FINANCIAL BULLETIN OCTOBER 2018

Dear Member

September was a tough month for South African investors as they realised that Ramaphoria probably caused too much optimism for short-term improvement in the South African economy. This became apparent with the release of the GDP growth figure for the second quarter indicating negative economic growth for two consecutive quarters. This puts South Africa in a recession with little or no indication of improvement coming our way soon.

The government did however react quickly as President Ramaphosa announced a stimulus and recovery plan. This plan has five broad parts:

1. Implementation of growth enhancing economic reforms.
2. Reprioritisation of public spending to support job creation.
3. The establishment of an Infrastructure Fund.
4. Addressing urgent and pressing matters in education and health.
5. Investing in municipal social infrastructure improvement.

To have a plan is great, but historically the problem in South Africa always came with the implementation thereof. Let's however be positive and give the new president the benefit of the doubt and a chance to prove the sceptics wrong.

With the weak economy in mind the Reserve Bank decided to keep the interest rate unchanged. It should however be noted that the decision was not unanimous as three of the seven members voted in favor of an interest rate increase. It is clear from this result that some members are concerned about inflation deteriorating further, indicating that we can expect an increase soon should this trend continue.

On the international front Mr. Trump continued with the trade war, slapping a further 10% tariff on $200b of imported goods from China. In his speech at a meeting of the United Nations, he also criticised OPEC for allowing oil prices to escalate; saying and I quote: "OPEC members were as usual ripping off the rest of the world". In this case I tend to agree with him as for decades now OPEC members have manipulated the oil price to best suit themselves and their economies with no regard for the rest of the world. The heavy fuel price hikes we have experienced this year and especially the increase at the beginning of October are partly to blame on the increase in the international oil price.

In last month's bulletin I mentioned that we now have seen the longest bull market in the history of US stocks. This record was extended further with the Dow reaching a new all-time high up by a further 1.97% for September.

As can be seen in the table below SA equity and SA property suffered significant losses during September. Although the Rand recovered some of August's losses against the US$, strengthening by 3.7%, it is still down by 14.7% year to date. The stronger Rand during September inflicted even more pain on local investors by eroding the slight positive performance of international equity.

The table below reflects the returns of the major asset classes during September 2018:

Asset class	Return: September 2018
JSE All Share Index	-4.17%
MSCI World Equity Index (USD)	+0.56%
ALBI (Bonds)	+0.30%
STEFI (Cash)	+0.57%
SA Listed Property	-2.60%
ZAR/USD	-3.7% (Appreciate)

This is a bleak summary of the current financial situation, with a glimmer of a hope that President Ramaphosa will prove the sceptics wrong and successfully implement his recovery plan to avoid South Africa slumping into a deeper recession.

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