THE QUART 40IFO

OFFICIAL QUARTERLY NEWSLETTER OF **THE OSRIN GROUP**
INCORPORATING OSRIN WEALTH & OSRIN ADVISORY

Quarter 3 in Review

Introduction – The Coin Toss

Welcome to the latest edition of The Quart which reviews the three months to end-September, which were 'eventful' to say the least. By the time you receive or read this note, developments on the ground might well have overtaken events covered (Brexit, for example).

The Osrin Group continues to advise a growing client base on holistic investment and estate planning aspects. Some of the highlights of the last few months, include our (Marina, Tania, Bernard and myself) attendance at a 2-day high level investment conference run by the independent research company, Fund House. Guest speakers at the conference included an array of International fund managers and investment analysts from large international and local investment businesses such as Fidelity, Baillie Gifford, Coronation and Investec. They covered investment themes spanning developed (DM) and emerging market (EM) economies as well as highlighting new investment ideas and opportunities in particular thematic areas such as technology, healthcare and artificial intelligence. I also spent some time in London and the Channel Islands visiting asset managers and trust companies such as Stenham Asset Management (fund management), Riverside Capital (UK real estate), Bellerive Finance (trust and fiduciary services), Vaalon Capital (private equity) and Stenham Trustees Ltd.

The global and local investment environment continues to enthral us, posing interesting risk scenarios that unfold on a day-to-day basis. The detail of some of these risk topics are explored more fully in the attached Quart. For reasons of brevity and while developments in Hong Kong are referred to as significant market risks for several reasons, we have not included a section devoted to these developments and to the Chinese economy as a whole. We will take up the theme at year-end. If any reader wishes to receive a one-page thought piece on Hong Kong, please contact me at **jonathan@osrin.co.za** I especially asked 'The Judge' to leave the SA review segment to the very end as I did not want readers to be too disillusioned before reaching 'half-time'.

The client meetings that we hold daily bring home the harsh realities of the lack of confidence in our beautiful country. They also highlight the risks of investing abroad – Trade, Brexit, Trump, Iran/Saudi, Hong Kong, Argentina to mention but a few. We find many clients putting aside investment decisions for now in favour of exploring opportunities to reside abroad, whether they be for themselves or their children. We are inundated with calls from visa experts who visit here offering visa advice in jurisdictions such as Portugal, Malta, Cyprus, Mauritius and the US.

From a practice perspective we are pleased to advise of the following two exciting developments:

1. We welcome Matthew Osrin (Bernard's son) to the Group. We look forward to have him joining the team early next year. Matthew is no stranger to the office, having been a regular visitor to fund manager presentations and has assisted with investment, administrative and compliance matters, while studying. Matthew hopes to graduate with a Business Science - Finance and Economics degree from UCT in the coming months.

2. The launch of the Osrin Group website is now official. Please log on to **www.osringroup.co.za** to explore our investment offering. Thank you very much to Mandy Katz (nee Osrin), who is my sister, for all her help and patience in getting the website together. There is an option on the website which allows you to register to receive The Quart directly. This is a quick process, requiring just first and last names and an email address.

We hope that all our Jewish clients survived the feast (New Year) and famine (Yom Kippur) period of the past few weeks and wish our Christian clients a Merry Christmas - only 45 shopping days left - and a Happy New Year. Where has the time gone?

At the time of writing the Bokke are poised to play Japan in the RWC Quarter Final. 'Vasbyt manne'. We are certainly not going to dwell on the Proteas ill-fated cricket tour to India. Enjoy this edition. All the best from all of us at the Osrin Group.

Jonathan & Bernard

OSRIN GROUP

[A QUART] Def; A unit of liquid measure of capacity, equal to one fourth of a gallon, or 57.749 cubic inches (0.946 liter) in the U.S. and 69.355 cubic inches (1.136 liters) in Great Britain. Or a unit of dry measure of capacity, equal to one eighth of a peck, or 67.201 cubic inches (1.101 liters).

The Quart is in Session – Are investors still Bok for it?

The third quarter (Q3 2019) was mildly positive for US equities, but relatively flat for DM stocks as a whole, off a very high Q2 base. July, in particular, was a stellar month in the US, and there were sound performances for most of September, but the in-between period was very volatile, with the S&P500 experiencing its worst day of the year on August 5.

Concerns around trade and global growth resulted in a severe retracement from August through mid-September for EM, including South African, counters.

Q3 was simultaneously good for global bonds, with the US 30-year yield hitting two fresh record lows and the US 10-year yield challenging 1.50% to the downside on three occasions. Remember, bond prices rise as yields fall. Indeed, bond prices were rising sharply even in the early part of the quarter when globally shares were doing extremely well, a trend that continued from the second quarter. This might appear to be a case of mixed signals, since bonds normally strengthen, on the likelihood of negative economic and business outcomes.

