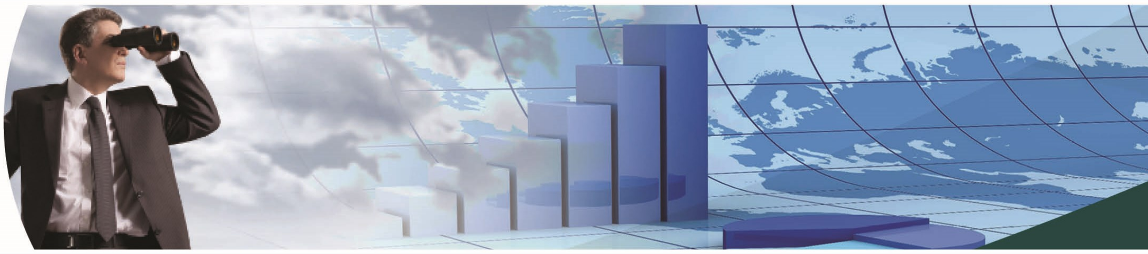

GLOBAL MARKETS

EQUITY MARKETS RALLY ON POSITIVE SENTIMENT

GLOBAL EQUITY MARKETS HAD A STRONG RALLY OVER THE WEEK BASED ON POSITIVE SENTIMENT TOWARDS EMERGING MARKETS AND ESPECIALLY TO THE CONTINUED RISE IN THE OIL PRICE, WHICH BRIEFLY BREACHED 50 USD/BBL DURING THE WEEK, THE FIRST TIME IT HAS DONE SO SINCE NOVEMBER LAST YEAR.

Fires in Canada helped the oil price, as did possible expected disruptions in Venezuelan oil supply. Positive sentiment towards oil arose as US crude stocks fell by 4.1m barrels last week, far more than the expected 1.6m barrels decline. A rising oil price alleviates fiscal pressure on oil exporters, thereby reducing global financial stability.

In Europe quantitative easing continues unabated. The ECB, (European Central Bank) which expanded the size of its debt-buying program in April by a third to €80bn a month, appears to be running out of securities eligible under its own rules. Banks say the ECB might have to include more bonds or risk diluting the stimulus to the economy.

It is estimated that €1.13tn of bonds currently off-limits could be eligible should the ECB change the parameters. This should continue to cap Euro-denominated bond yields over the medium term.

In the US, where conviction for another rate hike by the Fed is building, data released continues to give a mixed reading on economic recovery.

Headline durable goods orders were up 3.4% m/m last month, which exceeding the 0.5% consensus figure. However, the concerning trend was in the core capex orders which declined 0.8% m/m after expectations had been for a modest +0.3% rise.

Pending home sales in April rose a much better than expected 5.1% m/m (vs. 0.7% expected). In collating all data, the Atlanta Fed revised their Q2 GDP forecast upwards to 2.9% from 2.5%, which aligns with a more aggressive Fed reaction than is being factored in by the markets.

Japan's headline CPI print for April fell further to -0.3% y/y. This calls into question the aggressive stimulus programme of the Bank of Japan, especially the effectiveness of its experiment with negative interest rates. Some 70% of Japanese companies surveyed said they see no decisive escape from deflation in the near future, up from 48% in January.

In the background, debt problems continue to exert themselves. The IMF demanded unconditional debt relief for Greece as it warned targets will not be met. Also, the IMF said Italy's economy would only grow at 1.25% over 2017/2018 from 1.1% this year and that growth would not rise to pre- crisis levels for another decade.

With strong performance across the board, Europe (the Euro Stoxx 50 Index) rose 4.3% over the week. EM's outperformed DM's, the MSCI EM and MSCI World indices up 2.9% and 2.2% respectively.

