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GLOBAL MARKETS
SENTIMENT IMPROVES

The upturn in global sentiment seems to have continued this week, with markets strengthening across the board after a tough start to the 2016 year. Oil prices have also risen from their twelve year lows, largely owing to rumours that OPEC and Russia are in talks to cut supply. Over the next few weeks, central bank optimism is likely to drive sentiment, with further quantitative easing from both Japan and the ECB expected. Focus will also remain on the US and the impact global markets are having on the US economic outlook.

Oil is now trading at $35/bbl after reaching a twelve year low of $27/bbl. The recovery in the oil price is largely due to speculation that an agreement will be reached between producers to cut supply. At the World Economic Forum in Davos, Khalid al-Falih, chairman of the state-owned oil company in Saudi Arabia, described the current oil prices as “irrational” and said that he expects the market to recover in 2016. While it was made clear that Saudi Arabia would not cut production unilaterally, he said that they would be willing to cut production if other OPEC countries as well as some of the largest producers (such as Russia) would do the same. However, he did note that there has been a structural shift in the oil market with the introduction of shale oil in the US. Even if the OPEC countries and the likes of Russia do agree to cut supply, this may not be enough to have a significant influence. In response, the vice president of Russia’s second largest oil producer said they would not oppose joining output cuts as long as they received political backing from their government.

While an agreement between oil producers is still far off, the talk of a deal has been enough to calm markets and the price of oil. The World Bank is forecasting oil to average $37/bbl for 2016. This is down from $52/bbl three months ago.

In the US, the Fed released a statement following their January FOMC meeting, which was slightly more dovish than expected. The Fed have been consistent in stating that their decisions regarding further rate hikes will be largely data dependent and in the statement they acknowledged that some economic indicators have deteriorated since their last meeting. Inflation forecasts were downgraded and the Fed will be keeping a close watch on global developments and the impact these will have on the US economy. While a rate hike in March has not been ruled out, it seems the economic and financial picture will need to improve significantly for this to occur.

In the Euro Area, any doubts of additional easing by the ECB have been all but implemented by Mario Draghi who stated that the credibility of the ECB would be at risk if they failed to drive inflation higher from the current level of 0.2% towards the 2% target.

Joining the easing party, the Bank of Japan (BoJ) announced that they too would be adopting negative interest rates, lowering the rate on bank deposits with the BoJ to -0.1% (from 0.1% previously). This surprised economists who were expecting the BoJ to leave rates unchanged. With a target inflation rate of 2%, the BoJ also revised inflation expectations downwards. It expects CPI to remain around 0% for the time being.

This upcoming week, markets will look to the US payroll numbers, especially in light of the recent dovish comments by the Fed. Attention will also be focused on data out of Europe with the Bank of England and ECB due to meet during the week.

DOMESTIC MARKETS

DOWNGRADE CONCERNS CONTINUE …

The SARB hiked the repo rate by 50bps, to 6.75%. In a markedly split vote, out of the six MPC members, three voted for a 50bp hike, two for a 25bp hike and one member voted for no change; clearly illustrating how difficult the current environment in South Africa is with regards to monetary policy. While the mandate for the MPC remains an inflation targeting regime, voting members have a lot of other factors to take into consideration. On the one hand they have rising inflation which needs to be contained but on the other hand they have a struggling economy which will be further crippled by higher interest rates.

In their statement, the MPC pointed to a deterioration in its inflation forecasts, principally due to the sharp depreciation of the Rand since the last MPC meeting as well as to higher than expected food price inflation. Headline inflation is forecast by the SARB to average 6.8% in 2016 and 7% in 2017 (up from 6% and 5.8% respectively). Inflation is forecast to peak at 7.8% in Q4 2016.

Aided by a more positive global sentiment, the markets have reacted positively to the interest rate decision. The Rand strengthened 3.5% over the week, bond yields fell and equities ran, the JSE All Share rising 3.1% over the week.

Prior to the SARB interest rate decision, S&P rating agency released another statement regarding their outlook for SA. S&P reiterated its view that persistent slow growth impacted by factors such weak demand for SA manufactured goods from Europe, low commodity prices, electricity shortages and subdued confidence were major inhibitors to the country's credit worthiness. S&P also warned that low growth combined with potential needs of state owned enterprises posed risk to the country's fiscal consolidation objectives. Finance Minister Pravin Gordhan has promised to deliver a strong budget. The pressure is certainly on and whether he manages to achieve this remains to be seen.

February will be an important month in determining the near term outlook for South Africa with both the State of the Nation Address as well as the Budget Policy Statement on the agenda. While markets have reacted positively to the SARB's interest rate decision, there are still concerns of a downgrade by rating agencies and strong focus will be on how the government plans to reduce the fiscal deficit and grow the economy.