But in this case, it appears to me that yields were retreating not because of fears of an imminent economic downturn (although the global economic outlook has cooled, US indicators for now are quite resilient), but on expectations of considerable additional central bank policy stimulus. There are other reasons such as a more elderly investor demographic looking for safe-haven assets, and very subdued inflation, which has curtailed yield (income) expectations.

The European Central Bank (ECB), for example, is taking rates further into negative territory and restating its 'whatever it takes' approach to getting the economy back on its feet again, the UK is seen injecting significant liquidity on any Brexit outcome, and the Bank of Japan shows no sign of halting its quantitative easing (QE) programme until inflation gets nearer 2%, which might well be indefinitely.

The US Fed not only came through with two rate cuts in Q3 2019, but has stopped running down its once substantial balance sheet amid signs that it was withdrawing too much liquidity from the financial system and is now contemplating building it up again via further asset purchases. It is possible to undertake QE even where a benchmark rate is well above the zero bound.

Easier financial conditions initiated by looser monetary policy are good news for risk assets like equities. Much of the July optimism was driven by the first Fed cut, and the promise of more to follow.

Monetary policy relaxation in the developed world, serves to keep DM currencies in check, promotes global trade by improving EM countries' terms of trade (they get more for their exports relative to the cost of imports), and places a dampener on global inflation. These are ideal conditions for EM monetary policy authorities to embark on rate cuts of their own to stimulate local growth, particularly in the face of prevailing risks that might threaten that growth. The EM central bank easing cycle began some eight months ago with India. But in Q3 2019, the pace quickened markedly.

In August and September, and clearly triggered by the Fed, EM reserve banks delivered a cumulative 25 rate cuts. To end-Q3, of the more important developing countries, the Reserve Bank of India had lowered rates at four consecutive meetings, the Central Bank of Russia had trimmed rates three times, the Central Bank of Brazil had taken its benchmark rate to a new record low of 5.50% on September 18, Bank Indonesia had moved lower in three successive months, and the Central Bank of Chile had slashed its benchmark rate on September 3 to 2.0%, the lowest level in three years.

And yet, the South African Reserve Bank (SARB) managed only a solitary 25 basis points (bps) reduction at the July 18 meeting. In September, the SARB unanimously decided to keep the repurchase rate on hold at 6.5%, opening itself up to criticism that its policy was unduly tight, but also indicative of the very specific political/ policy and fiscal/ creditworthiness uncertainties facing South Africa at this juncture. These two problem sets are inextricably interconnected.

The ongoing risks to global growth really started coming to the fore in August and September and now include those factors alluded to in the introduction.

These risks have lent ongoing support to (1) government bonds. By August US$15 trillion in DM government bonds carried negative yields, meaning the investor has to pay the government borrower for the privilege of holding its risk-free debt even over a long time period (tenor).

In addition, higher perceived risk has also provided impetus for (2) gold, which has lifted 15.07% year-to-date to end-Q3 (YTD) (6.5% in Q3 alone), topping out at US$1,552.55/ounce on September 4.

Further, (3) the safe-haven greenback has been assisted. The trade-weighted US dollar index (DXY) closed Q3 at 99.3940, better by 3.24% YTD, a level not seen since May 2017. Between the last week of July and the quarter-end, the US dollar appreciated nearly 11% versus the rand. YTD, it has gained almost 5% on the rand, over 7% in Q3 alone. The dollar spiked against sterling in early September on fears of a no-deal Brexit, and the euro in this period also sunk to a 2-year low.

The three major US equity indices, the Dow Jones Industrial Average (DJIA), the S&P500, and the Nasdaq Composite all made record highs on July 15, and as risk appetite intensified, the S&P and Nasdaq surged to new highs on July 26. August, as noted, was a month of trade policy uncertainty and saw a sharp equity reversal, but fears of a bleak September proved unfounded. After an initial period of consolidation, stocks resumed an upward bias. The DJIA enjoyed an 8-day winning streak to September 13 ended by the strike on Saudi oil facilities, amid trade progress and more ECB largesse.

YTD the DJIA is up 15.3%, posting a gain of 1.24% in Q3, with a 1.9% lift in September alone. The S&P is better by 18.6%, putting on 1.02% on the quarter and 1.7% in September. The Nasdaq, meanwhile, has risen 21.83% YTD, but shed 0.1% in Q3, reviving 0.5% in September. When blue chip constituents fare worse than medium-sized and technology shares, risk appetite still has the upper hand. The DJIA has performed in line with the DM average. The MSCI World index has elevated 15.71% YTD, but retreated 0.56% in Q3.

