

STRATEGY NOTE:

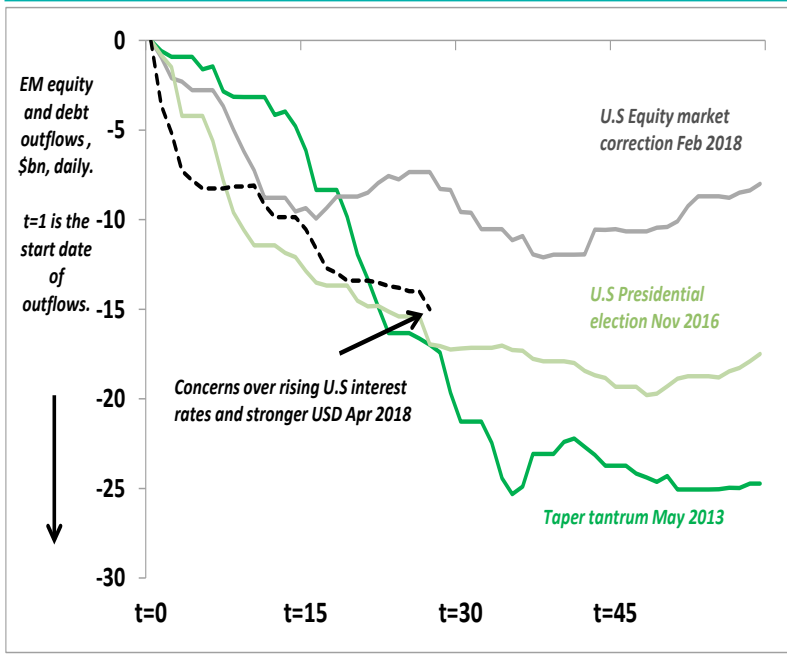
WE EXPECT THE DOLLAR BULL TO CORRECT, EM EQUITIES TO FIND SUPPORT BUT THE STRONGER RAND WILL LEAVE THE JSE VULNERABLE

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EM FLOWS



Source: DS

- The stronger US dollar and rising US interest rates has led to outflows in both Emerging Market (EM) bond and equity funds.

MSCI EM, TESTING MAJOR SUPPORT

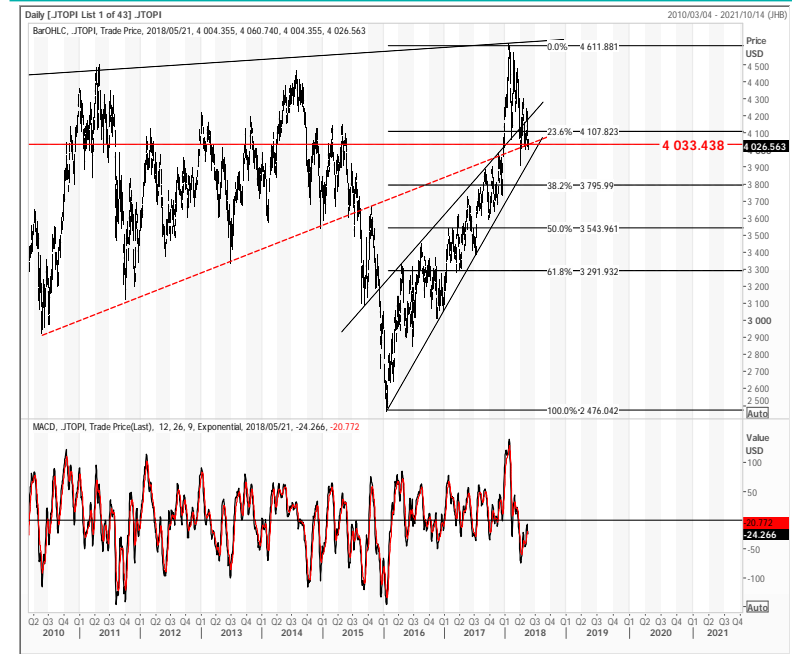


Source: Reuters Metastock

- As pointed out above: As global financial conditions tightened and the dollar started rallying, outflows out of the EMs gained momentum and the EM equity index corrected within the bull channel.
- A break below 1,135 would project further downside potential to the neckline and the 38.2% Fibonacci retracement level at 1,053.
- We expect the 1,135 support to remain intact for a few weeks as the dollar corrects its short-term overbought situation.
- The relative to the MSCI World index is also testing an important neckline. A break below the 2016-high (0.29) would confirm that the rally since the start of 2016 was never a bull trend.
- The latter is our view: We believe 2016 and 2017 was a correction phase in a major bear trend. We believe the continuation of this bear trend is now starting to unfold.



JSE TOP-40 (\$), CLOSE TO MAJOR SUPPORT



Source: Reuters, Nedbank CIB

- The JSE in \$-terms is testing a neckline from 2010, and is close to the bottom of the bull channel since 1Q16.
- As we pointed out last week, the dollar is overbought and a correction phase is imminent in our opinion. Therefore we expect these support levels to hold in the short-term.
- Our view, however, remains that as 2018 unfolds the dollar will remain in a bull trend and that this will force investors out of the carry trade. We therefore expect further downside potential for the JSE.

JSE SWIX AND RELATIVE TO SA ALBI, SPOT AND RELATIVE TOPPING OUT



Source: Reuters, Nedbank CIB

- We believe that the JSE SWIX rally during 2Q18 is way too overlapping to be a bull trend. The MACD indicates that the market is no longer oversold and is rolling over with spot.
- Our target level for the next phase of the bear trend is 12,093. A sustained break below that level would indicate further downside (to the 2016-low at 10,782).
- The SWIX/ALBI relative (bottom panel) rallied as we had expected, and is now losing momentum. We do however expect the relative to rally further, to the 38.2% retracement level, before we will be able to call a top in equity outperformance.

