



THE POWER OF INDEPENDENT ADVICE

GLOBAL MARKETS

CHINA'S EXCHANGE RATE STILL CONCERN FOR US GROWTH

FOCUS THIS PAST WEEK WAS LARGELY ON THE APRIL FOMC MINUTES RELEASED IN THE US, WHICH SURPRISED THE MARKET BY BEING SLIGHTLY MORE HAWKISH THAN EXPECTED.

While the market had been pricing in little chance of a rate hike in June, the committee indicated that if economic and labour market data continues to strengthen and inflation picks up towards the 2% target, it would likely be appropriate to raise rates at the next meeting in June.

However, the minutes again stressed the need to proceed cautiously; identifying risks that remain a threat to global economic and financial stability.

In particular, Brexit and China were highlighted, with the management of China's exchange rate being a cause of concern for US growth.

April's US non-farm payroll report came in worse than expected so the May report should have a significant effect on the actions of the Fed and in determining their labour market outlook. The next FOMC meeting is scheduled to take place on 15 June.

Slightly in contrast to the tone of the FOMC minutes, Moody's cut its growth forecasts for the US from 2.3% to 2% for 2016, citing Q1 weakness as the major driver behind the lowered forecasts.

However, the ratings agency did indicate that the recent strong pick-up in consumer confidence and spending, as well as the continued strength of the services industry, underlines the resilience of the US economy. Moody's expects, at most, two rate hikes from the Fed this year.

Largely as a result of the increased chance of a June rate hike, the Dollar has strengthened across the board. Risk-off trade dominated over the week, the MSCI World up 0.2% and MSCI EM Index down 1.4%.



DOMESTIC MARKETS

SA'S CREDIT RATING MAY BE DOWNGRADED IN JUNE

WEEKLYWRAP 20 May 2016

AMIDST POLITICAL TENSIONS, POOR RETAIL SALES FIGURES AND A GROWING CONCERN THAT SA'S CREDIT RATING MAY BE DOWNGRADED IN JUNE; THE RAND IS ON THE BACK FOOT ONCE AGAIN.

An increased probability of a rate hike in the US in June coupled with our Reserve Bank deciding to keep the repo rate unchanged is not helping either. The Rand closed the week -1.5% weaker at ZAR/USD 15.64.

Last Monday opened the week on fears that Finance Minister Gordhan may be arrested for his involvement in the so called "rogue" unit which was developed during his time as Commissioner at SARS. However, both the President's Office and the HAWKS have since assured the market that it is the unit, and not the minister, under investigation. While these statements have caused many doubts about the direction in which the credibility of the Treasury is headed, it seems for now, the credibility remains intact.

April inflationary data was released, coming in line with expectations. Headline CPI printed 6.2% y/y and core inflation was at 5.5% y/y. While on the surface these numbers seem acceptable, the underlying details of the CPI release present a cause for concern. Headline CPI was down slightly from 6.3% the previous month, the primary driver being attributed to lower fuel prices. Petrol prices are down 2.3% y/y but with the recent rally in oil, these benefits are likely to be short lived.

In addition, we are finally starting to see evidence of second round pass through effects resulting from the depreciation of the Rand, with goods such as vehicles and appliances seeing a strong increase in prices. As expected, food inflation continues to rise, up 11% y/y (up from 9.8% y/y in March).

With the risk of further inflationary pressures, in particular fuel and food prices, on the upside together with higher unemployment and lower disposable income, the state of the consumer is likely to remain under pressure for the near-term. It was therefore not a surprise that March retail sales were below expectations. Retail sales rose 2.8% y/y, down from 4% in February and below expectations of 3.8% y/y. This decline occurred despite an earlier than usual Easter holiday.

Given rising inflation expectations and the dire state of the consumer and economy, the SARB continues to weigh up the consequences of sticking to their inflation targeting regime at the expense of putting further strain on the economy.

At the MPC meeting last week, it was decided to leave the repo rate unchanged at 7% in a 5:1 vote; five members voting in favour of the decision and one member voting for a 25bp increase.

While the SARB is forecasting a marginally improved inflationary outlook for 2016, it still sees both headline and core CPI experiencing multi-quarter breaches of the upper target band, starting in Q3 2016.

Importantly, it was made clear that this was a "pause in the tightening cycle" and that the Bank still views monetary policy as accommodative. We are therefore likely to see more rate hikes before the end of the year.

Local markets were generally positive across the board with resources being the top performer after a tough start to the month. The JSE Resource 20 Index was up 3.0% w/w and the JSE All Share Index closed the week 2.0% stronger.