At home, the FTSE JSE Alsi as at end-Q3 was still 6.95% to the good in rand terms, but shed 6.23% in the period from late July. Similarly, the FTSE JSE TOP40 had climbed 7.73%, but retraced 6.96% in Q3. In USD terms our indices are between 2%-3% higher. Our market performance is actually worse than the EM average. The MSCI EM Index is 4.74% better off YTD in US dollars, losing 6% in Q3.

Q3 2019 was actually the worst for SA stocks since 2011. There were many factors at play including (1) a currency/market crisis in Argentina, (2) an uncertain fiscal outlook, particularly regarding the recapitalisation of Eskom, (3) an oil price spike, (4) the pursuit of investor-unfriendly policies like the NHI, (5) a serious erosion of business confidences and (6) fears of a Moodyís downgrade in November post the delivery of the medium-term budget policy statement (MTBPS).

Quarterly Themes

1. The Fed and The US Outlook - Front Row Players Driven Back

The US economy grew 2.0% in Q3, decelerating from a prior 3.1% pace. US business investment weakened. US firms are being affected by the trade spat, which is shutting down their markets and raising input costs. They are not therefore committing to capital investment. As a possible result, US manufacturing began to contract in the quarter. Inflation was still subdued. The job market remained strong, and consumer spending elevated, but confidence waned with more concerns about trade being expressed. Most would have said that the US economy to end-Q3 was still in a 'good place', although trade was a 'persistent headwind' weighing on business sentiment.

With pressure on long-term yields, an expectant investor class, and a sniping President, the Fed cut the fed funds rate target range to 2.0%-2.25% on July 31. There were two dissenters, who saw no reason for easing policy. Chairman Powell noted that the move was a 'mid-cycle adjustment', just one of a few possible cuts and not the start of a long easing cycle. The Fed would act as appropriate to support the current expansion. It did not foresee a recession. The problem for the dissenters was that the Fed was breaking with its traditional data-dependent approach, and moving on a pre-emptive basis principally on the basis of market signals. This approach for them was not mandate compliant.

The relative constraint of the Fed got markets into a froth, such that by August 14, the yield curve inverted for the first time since 2007, i.e. the rate on the 2-year Treasury rose above that of the 10-year. These inversions historically have been signifiers of future recessions, so either major market players really believed that a serious economic reversal was at hand, or they were trying to cajole the Fed into deeper cuts. The cynic in me believes the latter.

Even if the economic outlook has soured, the single biggest threat to that outlook, in the form of hyper-aggressive trade policy, emanates from the White House, and its course can be altered at any time by the President.

By the time Powell spoke again, he made it clear that while monetary policy could do much, it could not 'provide a settled rulebook for international trade'. The inference was clear; if policymakers wanted to address the consequences emanating from trade tensions, they should adjust their policy i.e. if the President was so worried about the economy, cutting rates was not going to help him.

As the abusive Presidential tweets intensified ('clueless', 'the enemy', 'boneheads'), respected former New York District Fed president William Dudley argued that cutting rates was 'enabling' Trump. The Fed should prevent him continuing 'down a disastrous path of trade war escalation', by sending a signal that if he chose to do so, he would bear the risks, including that of losing in 2020.

On September 18, the Fed again cut by 25 bps in light of the implications of 'global developments' for the outlook as well as 'muted' inflation pressures, although the US economy was still growing at a 'moderate' pace and the labour market 'remains strong.'

There were three dissents, the most since the December 2014 meeting, with the same two voters, Esther George, and Eric Rosengren, again opting for no cut, while James Bullard preferred 50bps. The summary of economic projections showed that the median view of Federal Open Market Committee (FOMC) member for 2019 US GDP growth actually rose to 2.2%.

The 'dot plot' of the fed funds rate trajectory revealed that five members thought no cut was warranted, five wanted 25bps now, but rates steady for the rest of 2019, while seven sought at least one more cut this year. The median view is that there will be no rate cuts in 2019, nor in 2020. The prevailing view among FOMC voting members is probably for at least one more cut, this or next year. The problem is that markets want more, and if they are not forthcoming, even if Trump de-escalates the trade conflict seeking re-election, the net outcome could be equity- and USD-negative.

2. Trade War - What The Ruck is Going On?

In March 2018, the US administration began raising tariffs on Chinese imports, commencing with US$50 billion's worth of goods. In May 2019, Trump lifted a 10% tariff imposed last year to 25% on US$200 billion's worth of Chinese imports, alleging that the Chinese had reneged on a trade agreement. He threatened the Chinese with a similar tariff on all categories of goods not yet covered. The Chinese retaliated by upping the average tariff on US goods and agricultural products to around 20%. Trade hostilities had broken out into the open, and markets responded very negatively.