DOMESTIC MARKETS

S&P RATING OF THIS WEEK DOMINATES MARKET

FOR THE FIRST TIME IN SEVEN DECADES, STATISTICS SA PUBLISHED ESTIMATES OF GDP FROM BOTH THE PRODUCTION AND THE EXPENDITURE SIDE OF THE ECONOMY, WHICH REQUIRED THAT GDP BE REVISED FOR THE PERIOD 2010 TO 2015.

The upshot of the revision is that, in its re-estimation of all components of GDP, 2015's GDP was bigger by R22.6bn (0.7%) and 2014's by R24.8bn (0.7%). Gross domestic expenditure is larger by a sizeable R93bn in 2015, growing 1.7% in that year which was revised upwards from 0.3% in the previous calculation.

The composition of the growth revision is not particularly salutary, though. In the past five years, it was in particular government expenditure which was revised upwards by a total of R41bn, whereas investment was revised downwards by around R9bn and inventory levels were higher by R30bn in 2015, R8.6bn in 2014 and R22bn in 2013. Exports were revised downwards by R70bn over the past five years.

These figures are important as the rating agency S&P, which is going to announce on South Africa's credit rating next week, places a lot of emphasis on the structural nature of real GDP per capita growth.

Using the old methodology, real GDP per capita growth over the past 6 years has averaged 0.7%, while the new methodology estimates that real GDP per capita growth has averaged 0.83%. From this perspective the latest upward revision to GDP is helpful.

However, the rapid rise in South Africa's indebtedness remains a problem for the rating agencies.
Although not particularly high in an emerging market context (just below 50% of GDP), the trajectory of debt growth has been steep, as it was at only 26% of GDP as recently as 2008.

It is clear that the rapid increase in South Africa's indebtedness is causing credit rating agencies to question the government's projections that debt will level out at its current 50% of GDP. This would require reducing the budget deficit by increasing tax revenue or cutting existing state spending.

The government is committed to doing both, but there is skepticism about its meeting its promises, no matter how well intended. A slowing economy and hefty public sector wage bill will be a continued stress on the fiscus.

S&P's South Africa credit rating review is due on the 3rd June. S&P rates South Africa at BBB-, which is one notch above sub-investment grade status with a negative outlook.

On the inflation front, Statistics SA released the PPI data for April during the week. Bloomberg consensus was for an increase to 7.3% y/y in April, from 7.1% y/y in March. In the event, PPI undershot expectations, with the April print moderating to 7.0% y/y.

In line with global markets, local markets also performed strongly across the board. Financials led the pack, the JSE Financials 15 Index up 4.4% w/w (total return). The JSE All Share Index closed 2.8% higher.

WEEK AHEAD

UPCOMING ECONOMIC EVENTS

DATE	EVENT	PERIOD	SURVEY	PRIOR
SOUTH AFRICA				
31-May	Private Sector Credit YoY	Apr		8.94%
31-May	Trade Balance Rand	Apr		2.9b
1-Jun	Barclays Manufacturing PMI	May		54.9
1-Jun	Naamsa Vehicle Sales YoY	May		-9.20%
2-Jun	Electricity Consumption YoY	Apr		-5.70%
2-Jun	Electricity Production YoY	Apr		-4.30%
3-Jun	Standard Bank South Africa PMI	May		47.9
UNITED STATES				
1-Jun	ISM Manufacturing	May	51	50.8
2-Jun	ADP Employment Change	May		156k
3-Jun	Trade Balance	Apr	-$42.4b	-$40.4b
3-Jun	Change in Nonfarm Payrolls	May	178k	160k
3-Jun	Unemployment Rate	May	4.90%	5.00%
3-Jun	ISM Non-Manufacturing	May		55.7
EURO AREA				
31-May	Unemployment Rate	Apr		10.20%
31-May	CPI Estimate YoY	May		
31-May	CPI Core YoY	May		0.70%
1-Jun	Markit Eurozone Manufacturing PMI	May		
2-Jun	ECB Main Refinancing Rate	2-Jun		0.00%
2-Jun	ECB Deposit Facility Rate	2-Jun		-0.40%
2-Jun	ECB Marginal Lending Facility	2-Jun		0.25%
CHINA				
1-Jun	Caixin China Manufacturing PMI	May	49.3	49.4
JAPAN				
31-May	Unemployment Rate	Apr		3.20%
2-Jun	Consumer Confidence Index	May		40.8

