.6%	6.0%	-1.6%	3.2%	3.5%	-
J303T	FTSE/JSE CAPI Index	3.7%	1.3%	-1.3%	9.2%	1.0%	6.4%	5.5%	11.2%
J253T	FTSE/JSE SA Listed Property Index	1.9%	-1.5%	-1.4%	0.8%	-9.5%	-3.1%	2.3%	11.2%
ALBI	JSE All Bond Composite Index	-0.3%	1.1%	3.3%	13.0%	10.3%	8.5%	7.5%	8.8%
STeFI	STeFI Index	0.6%	1.8%	3.6%	7.3%	7.3%	7.4%	7.2%	6.5%
	MSCI World Index In SA Rands	2.3%	8.1%	9.3%	15.3%	10.4%	16.2%	14.6%	16.9%
	Rand/US Dollar Exchange Rate	-0.3%	5.3%	5.5%	2.3%	3.4%	3.9%	6.5%	6.8%
	Rand/Euro Exchange Rate	2.1%	6.1%	5.0%	0.8%	1.2%	4.5%	4.0%	3.9%
	Headline CPI	0.3%	0.9%	2.2%	4.1%	4.5%	4.7%	5.0%	5.1%
	PPI	0.2%	0.3%	2.5%	4.1%	5.1%	5.2%	5.1%	6.0%