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GLOBAL MARKETS

It has certainly been a volatile start to the 2016 year. In contrast to the so called January effect, which refers to the tendency of stocks to rally in January, many markets are already off to a negative start with concerns over the global environment fueling risk aversion and safe-haven trades. Fears over a struggling China have exacerbated this. While uncertainty remains, volatility should be expected with gold, the USD and treasuries benefitting from risk-off trade.

For 2016, the World Bank forecasts global economic growth of 2.9%, down from 3.3% six months ago. The lower growth forecast can mainly be attributed to the slowdown in China, Russia and Brazil. The World Bank is of the opinion that in 2016, EMs could face the worst year since the 2008 economic crisis. EM economies grew at a pace of 4.3% in 2015, the slowest since 2009.

China remains a key factor in the negative global sentiment. Sparked by a depreciation of the Chinese Yuan (CNY) by the PBoC, the Shanghai Shenzhen CSI 300 Index dropped over 7% on two separate days, triggering a circuit breaker rule which halted any further equity trading for the day. This led to turmoil in global markets but authorities have since abandoned the circuit breaker rule, restoring some confidence. Chinese equity markets are now allowed to run more freely but stock sales by major shareholders (investors with stakes exceeding five percent of a company) are still not allowed to sell for the next six months. The CSI 300 Index is down 15.7% year-to-date.

As the slowdown in China continues, commodities remain on the back foot. Brent crude fell below USD30/bbl for the first time since 2004 this past week. While the fall is certainly linked to fears over China, overproduction is also having a significant effect. Historically, oil production has been tightly controlled by OPEC but at the end of last year OPEC failed to reach a decision to cut supply. With escalating tensions between Iran and Saudi Arabia, a near term solution seems unlikely.

Another major theme for the year ahead will be rate hikes in the US, or rather the pace at which these occur. From the latest minutes of the December FOMC meeting, it seems the Fed remains split on the inflation and economic outlook. While the decision to hike rates at the last meeting was unanimous, the Fed will continue on their cautious approach to policy normalisation and rate hikes will be implemented slowly to support the labour market and inflation.

Most markets ended the week negatively, with EMs taking more pain than DMs. The MSCI World Index ended 2.6% down and the MSCI EM Index was down 4.2% for the week.

DOMESTIC MARKETS

Monday saw the rand plummet to reach a record intraday low of ZAR/USD 17.91. The rand has since recovered somewhat, closing the week at ZAR/USD 16.75; however the Rand is still 15% lower than levels seen prior to President Zuma's sacking of finance minister Nene. While the re-appointment of Pravin Gordhan has reversed some of the damage, the confidence lost is not completely restored.

Arguably oversold, it is difficult to see any significant improvements to the rand in the short term. In addition to domestic issues of poor growth, political uncertainty and structural problems, South Africa is also facing external pressures from China, the commodity cycle and Fed interest rate hikes. With similar external pressures, other emerging market economies have also suffered of late. However, the Rand has been the worst performing EM currency year-to-date (down over 7%). This clearly illustrates the negative effect local conditions are having.

We are looking for a tough year. Downgrades to GDP and consensus earnings are likely, and a possible S&P downgrade to junk status will be a key event to watch in June this year. Both S&P and Fitch have a BBB-rating for SA's foreign currency long-term debt, (which is one notch above sub-investment grade), but while Fitch have a "stable" outlook, S&P have SA on "negative" watch. This implies a downgrade by S&P is plausible unless the country's growth and debt dynamics improve.

In addition to a looming downgrade, South Africa is also likely facing interest rate hikes as a consequence of inflationary pressures. Currently the market is pricing in a 25 bps hike at the next SARB meeting (on 28 January) but a 50 bps hike cannot be ruled out. While inflation has remained low over the past year, the effects of a weaker rand and rising food inflation are expected to push CPI through the 6% upper target band. However, largely owing to the oil price, (which is 22% weaker than it was a month ago), the pass through inflationary effects remain fairly muted for now and this should hopefully allow the SARB to stick with its policy of gradualism.

Welcomed rains are finally starting to occur in parts of the country; which may unfortunately be too late to save struggling farmers. SA is facing the worst drought since 1992 and according to the Department of Water Affairs; South African dams were only 57% full at the start of the year compared to 82% a year ago.

The dry conditions will lead to significant shortages in production and Agri SA executive director Omri van Zyl believes a record R15bn to R20bn could be needed to see farmers through the tough conditions. Grain SA also stated that the maize harvest this year will be about 5m tons, less than half of the country's needs. Although water restrictions have been implemented across the country, there is talk of increasing water prices in order to further curb consumption. This will add to pressure on both businesses and consumers.

On a slightly more optimistic note, the weak rand is starting to show some benefits. According to the Department of Home Affairs, the number of foreign visitors increased 7.6% over the festive season, a marked improvement on negative numbers reported in the first three quarters of 2015 by Stats SA. The depreciation of the currency should also, in time, start to show benefits through a boost in exports.

Most local indices ended the week negatively. Year-to-date, resources and financials remain the hardest hit and the All Share and SWIX Indices are down 7.3% and 8.5% respectively.