This report was compiled in association with Counterpoint Asset Management. **www.cpam.co.za**

WEEKLY TICKER

CURRENCIES

Description	Classification	Currency	Exchange Rate	Week	Month-to-Date	Year-to-Date
ZAR/USD	ZAR/USD	ZAR	15.78	-0.61%	-9.82%	-1.98%
ZAR/Pound	ZAR/GBP	ZAR	23.07	-1.45%	-9.87%	-1.14%
ZAR/Euro	ZAR/EUR	ZAR	17.53	0.36%	-7.05%	-4.04%
Dollar/Euro**	USD/EUR	USD	1.11	-0.97%	-3.00%	2.26%
Yen/Dollar	YEN/USD	YEN	111.36	-0.15%	-4.36%	7.96%

COMMODITIES

Description	Classification	Currency	Price	Week	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1201.02	-3.16%	-7.15%	13.19%
Brent Crude Oil	ICE Brent Futures	USD	49.04	1.23%	3.53%	19.41%
Platinum	Platinum Spot	USD	966.80	-4.53%	-10.18%	8.44%
Copper	LME 3 month Copper	USD	4695.00	2.56%	-7.03%	-0.21%
Silver	Silver Spot	USD	15.93	-1.83%	-10.74%	15.04%
Wheat	Generic active future	USD	481.50	2.94%	0.73%	2.45%
Yellow Maize	Generic active future	USD	412.75	4.63%	5.77%	15.05%
Soy	Generic active future	USD	1086.50	1.14%	6.42%	24.71%

GLOBAL EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	1676.07	2.21%	0.73%	2.20%
United States	S&P 500	USD	3961.67	2.32%	1.89%	3.67%
Europe	Euro Stoxx 50	EUR	5988.29	4.29%	2.96%	-3.82%
Britain	FTSE 100	GBP	5011.32	1.87%	0.95%	2.46%
Germany	DAX	EUR	10286.31	3.73%	2.46%	-4.25%
Japan	Nikkei 225	JPY	25422.94	0.59%	1.01%	-10.82%
Emerging Markets	MSCI Emerging Markets*	USD	808.29	2.93%	-3.60%	2.46%

SA EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month-to-Date	Year-to-Date
All Share	JSE All Share	ZAR	7350.07	2.82%	2.21%	7.97%
Top 40	JSE Top 40	ZAR	6530.18	3.34%	3.47%	6.17%
Shareholder Weighted	JSE SWIX	ZAR	18982.54	3.28%	1.69%	9.02%
Small Companies	JSE Small Cap*	ZAR	60399.87	-0.09%	-2.33%	15.36%
Resources	JSE Resource 20	ZAR	1913.67	1.56%	-1.63%	26.03%
Industrials	JSE Industrial 25	ZAR	13624.35	3.30%	5.54%	3.46%
Financials	JSE Financial 15	ZAR	7808.77	4.44%	-0.45%	3.62%
SA Listed Property	JSE SA Listed Property	ZAR	2095.03	1.73%	-2.20%	9.77%
Preference Shares	JSE Pref Shares	ZAR	1814.82	-0.71%	0.20%	12.67%

SOUTH AFRICAN FIXED INTEREST

Description	Index	Currency	Index Value	Week	Month-to-Date	Month-to-Date
All Bond	BESA ALBI Index	ZAR	493.02	0.38%	-1.68%	6.70%
Inflation Linked Bonds	BESA CILI	ZAR	242.41	0.13%	-0.47%	4.66%
Cash	STEFI Composite*	ZAR	340.92	0.14%	0.55%	0.14%

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