

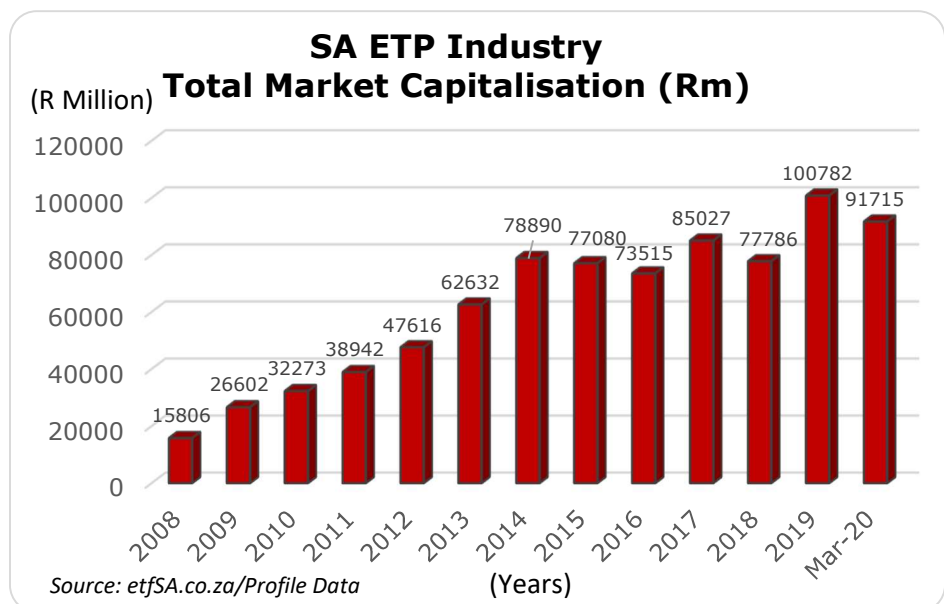
State of the South African Exchange Traded Product (ETP) Industry – as at 31st March 2020

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Market Capitalisation

Having reached over R100 billion at the end of 2019, the total market capitalisation (size) of the Exchange Traded Funds (ETFs) and Exchange Traded Notes (ETNs), listed on the JSE, fell to R91,7 billion as the end of March 2020, a decline of 9%.

Two factors were responsible for the market cap fall, namely the sharp decline in financial markets in March due to the COVID-19 epidemic, plus a significant reduction in the number of shares in issue for platinum and palladium ETFs during the quarter.



The decline in ETF/ETN prices in March 2020, was more significant for SA indices tracking equity and bond ETFs, than for the global index tracking ETFs listed on the JSE where rand depreciation dampened the fall in prices. Precious metal prices, as in the case with the last market collapse in 2008, provided a good defensive hedge in the current market turmoil, but, as mentioned earlier, share redemptions in PGM metal ETFs helped contribute to the market capitalisation decline, by offsetting price increases.

New Capital Raised

Total capital redeemed in the first quarter of 2020, amounted to R11 190,1 billion, the most significant decline in the size of the ETP industry in South Africa for the past 20 years.

JSE listed Exchange Traded Products are open-ended, so new creations or redemptions can take place at any time. In recent years, there has been a shift to constant creations or redemptions, often on a daily basis, by certain ETP issuing companies.

In this way, the issuing companies ensure that over or under-supply of the ETPs in the secondary market does not lead to the ETF or ETN trading away from its net asset value (NAV) price. But it also takes pressure off the market makers to add or reduce liquidity to the market in order to ensure that the ETF trades at its fair value. The increasing volumes of ETFs traded on the JSE, and more recently, higher volatility, has also put pressure on the market makers. The constant creation/redemption strategy has helped release this pressure.

Table A

Creations/(Redemptions) in the First Quarter of 2020 by Issuer	
Issuing House – ETFs	(Rm)
Invest	(5 481,9)
Absa Capital	(1 549,6)
Ashburton	(23,3)
Cloud Atlas	0,7
CoreShares	176,9
FirstRand	5,1
Satrix	119,6
Sygnia Itrix	387,6
Issuing House – ETNs	
Absa Capital	47,0
Deutsche Bank	(5 672,2)
Union Bank of Switzerland	800,00
Total	(11 190,1)
ETFs	(6 364,9)
ETNs	(4 825,2)
<i>Source: etfSA.co.za Quarterly Securities in Issue and Capital Raised/Redeemed Survey – March 2020.</i>	

Invest – which is the new brand for the merged Standard Bank and Standard Liberty ETF business, had to process significant reductions in the shares in issue, during the first quarter, for its Africa Palladium ETF (R4 488,3 million). There were also sizeable redemptions in the Invest Rhodium ETF (R631,4 million) and the Platinum ETF (R164,5 million).

