

## March 2018

### Domestic

As widely anticipated, the South African Reserve Bank (SARB) decreased the repo rate to 6.5%. SARB Governor, Lesetja Kganyago, explained that inflation forecasts had remained largely unchanged, with the stronger rand likely to mitigate the temporary inflationary effect of the VAT increase. The SARB's internal forecast model pointed towards a more moderate path of interest rate hikes, with one hike of 25 basis points by the end of 2019. This is compared to two to three hikes at the time of the January meeting this year. The SARB communicated that the decision to relax policy by 25 basis points does not signal the start of a cutting cycle, with the Monetary Policy Committee (MPC) reiterating that they would prefer to see inflation expectations anchored closer to the 4.5% median of the target band.

Moody' credit rating agency left the country's long-term credit rating unchanged at Baa3 (as expected), although the agency's decision to also change the country's outlook from negative to stable was a welcomed surprise. Moody's communicated a more positive stance toward the country's institutional strength given the adoption of a more transparent and predictable policy framework. Nonetheless, the credit rating agency cautioned that the ability of the new administration to push through with the promised and required reforms remains to be tested. The credit rating revive, coupled with a weaker U.S. dollar resulted in the local unit dipping below R11.70 against the greenback for the first time in the month. Local bonds mirrored the stronger rand as the yield on the S.A. 10-year dipped below 8%. Earlier in the month, fourth-quarter growth figures showed that the economy's GDP growth improved by 3.1% (quarter-on-quarter). Overall GDP growth for 2017 came in at a better than expected 1.3% (up from 0.6% in 2016).

For the month, the JSE ALSI returned -4.1%, eroding the total returns for the 12-month period from February's 17.4% to 9.6%. The stronger rand was reflected in the weak performance of the big rand hedge counters with the Industrial 25 Index declining by -5.6%. Both the Resources 20 and the Financial 15 Index also dragged the bourse lower, returning -1.2% and -3.6% respectively. The S.A. Listed Property Index was down -0.9%. Foreigners maintained their net buyer position of local bonds with the All Bond Index up 2%. Cash was up 0.6% for the month.

### International

Amongst global central banks, the U.S. Fed lived up to expectations and increased rates by 25 basis points. The central bank signalled that it is likely to raise interest rate three times in 2018 as opposed to four hikes (as some of the currency bulls had hoped for). This saw the U.S. dollar lose ground against major currencies. The Bank of England left rates unchanged at 0.5% but noted that the tightening of monetary policy over the forecast period would be appropriate as inflation is projected to be above the 2% target in 2019 and 2020. Earlier in the month European Central Bank President, Mario Draghi, announced that the central bank would keep interest rates unchanged. Draghi, however, announced that stimulus in the region could soon come to an end.

Tensions between the two largest global economies escalated after President Trump announced plans to slap tariffs on about \$50 billion worth of Chinese goods. China retaliated with their own measures, saying they would impose tariffs on about \$3 billion worth of U.S. imports. While this was perceived as a cautious approach by China, the negative impact translated into a weaker U.S. dollar and sent global equity markets into negative territory as the risk-off sentiment ensued due fears of a potential trade war.

The latest U.S. jobs report showed that the U.S. economy added an impressive 313 000 jobs in the month of February (making this the biggest increase since 2016), however, wage inflation fell short of expectations.

Easing inflationary pressures weighed on both the greenback and global bond yields. This was reflected in the performance of global bonds as the Barclays Global Bond Index returned 1% for the month. Global equities saw another month of losses with the MSCI World Index down -2.1% while the MSCI Emerging Market Index weakened by -1.8%. On Wall Street, the S&P 500 and the tech-heavy Nasdaq gave up -2.6% and -2.7% respectively. In Europe, the FTSE 100 was down -2%. On the commodities front, Brent Crude reversed last month's losses as the oil price rallied 7.3%. Gold's safe-haven appeal resulted in the yellow metal gaining 0.5% for the month, while platinum was -5% weaker.

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