Matters worsened in Q3. Immediately after another round of bilateral trade talks, Trump on August 1 announced that the US would impose a 10% tariff (not 25% as earlier threatened) on an additional US$300 billion of imports from China, with effect September 1. The list covered finished consumer goods (final goods) i.e. items like clothes, toys, watches, smartphones and electronic goods, where higher tariffs will lead to higher consumer prices. Later, the introduction of these additional tariffs was staggered. A 10% tariff on consumer goods' imports of US$160 billion is scheduled for December 15. The Trump tariff policy would then cover 96.8% of all Chinese imports.

On August 23, China responded by releasing a plan to retaliate on US$75 billion of US exports, effective September 1 and December 15. The most important development was an elevation of the average tariff on US autos from 12.6% to 42.6%. China still maintains virtually zero tariffs on US aircraft and pharmaceutical imports with relatively low tariffs on capital equipment.

So it was that August became synonymous with a period in which the trade conflict 'went deep', and markets particularly in EM jurisdictions, which rely heavily on global trade, supply chain efficiencies and trade policy certainty for their own growth, reversed spectacularly.

So how big a deal is the trade dispute economically? Is it really, as future ECB president Christine Lagarde would have it, 'a big, dark cloud' weighing on the global economy? I think it is, but ironically it is a far bigger deal for smaller trading nations, like South Africa, and for large logistic hub economies like Singapore, than for the actual protagonists themselves.

The Chinese export sector is +-18.25% of Chinese GDP. Even if trade with the US were to come to a standstill, China would only be exposing around 3.5% of its GDP (perhaps 5% including activity linked to trade). This was not the case a decade ago when exports accounted for over 60% of Chinese growth. The economic system is transitioning into a more developed, domestic market-oriented model. Still, US imports create jobs for 1.8 million Chinese and the prices of US agricultural products can serve to keep Chinese food inflation, which ratcheted up to 10% in August, in check. China is also heavily dependent on US advanced technology goods. These are the points of leverage the US can exploit.

The flipside is that the US consumer base is 70% of the US economy, its strength dependent on its spending power, which in turn requires cheap south-East Asian imports. If the current tariff scenario plays out this could have a cost impact of around US$1,000 per household p/a on US inflation.

US agriculture, food and related industries comprise about 4% (farming itself under 2%), and manufacturing around 12%, of the countryís output. The farming sector needs the Chinese market desperately, which is why the Trump administration had to roll out a US$16 billion federal aid package to stricken farmers, whose exports to China were threatened. And US manufacturing is heavily exposed both to the cost of Chinese inputs as well as access to its enormous market, for its products.

In economic terms, these sectors comprise only 16% of GDP, but politically they count for far more, being at the heart of Trump's support base. And this is China's main point of leverage.

I do not believe that the trade conflict at present poses a recession risk for either China or the US, but it does severely challenge global growth. China has the greater pulling power having more control of its currency, holding over US$3 trillion's worth of Treasuries, and being able to cut off agri-imports.

In 2018, China bought around US$10 billion's worth of agri-products and US$120 billion's worth of high-end technology goods from the US. For the first four months of the year, when the Chinese thought the Americans were negotiating seriously, they reduced their trade surplus with the US by a full 10% year-on-year (yoy). When the President upped tariffs to 25% in May, the Chinese largely stopped buying non-essential US products and actually widened the surplus such that by end-June it was up 15% yoy. In August, the trade surplus with the US grew by a further US$27 billion. There is no end in sight. Simply put, the US needs China economically, more than China needs the US.

The nub of the issue is as follows. During the original Cold War, the US and the Soviet Union were implacable foes, fighting for global domination, but their economies were not interlinked at all. Now that China has emerged as an economic power and a contender for global superpower, with a competing ideology, the US finds itself in the unfortunate position of being extremely dependent on China, more particularly for the massification of the products of its knowledge economy.

Trump's oscillation between carrot and stick has contributed to market unease. A tumultuous August was followed by a more mellow September. On the 23rd it was announced that Treasury Secretary Mnuchin and US Trade Representative Lighthizer would meet with Chinese Vice-Premier Liu He, who crafts China's economic policy, for trade talks on October 10. China immediately placed a large order for US soybeans and pork, knowing that Trump would take credit for this concession.

Two days later Trump delivered a blistering attack on Chinese trade and development practices at the UN, slamming the 2001 deal that saw China admitted to the World Trade Organisation as a 'disaster'.

Here, Trump is on much firmer ground. He is correct to draw attention to China's refusal to open its economy, its use of non-tariff barriers, including coercion, to restrict foreign companies' operations, its theft of trade secrets, the commandeering by the Communist Party of the private sector, and its abuses of trade relations with poorer countries, whose resources it has mercilessly plundered.