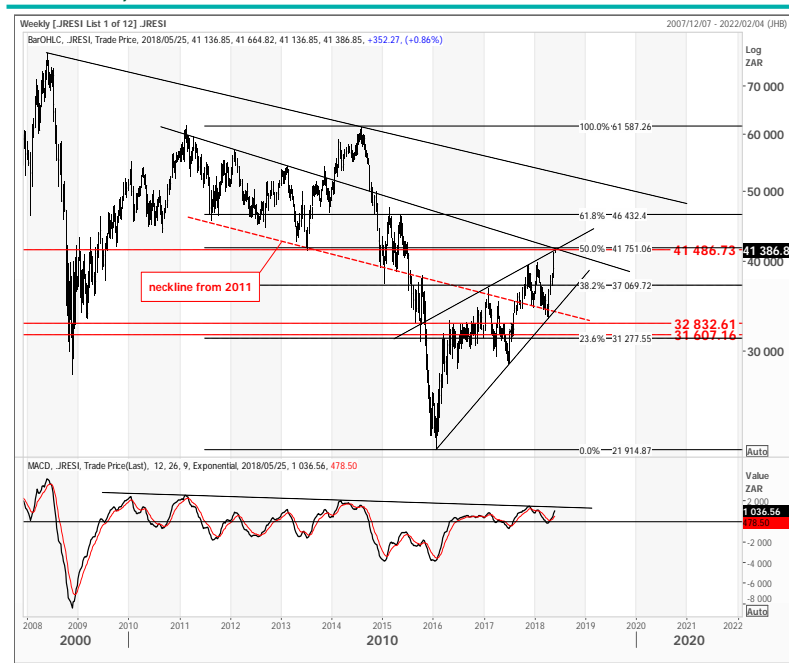
JSE INDI-25, THE RALLY SINCE APRIL IS LOSING MOMENTUM



Source: Reuters, Nedbank CIB

- The Indi-25 bull trend is losing momentum. A break below 71,346 would confirm a break out of the bull trend that has been intact since 2013.
- A break below 71,346 would most likely project further downside potential to 64,871 (where wave C would be equal in length to wave A).
- The INDI/ALSH relative (bottom panel) has marginal downside potential in our opinion, but we do not expect a break below the red support line.

JSE RESI-10, TESTING IMPORTANT RESISTANCE LINES



Source: Reuters, Nedbank CIB

- We expect the rand to recover as the dollar bull trend is now very overbought. This would remove some of the fuel that boosted the Resi-10.
- Therefore, we do not expect the Resi-10 to break above 41,486.
- The price action since the start of 2016 is not indicative of a trend, as it is very overlapping.

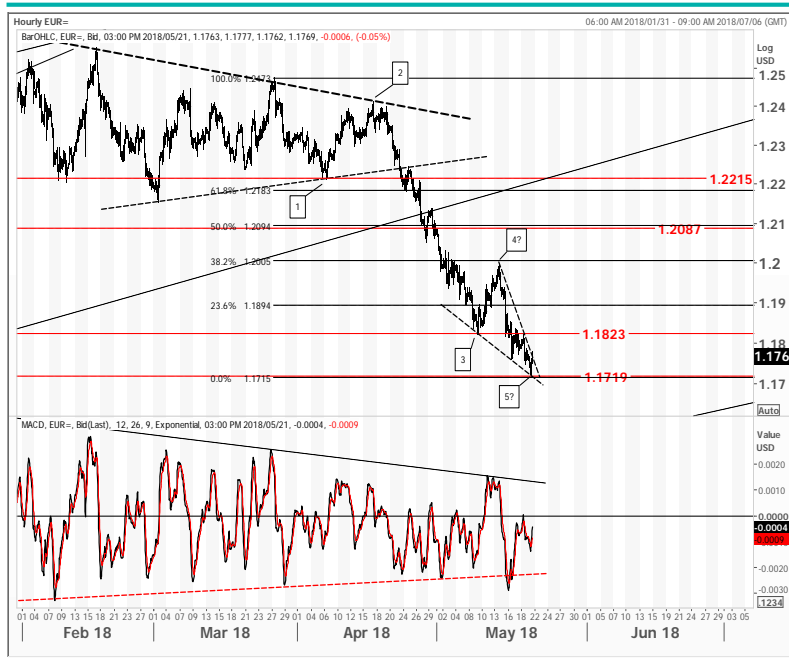
MSCI EM BANKS, CLOSE TO MAJOR SUPPORT



Source: Reuters, Nedbank CIB

- The dollar strength triggered a correction in the EM Banks index (to test a Rubicon level at 381).
- If we are correct in our view that the dollar bull will correct soon, then the 381 level should remain intact.
- Our longer-term view, however, remains that the EM banks (and EMs in general) will break below the current support levels, thereby triggering bear moves to the 2016 lows.

EURO-\$, WE EXPECT A RALLY TO 1.20



Source: Reuters, Nedbank CIB

- As explained above, the dollar strength since the start of April 2018 triggered profit taking in risk assets.
- The current euro-dollar bear is counting complete and a rally should materialise.
- Our target for this rally is the 38.2% Fibonacci retracement level at 1.20. The general rule is that a falling or rising wedge will retrace the entire wedge in the correction phase (post the completion of the wedge).