WEEK AHEAD

UPCOMING ECONOMIC EVENTS

DATE	EVENT	PERIOD	SURVEY	PRIOR
SOUTH AFRICA				
1-Feb	Barclays Manufacturing PMI	Jan	45.2	45.5
1-Feb	Naamsa Vehicle Sales YoY	Jan	-4.10%	-4.20%
3-Feb	Standard Bank South Africa PMI	Jan	49	49.1
4-Feb	SACCI Business Confidence	Jan		79.6
4-Feb	Electricity Consumption YoY	Dec		-2.40%
4-Feb	Electricity Production YoY	Dec		-1.50%
UNITED STATES				
1-Feb	ISM Manufacturing PMI	Jan	48.5	48.2
3-Feb	ADP Employment Change	Jan	190k	257k
3-Feb	ISM Non-Manfucating PMI	Jan	55.1	55.8
5-Feb	Trade Balance	Dec	-$43.20b	-$42.37b
5-Feb	Change in Nonfarm Payrolls	Jan	190k	292k
5-Feb	Unemployment Rate	Jan	5.00%	5.00%
EURO AREA				
1-Feb	Markit Eurozone Manufacturing PMI	Jan	52.3	52.3
2-Feb	PPI YoY	Dec	-2.80%	-3.20%
2-Feb	Unemployment Rate	Dec	10.50%	10.50%
3-Feb	Retail Sales YoY	Dec	1.50%	1.40%
CHINA				
1-Feb	Caixin China Manufacturing	Jan	48.1	48.2
JAPAN				
3-Feb	Consumer Confidence Index	Jan	42.5	42.7
5-Feb	Leading Economic Index	Dec	102.7	103.5
5-Feb	Coincident Index	Dec	111	111.9

This report was compiled in association with Counterpoint Asset Management.

WEEKLY TICKER

CURRENCIES					
Description	**Classification**	**Currency**	**Exchange Rate**	**Week**	**YTD**
ZAR/USD	ZAR/USD	ZAR	15.91	3.51%	-2.76%
ZAR/Pound	ZAR/GBP	ZAR	22.68	3.64%	0.54%
ZAR/Euro	ZAR/EUR	ZAR	17.25	3.17%	-2.48%
Dollar/Euro**	USD/EUR	USD	1.08	0.32%	-0.17%
Yen/Dollar	YEN/USD	YEN	121.33	-1.99%	-0.91%

COMMODITIES					
Description	**Classification**	**Currency**	**Price**	**Week**	**MTD**
Gold	Gold Spot	USD	1121.22	1.85%	5.67%
Brent Crude Oil	ICE Brent Futures	USD	35.37	9.59%	-8.20%
Platinum	Platinum Spot	USD	868.60	4.68%	-2.57%
Copper	LME 3 month Copper	USD	4561.00	2.66%	-3.06%
Silver	Silver Spot	USD	14.31	1.66%	3.35%
Wheat	Generic active future	USD	474.25	0.79%	0.90%
Yellow Maize	Generic active future	USD	369.50	0.47%	3.00%
Soy	Generic active future	USD	879.00	0.66%	0.89%

GLOBAL EQUITY INDEXES (TOTAL RETURN)					
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**
Global	MSCI World*	USD	1562.18	1.65%	-5.94%
United States	S&P 500	USD	3631.96	1.77%	-4.96%
Europe	Euro Stoxx 50	EUR	5811.15	0.83%	-6.67%
Britain	FTSE 100	GBP	4769.44	3.12%	-2.48%
Germany	DAX	EUR	9798.11	0.34%	-8.80%
Japan	Nikkei 225	JPY	26240.18	3.31%	-7.95%
Emerging Markets	MSCI Emerging Markets*	USD	742.37	4.46%	-6.48%

SA EQUITY INDEXES (TOTAL RETURN)					
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**
All Share	JSE All Share	ZAR	6604.11	3.13%	-2.99%
Top 40	JSE Top 40	ZAR	5919.76	2.61%	-3.75%
Shareholder Weighted	JSE SWIX	ZAR	17009.96	5.07%	-2.31%
Small Companies	JSE Small Cap*	ZAR	50571.11	4.45%	-4.62%
Resources	JSE Resource 20	ZAR	1450.00	1.17%	-4.51%
Industrials	JSE Industrial 25	ZAR	12823.66	2.57%	-2.62%
Financials	JSE Financial 15	ZAR	7276.51	5.72%	-3.45%
SA Listed Property	JSE SA Listed Property	ZAR	1851.71	5.03%	-2.98%
Preference Shares	JSE Pref Shares	ZAR	1685.03	0.31%	4.62%

SOUTH AFRICAN FIXED INTEREST					
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**
All Bond	BESA ALBI Index	ZAR	483.20	2.61%	4.57%
Inflation Linked Bonds	BESA CILI	ZAR	233.29	-0.16%	0.72%
Cash	STEFI Composite*	ZAR	333.36	0.13%	0.13%

*Price Index (not Total Return) ** Negative indicates Euro weakness