But, while this critique is largely on point, I do not trust Trump to take a principled stand. We have heard urgings, a call for US companies to divest from China, and a threat to restrict investment flows, including the forced de-listing of Chinese companies in the US. Why not just stop selling advanced technology? But these are for the long game of global dominance, not really an issue now for Trump.

He will do what it takes to get re-elected, which is why despite disavowals of any 'bad trade deal', he will sign an incomplete deal that will reduce or postpone tariffs, and lift markets for which he will take the credit, having created the problems in the first place.

And he will pursue his tariff campaign elsewhere. The post-NAFTA deal is not finalised, he will impose tariffs on European automakers, and he will take his trade crusade to any country which he feels deals to the disadvantage of the US. That is his mission. And it is a message that resonates with supporters.

3. Impeachment Prospects and The Markets - One Forward Pass Too Many?

On September 24, House of Representatives Speaker, Nancy Pelosi, announced that the House would commence a formal impeachment inquiry into President Trump. The inquiry was prompted by a whistleblower complaint regarding a telephone call on July 25, in which the President, after previously withholding nearly US$400 million in military aid to Ukraine, asked Ukrainian President Zelenskiy to 'look into' potential 2020 election rival Joe Biden, and his son, Hunter, who sat on the board of a Ukrainian gas company in Ukraine, while his father was in office.

The essence of the complaint is that Trump abused his office by attempting to solicit interference from a foreign country in the 2020 US election, for his own benefit.

Secretary of State Mike Pompeo was on the call, and Trump suggested Zelenskiy be in touch with his private lawyer, Rudy Giuliani, as well as Attorney-General William Barr, to address the situation.

The call also revealed that Trump asked Zelenskiy to 'do us a favour' and investigate CrowdStrike, an American cybersecurity firm that investigated the hacking of the Democratic National Committee.

The White House suppressed records of the call, withholding it from Congressional scrutiny until September 24 after intense media exposure. But the call transcript proved to be only half the story.

The whistleblower report transcript was released two days later. The whistleblower, a credible, senior intelligence officer acting on information thought to come from a transcriber, cited additional concerns about a meeting between US officials and Zelenskiy and his advisors a day after Trump's call, about how to 'navigate' Trump's demands. The complaint also alleged that Giuliani, a private party, had met with a Zelenskiy advisor in early August as a 'direct follow-up' to the call.

But even more damning were allegations that senior White House officials had intervened to 'lock down' all records of the phone call, pulling the electronic transcript from the computer system and placing everything into a separate electronic system utilised to store and handle especially sensitive classified information, even though the Trump call had nothing to do with national security at all.

It was indicated that this had occurred previously with other 'sensitive' communication (subsequently learned to be at least with Russian President Putin and Saudi Crown Prince Mohammed bin Salman).

In other words, there had been an elaborate cover-up. It is often the case (certainly with Nixon), that the cover-up is as bad or worse than the original crime. I argue that this is not the case in this instance.

There is some background here. Trump has history. There are currently six House Committees investigating Trump's activities, two sitting Grand Juries, and the Mueller report, the evidence of which or so the author said, leaned towards a prima facie case of obstruction of justice. No remedial action was recommended because it is policy not to prosecute a sitting President. Moreover, a separate whistleblower report sits with the House Ways and Means Committee alleging Trump's unlawful and corrupt interference into an IRS audit into his tax affairs.

But it was always the Democrats' intention not to follow the impeachment route ahead of the 2020 election for fear of divisiveness and appearing partisan. It is not easy to impeach a President because the process is not legal, but political. Constitutionally, a President can be removed from office following 'impeachment for, and conviction of, treason, bribery, or other high crimes and misdemeanors.' The latter phrase has been interpreted to include obstruction of justice, suborning perjury and witness tampering.

The House votes on articles of impeachment by a simple majority as it did with President Johnson in 1868 and President Clinton some 130 years later. President Nixon resigned ahead of the impeachment vote, because senior Republicans refused to support him any longer. This is Trump's greatest concern.

No President has ever been convicted in the Senate, where the 'trial' is presided over by the Chief Justice of the US Supreme Court and where senators act as jurors. A two-thirds majority of Senate votes (67) is required for a conviction. At present, the Senate is comprised of 53 Republicans, 45 Democrats and two independents who ordinarily support the Democrats.

Would the acts Trump allegedly committed meet the threshold for impeachment? I am of the opinion that they would, which is why the Democrats on legal advice, did not hesitate to proceed once the facts became apparent. They also relied on growing public support (47%) for such a move.

Trump is accused of an abuse of power, and more specifically an abuse of his foreign affairs authority, for personal gain. These allegations entail a violation of his oath of office, his oath to defend national security and his oath to uphold the Constitution. The cover-up actually is the least of it.