WEEK AHEAD

UPCOMING ECONOMIC EVENTS

WEEKLYWRAP 20 May 2016

DATE	EVENT	PERIOD	SURVEY	PRIOR
SOUTH AFRICA				
24-May	Leading Indicator	Mar		91.6
26-May	PPI MoM	Apr	0.90%	0.70%
26-May	PPI YoY	Apr	7.20%	7.10%
UNITED STATES				
23-May	Markit US Manufacturing PMI	May	51	50.8
24-May	New Home Sales	Apr	520k	511k
27-May	GDP Annualized QoQ	IQ	0.80%	0.50%
27-May	U. of Mich. Sentiment	May	95.6	95.8
EURO AREA				
20-May	ECB Current Account SA	Mar		19.0b
20-May	Current Account NSA	Mar		11.1b
23-May	Markit Eurozone Manufacturing PMI	May	51.9	51.7
23-May	Consumer Confidence	May	-9	-9.3
JAPAN				
23-May	Exports YoY	Apr	-9.9	-6.8
23-May	Imports YoY	Apr	-19.2	-14.9
23-May	Leading Index CI	Mar		98.4
27-May	Natl CPI YoY	Apr	-0.40%	-0.10%
27-May	Natl CPI Ex Food, Energy YoY	Apr	0.60%	0.70%

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

WEEKLY TICKER

WEEKLYWRAP 20 May 2016

CURRENCIES						
Description	Classification	Currency	Exchange Rate	Week	MTD	YTD
ZAR/USD	ZAR/USD	ZAR	15.64	-1.49%	-9.03%	-1.12%
ZAR/Pound	ZAR/GBP	ZAR	22.70	-2.50%	-8.40%	0.48%
ZAR/Euro	ZAR/EUR	ZAR	17.56	-0.64%	-7.23%	-4.23%
Dollar/Euro**	USD/EUR	USD	1.12	-0.75%	-1.96%	3.36%
Yen/Dollar	YEN/USD	YEN	109.85	-1.40%	-3.05%	9.44%

COMMODITIES						
Description	Classification	Currency	Price	Week	MTD	YTD
Gold	Gold Spot	USD	1252.67	-1.69%	-3.16%	18.05%
Brent Crude Oil	ICE Brent Futures	USD	48.46	1.86%	2.30%	17.99%
Platinum	Platinum Spot	USD	1020.25	-2.75%	-5.22%	14.44%
Copper	LME 3 month Copper	USD	4578.00	-1.07%	-9.35%	-2.70%
Silver	Silver Spot	USD	16.40	-3.40%	-8.10%	18.44%
Wheat	Generic active future	USD	466.25	0.59%	-2.46%	-0.80%
Yellow Maize	Generic active future	USD	394.00	3.27%	0.96%	9.83%
Soy	Generic active future	USD	1065.25	1.82%	4.33%	22.27%

GLOBAL EQUITY INDEXES (TOTAL RETURN)						
Description	Index	Currency	Index Value	Week	MTD	YTD
Global	MSCI World*	USD	1639.85	0.24%	-1.47%	-0.04%
United States	S&P 500	USD	3871.75	0.35%	-0.42%	1.31%
Europe	Euro Stoxx 50	EUR	5741.79	0.35%	-1.28%	-7.78%
Britain	FTSE 100	GBP	4919.19	0.55%	-0.91%	0.58%
Germany	DAX	EUR	9916.02	-0.37%	-1.22%	-7.70%
Japan	Nikkei 225	JPY	25274.17	1.97%	0.42%	-11.34%
Emerging Markets	MSCI Emerging Markets*	USD	785.26	-1.36%	-6.40%	-0.51%

SA EQUITY INDEXES (TOTAL RETURN)						
Description	Index	Currency	Index Value	Week	MTD	YTD
All Share	ISE All Share	ZAR	7148.39	2.01%	-0.59%	5.01%
Top 40	ISE Top 40	ZAR	6319.25	2.49%	0.13%	2.74%
Shareholder Weighted	ISE SWIX	ZAR	18378.90	1.75%	-1.54%	5.55%
Small Companies	ISE Small Cap*	ZAR	60453.64	0.60%	-2.28%	15.42%
Resources	ISE Resource 20	ZAR	1884.29	2.99%	-3.14%	24.09%
Industrials	ISE Industrial 25	ZAR	13188.58	2.02%	2.17%	0.15%
Financials	ISE Financial 15	ZAR	7477.08	2.09%	-4.68%	-0.79%
SA Listed Property	ISE SA Listed Property	ZAR	2059.37	1.35%	-3.87%	7.90%
Preference Shares	ISE Pref Shares	ZAR	1827.78	0.34%	0.92%	13.48%

SOUTH AFRICAN FIXED INTEREST						
Description	Index	Currency	Index Value	Week	MTD	YTD
All Bond	BESA ALBI Index	ZAR	491.17	-0.88%	-2.05%	6.30%
Inflation Linked Bonds	BESA CILI	ZAR	242.10	-0.45%	-0.60%	4.52%
Cash	STEFI Composite*	ZAR	340.45	0.14%	0.41%	0.14%

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

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