These redemptions might have been due to profit-taking by certain institutional holders of such PGM ETFs to offset losses elsewhere. There were also some reports that such redemptions were the function of certain investors making delivery against positions held in derivative markets.

Absa Capital – also redeemed a significant number of securities during the quarter for its PGM metal tracking ETFs. The NewGold Platinum ETF (R2 200,4 million) and the NewGold Palladium ETF (R517,5 million) redemptions were the two main products.

All JSE listed ETFs have to be 100% physically backed by bullion. The delivery of significant amounts of bullion onto the markets from the redemption of South African listed PGM metal ETFs, did not dent the rise in prices on these precious metals, which would indicate that at least some redemptions were used to cover short positions in other markets.

Sygnia Itrix – of the issuing houses that focus on equity-listed ETFs, Sygnia Itrix fared best. Only 2 of the 10 ETFs it has in issue, track South African equity indices, so Sygnia Itrix benefitted from its focus on global index tracking ETFs.

UBS – the Union Bank of Switzerland provides the balance sheet for supporting the credit risk of actively managed ETNs, which are not required to be 100% backed by physical assets. It focuses on actively managed ETFs, where the portfolio can adjust under certain parameters, not only index constituent changes.

Asset managers, using the UBS structure, include Absa, Momentum, Efficient Group and others. During the first quarter of 2020, four additional ETNs were launched under this label accounting for new capital raised of R800 million.

Deutsche Bank – in January 2020, Deutsche Bank announced the delisting of the three popular ETNs it has had in issue since 2003, covering Emerging Markets, China and Africa. These three ETNs had a market capitalisation of R5,7 billion on the date of delisting (20 January 2020), so a significant reduction of the size of the ETP industry occurred on that date.

Snapshot of the SA ETP Industry as at 31 March 2020

Table B

The South African Exchange Traded Product Industry (as at 31 March 2020)						
	Issuer	Number of Products		Value (Market Cap) of Shares in Issue (Rm)		Total Market Capitalisation (Rm)
		ETFs	ETNs	ETFs	ETNs	
1.	Absa Capital	17	5	33 186,4	720,3	33 906,7
2.	Sygnia/Itrix	10	-	19 954,1	-	19 954,1
3.	Satrix Managers	15	-	16 885,4	-	16 885,4
4.	Invest	13	-	7 188,4	-	7 188,4
5.	CoreShares	8	-	3 939,1	-	3 939,1
6.	Ashburton	5	-	3 193,8	-	3 193,8
7.	UBS	-	13	-	2 255,5	2 255,5
8.	Standard Bank	-	8	-	1 663,7	1 663,7
9.	Investec	-	2	-	1 525,7	1 525,7
10.	FirstRand (RMB)	3	-	1 179,9	-	1 179,9
11.	Cloud Atlas	2	-	23,0	-	23,0
Totals		73	26	85 550,1	6 165,2	91 715,3
Source: etfSA.co.za / JSE / Profile Data (31/3/2020).						

One significant change in the ETP industry in the first 3 months of 2020, was **Sygnia Itrix** regaining its position as the second largest ETP issuing house in South Africa, from **Satrix Managers**. Satrix had snatched second spot from Sygnia in late-2019.

However, **Sygnia Itrix's** positioning as a predominantly foreign ETF issuer on the JSE, enabled it to comfortably pass Satrix in the last three months, with a total market capitalisation of R19,9 billion versus R16,9 billion for Satrix. Substantial redemptions of South African index tracking equity ETFs issued by Satrix, plus the greater proportionate fall in SA equity prices in comparison with foreign markets, which were also boosted by the rand's depreciation, contributed to a bad quarter for Satrix.

UBS now holds seventh position amongst the 11 issuing houses of ETFs/ETNs in South Africa, as it continues to move steadily into contention as a major player in the local market. It now has 13 actively managed ETNs in issue which cover global as well as South African equity portfolios. A new asset class covered in this stable is global property, with an ETN managed by Reitway Global, issued in the first quarter of 2020.

Disclaimer: The Exchange Traded Products (ETPs) contained herein are mainly Collective Investment Schemes in Securities (CIS) and other listed securities which are generally medium to long-term investments that contain elements of risk and can be affected by market values, interest rates, exchange rates, volatility, dividend yields and issuer credit ratings. ETPs are listed on the Johannesburg, or other Stock Exchanges, and trade at ruling prices on such Exchanges.

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