It is instructive that over 300 former national security officials from both parties' previous administrations endorsed the impeachment inquiry. The facts will be fleshed out via detailed depositions and documents from key individuals. Already key individuals have been subpoenaed. It is inevitable that a lot of hitherto unknown allegations will surface, which might drive public support for impeachment well above 50%, and raise the likelihood of the Republicans breaking ranks.

How do these developments affect the markets? On the day when the official impeachment inquiry was announced, and on the release of the whistleblower transcript, equities were negatively affected.

I do not view this simply as a question of Trump 'being good for markets', although he and many others argue that his presidency has been very beneficial for investors. It is more a question of how his policies might be impeded because of the distractions, the uncertainty relating to what other injurious information is yet to be revealed, and how his behaviour might become ever more erratic (and therefore generate greater market risk) as the pressure mounts.

That said, should Trump endure beyond the impeachment vote, that is if Republicans continue to rally around him fearing consequences in 2020, and should Trump not be convicted in the Senate, as almost certainly will be the case, markets stand to rally.

4. The Global Oil Market and The Iran/Saudi Conflict - A Long-range Drop

On September 14, 20 to 25 drones and missiles struck key Saudi oil infrastructure, including the critical Abqaiq processing plant, and Khurais, its second largest oilfield, in Saudi Arabia's hydrocarbon heartland. Prior attacks had been confined to more peripheral infrastructure such as pipelines.

20 drones and missiles were identified in the wreckage and they achieved a very high strike rate. The materiel was found to be extremely sophisticated, and undeniably Iranian. It is common cause that while the Iran-backed Houthi rebels in Yemen claimed responsibility, only the Iranian military would have had the capacity to actually fire them. US officials claimed on September 17, that they were launched from southern Iran, but flew so low that they evaded US and Saudi detection.

President Trump a day later said the US knew who the culprits were and the country was 'locked and loaded', an aggressive phrase like so many before 'full of sound and fury', but perhaps signifying less. Trump later indicated that he did not want a war with Iran (i.e. there were no plans for regime change), in the same vein as his retreat after a US drone was shot down by Iran in April.

Trump is an isolationist. His base wants US troops home. The US is in the process of exiting Syria, leaving the country to the Russians and Iranians and the Kurdish enclave to the Turks. It is common knowledge that Trump wants to meet Iran's President Rouhani, just as he did with North Korea's Kim. He enjoys a photo opportunity. While they have to date not met, I would not rule this out. His firing on September 9 of National Security Advisor, John Bolton, tells me that Trump wants to deal.

But Trump has for the past 18 months ratcheted up pressure on the Iranian economy. In May 2018 he took the US out of the 2015 Iran nuclear deal, and imposed wide-ranging sanctions on the Iranian government. In April 2019, he terminated waivers that allowed some countries to still acquire Iranian oil. After the recent attack he imposed sanctions on the Central Bank of Iran 'at the highest level'.

The pressure has starved Iran of hard currency and its oil output, which quite recently topped 3 million barrels per day (bpd), has dwindled to around 770,000 bpd, with 130,000 bpd in exports.

In the strike's aftermath, which took around 5.7 million bpd off the market (half of Saudi's capacity or 5% of global supply), Brent crude surged around 20% (the biggest moved since the 1990-91 Gulf Crisis), only to recover to end about 14% higher, at approximately US$68/ barrel (bbl). But, fears of an oil spike have not come to pass, which appears strange considering that Saudi oil infrastructure is now plainly in the crosshairs, and all the talk was of a higher oil premium being built into the price.

Saudi promised to effect repairs quickly and within a week opened the attack sites to experts, and completed repairs before the end of the month, well ahead of schedule.

Brent at end-Q3 got to US$58.89/bbl, the early August level, and lower before that then at any time since January. The OPEC crude basket topped out at US$66.43/bbl, but likewise eased to US$59.65.

To understand why the impact of the attack has been muted we have to look at the global oil market.

World daily oil consumption is just over 100 million bpd. The three largest producers are the US, Russia and Saudi Arabia. The OPEC cartel of which Saudi is the de facto head, only produces around 30% of global oil, a figure that has steadily declined, but is now falling sharply as output from Iran, Venezuela and Libya has been restricted. Russia is not a member, but has a production agreement with OPEC.

Saudi was once the world's swing producer. When it put a break on production, supply was curtailed, and when it produced more (over 11 million bpd), markets were well supplied. But the US is now a major oil producer and exporter (3 million bpd plus), even as it still imports from Mexico and Canada, but very little from the Middle East. The Gulf of Mexico has become as important as the Persian Gulf.

This takes a lot of risk out of the oil price.