WEEK AHEAD

UPCOMING ECONOMIC EVENTS

WEEKLYWRAP 15 January 2016

DATE	EVENT	PERIOD	SURVEY	PRIOR
SOUTH AFRICA				
20-Jan	CPI YoY	Dec	5.20%	4.80%
20-Jan	CPI Core YoY	Dec	5.30%	5.10%
20-Jan	Retail Sales Constant YoY	Nov	2.80%	3.30%
UNITED STATES				
20-Jan	CPI YoY	Dec	0.80%	0.50%
20-Jan	CPI Ex Food and Energy YoY	Dec	2.10%	2.00%
22-Jan	Markit US Manufacturing PMI	Jan	51.5	51.2
22-Jan	Existing Home Sales	Dec	5.20m	4.76m
EURO AREA				
19-Jan	CPI YoY	Dec	0.20%	0.20%
19-Jan	CPI Core YoY	Dec	0.90%	0.90%
21-Jan	ECB Main Refinancing Rate	21-Jan	0.05%	0.05%
21-Jan	ECB Deposit Facility Rate	21-Jan	-0.30%	-0.30%
21-Jan	ECB Marginal Lending Facility	21-Jan	0.30%	0.30%
21-Jan	Consumer Confidence	Jan	-5.8	-5.7
22-Jan	Markit Eurozone Manufacturing PMI	Jan	53	53.2
CHINA				
18-Jan	Foreign Direct Investment YoY CNY	Dec	3.10%	1.90%
19-Jan	Industrial Production YoY	Dec	6.00%	6.20%
19-Jan	Retail Sales YoY	Dec	11.30%	11.20%
19-Jan	GDP SA QoQ	4Q	1.80%	1.80%
19-Jan	GDP YoY	4Q	6.90%	6.90%
JAPAN				
18-Jan	Industrial Production YoY	Nov		1.60%
21-Jan	Supermarket Sales YoY	Dec		-1.00%
22-Jan	Nikkei Japan PMI Mfg	Jan	52.8	52.6

This report was compiled in association with Counterpoint Asset Management.

WEEKLY TICKER

CURRENCIES						
Description	Classification	Currency	Exchange Rate	Week	MTD	YTD
ZAR/USD	ZAR/USD	ZAR	16.75	-2.95%	-7.64%	-7.64%
ZAR/Pound	ZAR/GBP	ZAR	23.91	-1.08%	-4.61%	-4.61%
ZAR/Euro	ZAR/EUR	ZAR	18.25	-2.62%	-7.83%	-7.83%
Dollar/Euro**	USD/EUR	USD	1.09	-0.05%	0.31%	0.31%
Yen/Dollar	YEN/USD	YEN	117.21	0.24%	2.57%	2.57%

COMMODITIES						
Description	Classification	Currency	Price	Week	MTD	YTD
Gold	Gold Spot	USD	1090.06	-1.38%	2.73%	2.73%
Brent Crude Oil	ICE Brent Futures	USD	28.44	-14.71%	-24.50%	-24.50%
Platinum	Platinum Spot	USD	825.48	-5.65%	-7.41%	-7.41%
Copper	LME 3 month Copper	USD	4331.00	-3.43%	-7.95%	-7.95%
Silver	Silver Spot	USD	13.95	-0.07%	0.76%	0.76%
Wheat	Generic active future	USD	473.75	-0.99%	0.80%	0.80%
Yellow Maize	Generic active future	USD	363.25	1.75%	1.25%	1.25%
Soy	Generic active future	USD	879.00	-0.06%	0.89%	0.89%

GLOBAL EQUITY INDEXES (TOTAL RETURN)						
Description	Index	Currency	Index Value	Week	MTD	YTD
Global	MSCI World*	USD	1521.00	-2.59%	-8.47%	-8.47%
United States	S&P 500	USD	3518.51	-2.15%	-7.93%	-7.93%
Europe	Euro Stoxx 50	EUR	5628.75	-2.62%	-9.60%	-9.60%
Britain	FTSE 100	GBP	4548.34	-1.83%	-7.01%	-7.01%
Germany	DAX	EUR	9545.27	-3.09%	-11.15%	-11.15%
Japan	Nikkei 225	JPY	25682.24	-3.11%	-9.91%	-9.91%
Emerging Markets	MSCI Emerging Markets*	USD	709.19	-4.17%	-10.68%	-10.68%

SA EQUITY INDEXES (TOTAL RETURN)						
Description	Index	Currency	Index Value	Week	MTD	YTD
All Share	JSE All Share	ZAR	6308.84	-2.34%	-7.32%	-7.32%
Top 40	JSE Top 40	ZAR	5655.57	-2.64%	-8.05%	-8.05%
Shareholder Weighted	JSE SWIX	ZAR	15934.40	-2.98%	-8.49%	-8.49%
Small Companies	JSE Small Cap*	ZAR	50302.03	-2.16%	-5.13%	-5.13%
Resources	JSE Resource 20	ZAR	1380.88	-2.19%	-9.06%	-9.06%
Industrials	JSE Industrial 25	ZAR	12310.82	-2.49%	-6.51%	-6.51%
Financials	JSE Financial 15	ZAR	6768.67	-2.49%	-10.19%	-10.19%
SA Listed Property	JSE SA Listed Property	ZAR	1803.41	-2.06%	-5.51%	-5.51%
Preference Shares	JSE Pref Shares	ZAR	1627.13	1.10%	1.02%	1.02%

SOUTH AFRICAN FIXED INTEREST						
Description	Index	Currency	Index Value	Week	MTD	YTD
All Bond	BESA ALBI Index	ZAR	466.17	-0.93%	0.89%	0.89%
Inflation Linked Bonds	BESA CILI	ZAR	233.32	0.50%	0.73%	0.73%
Cash	STEFI Composite*	ZAR	332.52	0.12%	0.27%	0.13%

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