

The Brexit fear: Was it overdone?

Table 1: Selected financial market indicators: 15 July 2016*

	Closing		Week*	Month to date *	Year to date *	12 Months*
JSE : All Share Index (ALSI)**	53 088	↑	3.5%	1.7%	4.7%	1.9%
JSE Top 40 Index	46 454	↑	3.4%	14.0%	1.4%	-0.3%
JSE Industrial Index	78 931	↑	2.7%	0.3%	0.5%	4.9%
JSE Financial Index	40 847	↑	4.2%	0.6%	-0.3%	-9.2%
JSE Resources 20 Index	32 378	↑	5.5%	6.9%	27.5%	-14.7%
SA Listed Property Index	655	↑	2.8%	1.0%	7.5%	3.5%
Dow Jones Industrial Index	18 517	↑	1.1%	1.2%	4.1%	2.6%
S&P 500 –USA	2 162	↑	1.6%	3.0%	5.8%	2.5%
FTSE 100 –UK	6 669	↑	1.2%	2.5%	6.8%	-1.3%
Nikkei 225- Japan	16 498	↑	9.2%	6.0%	-23.08%	-19.0%
DAX 30 – Germany	10 067	↑	4.6%	4.0%	6.3%	-12.6%
S&P ASX 200 –Australia	5 510	↑	3.7%	5.3%	4.0%	-1.2%
Rand / VSA Dollar (Negative = Depreciation ZAR)	14.36	↑	1.6%	3.5%	7.2%	-16.2%
Rand / Euro (Negative = Depreciation ZAR)	15.87	↑	1.5%	3.9%	5.5%	-16.7%
Rand / Pond (Negative = Depreciation ZAR)	18.96	↓	-0.5%	4.8%	17.2%	2.3%

* Closing prices

**JSE = Johannesburg Stock Exchange

ZA = South African Rand

Source: FE Analytics

Various global and domestic real economic activity data gave financial markets last week a welcome boost. On the heel of the favourable USA job data the previous Friday, better than expected company earnings in the USA, and good growth prospects for China turned market sentiment to the good. The S&P 500 index in the USA reached record levels a few time during last week. Share markets in Europe, The UK and the Far East also were stronger.

Locally the All Share Index (ALSI) on the JSE increased for six days in a row since the previous Friday. The Index ended the week more than 1800 points higher (3.5%). The Top 40 index increased by 3.4% whilst the Financial index gained 4.2% over the week. The Industrial index was 2.7% and the Resources 20 index 5.5% stronger than a week ago.

Domestic economic factors more and more are starting to show that the South African economy had reached its lowest turning point and that it is at a brink of an economic upturn. The three leading real indicators suggesting a turning point are the strong increase in

real exports of 18% during April and the better than expected increase in manufacturing output by 4.0% and retail sales growth of 4.5% both during May. Together with this strong recovery commodity prices also recorded strong increases. Over the last month gains in the prices for gold (6.6%), platinum (10.3%), silver (22.8%) and copper (4.8%) together with a sharp increase in foreign demand for South African Bonds had shown that the economy is on a recovery path. The effect of the above was that the Rand exchange rate recovered quickly.

The Rand exchange rate has appreciated during the current month to date with 3.5% against the Dollar, 3.9% against the Euro and with 4.8% against the Pound.

The effects of this strong improvement in the Rand on the consumer are threefold:

- A sharp decrease in fuel prices are expected at the beginning of Augusts (See underneath);

- Further decreases in the inflation rate to levels lower than 6.0% are expected. Especially prices for food imports should subside; and
- Further increases in interest rates become more and more unlikely and a possible decrease during next year is now a possibility.

The coming week

Locally this coming Wednesday South Africa's inflation rate for June will be announced. The expectations are that the rate will be around 6.1%, the same as recorded for May. The meeting of the Monetary Policy Committee (MPC) of the Reserve Bank also takes place starting on Tuesday. The MPC will announce its decision on interest rates on Thursday. It is expected that the repo rate will be unchanged.

On the international front the USA will publish various housing data during this coming week. The UK will release its inflation rate for June on Tuesday, whilst Russia will publish its unemployment data for June.

Wednesday the UK will release its latest (June) unemployment rate.

Thursday Japan will publish its industrial activity index for May, whilst the UK will release its latest retail sales data (June). The US will also publish its weekly jobless claims data as well as the manufacturing index for July. The EU will announce its important decision on interest rates at a press meeting

Friday China will release its latest business confidence index, whilst the UK, Germany, The USA and the EU will publish their purchasing manager's indices (PMI's) for manufacturing during June. Canada will also announce its latest inflation rate (June) as well as releasing its retail sales data for May.

The fuel price

The average unit over/under recovery for the period 1/07/2016 – 7/07/2016 was:

Petrol 95: 82 cents per litre over recovery
 Petrol 93: 80 cents per litre over recovery
 Diesel: 45 cents per litre under recovery

Over recovery means the fuel price should decrease. .
 The adjustment to the fuel prices will be activated by the end of the month.

ABOUT THE AUTHOR



Dr Chris Harmse completed his doctorate degree in Economics at the University of Pretoria. Prior to entering the financial services industry, he was a lecturer and professor at the Department of Economics of the University of Pretoria between 1986 and 2005. Dr Harmse was awarded an extraordinary professorship at the School of Economics of the University of Pretoria in January 2006. He served on various Investment Committees and is extensively involved in economic research and asset management.

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