President Trump has also shown a willingness, unlike his predecessors, to tap US strategic petroleum reserves to keep the oil market balanced. Constrained global growth which has lowered consumption growth estimates in China, Indonesia, India and other big consumers, and a huge oversupply in 2018, have placed downward pressure on oil. Further, the US has the ability to pressure the Saudis to up production when it so demands, as it did after the Khashoggi murder.

Iran's attack was calculated. This was not an act of economic desperation as many have portrayed it, but a deliberate gambit to compel Saudi and its neighbours to deal with it and its regional ally, Qatar. You can be sure that a lot of Iranian oil will be bought covertly. Saudi Arabia, that is fighting proxy wars with Iran in Syria, Yemen and Bahrain, will tread more carefully, even as US troops exit the theatre.

And if you think this is just about oil, you would be mistaken. The combination of less aggressive Sunni Arab states, and a disinterested US, has brought the region's two military powers, Israel and Iran, whose chief proxy Hezbollah, is very active in the region, undeniably in my view, closer to conflict.

5. Johnson and Brexit - Heading for The Line in Injury Time

Boris Johnson convincingly beat Jeremy Hunt in the race for leadership of the Conservative Party and on July 24 took up his position as new British Prime Minister (PM). His first month in office was characterised by bellicose rhetoric aimed at his pro-Brexit support base. He promised Brexit 'come what may', 'deal or no deal'. He later softened his tone, talking of Europe as a natural ally and making a trade arrangement with Europe, a priority. Sterling tracked his vocal sentiments.

In the last week of August, Johnson advised the Queen to prorogue Parliament for five weeks to October 14. By that time, and because of repeated extensions by former PM May, Parliament had been in its longest continual session since the English Civil War. Johnson's advice was challenged in the High Court of England and Wales and also in the Court of Session of Scotland. The first court dismissed the case holding it not justiciable in a court of law, while the Scottish court found bad faith on the part of the PM, in effect that he had misled the Queen.

On September 3, Parliament returned from the summer recess. On September 6, the Benn Act was passed, despite initial opposition from the government. The Act provides for Parliament to oversee the terms of leaving the EU. If by 19 October an exit deal is agreed, or indeed if no deal is agreed, it is up to the House to give consent to either, failing which the PM is obliged to ask for an extension of the negotiating period to achieve a withdrawal agreement, until January 31, 2020. The Benn Act, whatever Johnson says about it being 'a surrender act', is part of British law. Obviously, it is within the discretion of the EU, indeed any individual EU member, not to grant any further extension.

The government's response was to call for a snap general election. Both its attempts failed.

Between September 17 and 19, appeals from both cases were heard by the Supreme Court, Britain's highest judicial authority. The court found that Johnson's advice was unlawful, having the effect of frustrating or preventing, without reasonable justification, the ability of Parliament to carry out its constitutional functions, in this case scrutinising legislation necessary to achieve an orderly withdrawal from the EU by October 31, with or without an agreement. No finding of bad faith was made.

The decision had the effect of focusing the PM's mind, and he began to undertake serious negotiations with the EU, and particularly with the Republic of Ireland, to overcome the main sticking point to any current withdrawal agreement, the so-called Irish backstop. The backstop is intended to keep the Northern Irish border with the south open, as mandated by the Good Friday Agreement, which ended the Irish conflict. New models were suggested including a temporary economic zone, and limited adherence to EU industrial and trade policy. These suggestions were not well received in Europe.

An open border with no customs checks and tariffs will only be allowed if Northern Ireland remains subject to the rules of the common market, certainly that it remains part of the customs union, until such time as a solution is found to the problem. A hard border dividing the rest of the UK from Northern Ireland for trade purposes, has to be established. Obviously if a free trade deal is agreed after the transition period, the problem will be resolved, but if it is not, the backstop will remain in place at the discretion of the Europeans, until they are satisfied with any solution.

At the time of writing, and on the understanding that the Benn Act is law, and the PM has emphasised that he will obey the law, I cannot see an easy way for resolving the

Irish question in a manner that would receive approval from all the EU states, as is required. It is not impossible, however. My base case is that Johnson will be forced to concede come October 19, and will be compelled to request an extension of Article 50. He will blame the House for frustrating the will of the British people.

A further extension period might shore up sterling a bit, but nothing has been achieved during any prior extension. Uncertainty would merely intensify. The problem is that Westminster cannot deliver on the Brexit referendum because for many MP's, Brexit even with a deal would forego too many economic benefits, and for just as many, any deal overly compromises British sovereignty. The prospect of an election in which Jeremy Corbyn becomes the new PM, is frankly untenable. So, lawmakers are essentially wavering between the 'undeliverable and the unelectable'.

