
June 2018

World Economy

US confidence indicators remain relatively high, but have continued to soften in recent months. Worries about higher US interest rates and an escalation of the global "trade-war" have started to have an impact. A model by economists at Pictet Asset Management in London reckons a 10 percent tariff on U.S. trade fully passed on to the consumer could tip the global economy into a state of stagflation and knock 2 and a half percent off corporate earnings. German industrial orders bounced back in May with a stronger-than-expected jump after four consecutive monthly drops, data showed. The International Monetary Fund (IMF) cut its 2018 forecast for German GDP growth to 2.2 percent, saying rising protectionism and the threat of a hard Brexit had exposed Europe's biggest economy to significant short-term risks. Britain's large services industry grew last month at its fastest rate since October, a survey showed, prompting investors to increase bets that the Bank of England will raise interest rates next month.

SA Economy

SA consumer inflation surprised on the downside in May 2018, easing to 4.4%/y despite the higher fuel price. SA current account deficit widened sharply in Q1 2018 to a massive -4.8% of GDP. SA recorded an improved trade surplus in May of R3.5 billion, with exports rising faster than imports. Petrol price has risen by R2.26/l in the past four months and by 24% over the past year. South Africa will find it harder to raise funds and service its foreign debt after a worsening of external financing conditions in recent months due to a fall in the rand and rising bond yields, Moody's said. The South African new-vehicle market grew by 3% in June, compared with the same month last year. The Construction Industry Development Board (CIDB) says general building confidence fell by three points in the second quarter – its lowest level in six years. The Standard Bank Purchasing Managers' Index (PMI) indicates that business conditions in the private sector improved in June, following stagnation in May.

Trends and Opportunities

- Two more rate hikes are still expected this year in the US.
- SA interest rates are expected to remain unchanged into late 2019.
- Inflation is expected to continue drifting higher in SA.

"The least initial deviation from the truth is multiplied later a thousandfold." – Aristotle

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