Perhaps the impasse will finally break the mould of British politics, by realigning political factions, so that a definitive decision can be reached.

In the meanwhile, the UK economy is weakening. GDP contracted in the second quarter, and activity in the large services sector, is beginning to reverse sharply. Businesses unlike politicians, cannot keep postponing their decisions indefinitely.

6. SA Economy, The SARB and The MTBPS - Kicking for Touch

In Q1 2019, the SA economy contracted 3.2% and yoy growth flatlined. The heart of the problem lay in the combined effect of lower exports, weaker fixed investment, and falling household spending.

Q2 saw a rebound of 3.1% to an annual rate of 0.9%, which topped estimates, and was helped by mining, services and economic activity in the public sector relating to the elections. While the net trade effect was negative, household expenditure climbed 2.8% on the quarter and fixed investment rose 6.1%, assisted by public transport equipment purchases. This was the first fixed investment quarterly gain since Q4 2017. The outcome gave the newly elected government some much needed breathing space.

Prior to the release of the GDP report, the Argentinian currency and market crisis following a primary election surprise on August 11, combined with rising trade tensions, Eskom's announcement of a further R21 billion loss, and increased debt issuance as part of the then R128 billion Eskom bailout, led to a massive outflow of portfolio funds. Fears of a Moody's ratings downgrade to sub-investment (junk) grade, occasioning an exit of SA bonds from the Citi World Government Bond Index, abounded. Such an exit would trigger the forced sale of about R100 billion in SA debt instruments. The yield on the SA generic 10-year bond elevated 50 bps by the third week in August, the rand collapsed from around R14/USD to R15.48, and a full 27% of all listed JSE companies fell to 52-week lows in that time.

On cue, Moody's weighed in. It trimmed its 2019 SA GDP forecast to 0.7% from a prior 1.0%, but reassured that it was unlikely to downgrade SA's credit rating provided the country remained 'on its current trajectory', which I take to mean that the agency still trusts the Ramaphosa administration to undertake the necessary reform measures that it has spoken to the government about. The elephant in the room is Eskom and its R440 billion debt pile, which government, despite promised bailouts, cannot finance. Moody's is looking for a restructuring plan (a three-entity split was mooted, but later seemingly retracted), as well as details of a financing plan, which have not been forthcoming. But plans are clearly afoot, since the tabling of the MTBPS has been postponed to the very latest possible time for its delivery, October 31. Pre-existing policy uncertainty, and the August developments, saw business confidence plummet in that month. The SACCI Business Confidence Index collapsed to 89.1, a 34-year low. To put this in context, the last time such depths were plumbed was during the debt crisis of 1986, and the low-grade civil war in 1992, when armies were on the march and bombs were exploding in central Johannesburg. The RMB/BER Business Confidence Index, meanwhile, slipped to 21 in Q3 2019, its lowest level since mid-1999, versus 28 in the previous quarter.

The numbers stand as a terrible indictment of the government's mishandling of the economy. You simply cannot blame a French ref this time.

The SARB delivered a 25bps cut on July 18, citing moderating inflation outcomes, and expectations, as well as 'concerning' risks to growth. It almost halved its GDP growth forecast for 2019 from 1.0% to 0.6%. However, in September, the Monetary Policy Committee (MPC) unanimously deciding to keep the repo rate unchanged at 6.5% even as the near-term inflation outlook further subsided, and inflation expectations continued to moderate. The MPC was concerned about the depreciation of the rand, and saw possible knock-on effects on the fuel price, which spiked in September. I think the SARB missed a trick here, an opportunity to build a greater buffer to cushion SA from any potential growth shock. A further rate cut on November 21, the last SARB meeting, has been factored in by markets.

The most important upcoming event is the tabling of the MTBS. Observers will be watching for deterioration in key metrics such as the gross debt to GDP ratio, the fiscal deficit to GDP ratio, debt servicing costs and public sector remuneration as a proportion of the budget, changes up or down to projected revenue collection and the expenditure ceiling. Most important, will be the communication of a strategic plan to rehabilitate Eskom. This might well be communicated ahead of

October 31. The challenges are almost insurmountable, and they do not now come in the form of corrupt enablers.

Lack for capacity remains a concern. But even more worrying is the expected backlash from Eskom's long-standing managerial cadre and its unionised civil servants, and how this will be managed. These echelons remain the biggest obstacles to a turnaround.

I do not expect Moody's to cut SA's credit rating in November, provided a workable plan (at least one workable in theory), for Eskom is presented. My conviction is that the postponement of the MTBPS was deliberate so as to achieve this outcome. To the extent that currency and fixed income markets are factoring in a more than 50% probability of a downgrade, I expect some rand and bond positivity.

The Quart is adjourned
By order of the Judge (GPP)

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