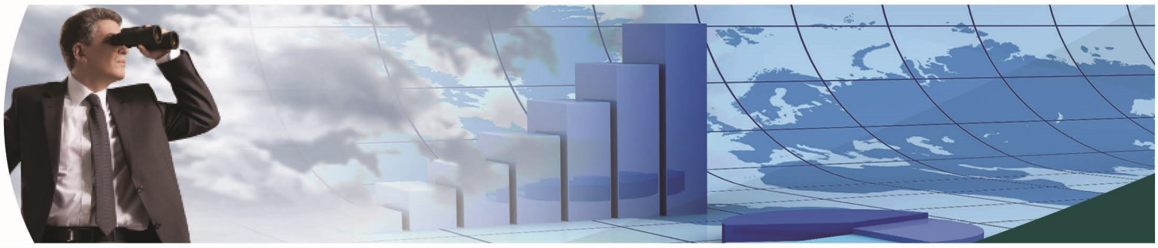

GLOBAL MARKETS

MANUFACTURING CONTINUES TO SHRINK IN CHINA

Boosted by the PBoC announcing a 50bps cut in the reserve requirement ratio and the increased likelihood of further policy easing by the ECB, global sentiment has improved which saw EM markets and currencies benefitting this past week. Strong employment numbers out of the US also added to the positive outlook, all causing commodities to rally. The MSCI EM Index closed up 6.9% w/w and platinum and Brent oil were up 7.1% and 9.3% respectively, the highest levels seen since the start of the year.

In China, the manufacturing sector continues to shrink. The manufacturing PMI fell to 49 in February from 49.4 the previous month. While still in an expansionary phase (above 50), China's services PMI also declined to 52.7 in February from 53.5 in January. In reaction, the PBoC lowered its bank reserve requirement ratio (RRR) by 50bps to 17% for major commercial lenders. The action should also help replenish some of the liquidity lost as a result of recent capital outflows. Importantly, the cut indicates that authorities are now prioritising growth over long-term credit risk and markets rallied on the news. However, the consequences of rising government debt, falling currency reserves and uncertainty over reforms led Moody's to cut China's outlook on government debt from stable to negative.

Japan for the first time ever placed a 10yr bond with a negative interest rate at a primary auction. In other words, the Japanese government is getting paid to borrow money for a decade. The BoJ introduced negative interest rates in January by charging banks on some of their deposits at the central bank and Japan is now the second country with 10yr bonds trading at a negative yield. With the downward force of global inflationary pressures, volatile capital markets, tightening financial conditions and slowing growth all influencing demand for such products, other countries may soon follow suit.

In the Euro Area, February headline inflation fell back below zero at -0.2% y/y after four months of positive readings. While the negative number can largely be attributed to the fall in oil prices, core inflation also fell to its lowest level since April 2015. Both readings remain well below the ECB's target of 2% and reinforce the case for additional easing at the ECB meeting on 10 March.

US employment numbers were stronger than expected. Nonfarm payrolls rising 242k in February up from 151k the previous month against 195k expected. The Fed has continually reiterated its monetary policy stance is highly data dependent and although the market is not expecting a rate hike in March, the stronger than expected employment numbers will have increased expectations.

DOMESTIC MARKETS

RAND MOST UNDER-PRICED CURRENCY ON THE CONTINENT

According to the KFC Index reported by Sagaci Research, the Rand is the most underpriced currency on the continent. Inspired by the Big Mac Index, Sagaci Research has developed an index which analyses the prices of the Original Chicken Bucket from KFC across 18 African countries. However, even if it may be fundamentally undervalued from this perspective, the Rand continues to suffer from SA specific factors.

Since the Nene debacle, the Rand is the second worst performing currency among its EM peers. With risk back on the table and the SA political outlook slightly more stable, the Rand has regained some of these losses and appreciated 5.1% against the USD over the past week.
The Rand closed the week at ZAR/USD 15.36.

There are many different methods used to value a currency. The KFC Index is an example of the purchasing power parity (PPP) approach, which compares the cost of a similar basket of goods across different countries, and suggests the Rand is undervalued. However, according to another very well regarded approach, the Fundamental Equilibrium Exchange Rate (FEER), which calculates the level of the currency that produces a sustainable current account deficit, the Rand is in fact overvalued. Therefore, with both global and political uncertainty influencing short term movements, it is difficult to determine an outlook for the Rand in the short term. Regardless, the level of the current account remains a very important determinant and with the recent budget statement still front of mind, all eyes will be on the Q4 2015 current account data due on 8 March.

January merchandise trade data and budget deficit numbers were released, both delivering larger than expected deficits. The merchandise deficit was driven by a decline in exports of 18.8% m/m (largely explained by low commodity prices) which outweighed the 11.0% m/m increase in imports. On the budget deficit, government revenue was strong, growing 19.7% y/y but expenditures were too, up 15.2% y/y.

While it is important to note that seasonal factors typically reflect deficits in the beginning of the year (particularly in the merchandise trade balance), the numbers do not paint a picture of a healthier current account deficit going forward. Q4 2015 GDP growth numbers were also released, coming out lower than expected at 0.6% q/q, printing the lowest rate since 2009.

The electricity regulator, NERSA, have not granted Eskom's application for the R22.8bn regulatory clearing account which suggested an electricity tariff increase of around 12%. Instead, NERSA have granted Eskom a further R11.2bn in revenue for 2016/2017 which equates to a tariff increase of 9.4% from 1 April 2016. According to Eskom CEO Brian Molefe, the decision will have operational consequences, making it more difficult to keep the lights on in the upcoming winter months.

In line with global markets, risk-on trades saw a strong week across the board. The JSE All Share Index was up 5.6% w/w and leading the pack, resources (JSE Resource 20 Index) rallied 13.7% w/w.

WEEK AHEAD

UPCOMING ECONOMIC EVENTS

DATE	EVENT	PERIOD	SURVEY	PRIOR
SOUTH AFRICA				
7-Mar	SACCI Business Confidence	Feb		80
8-Mar	Current Account as a % GDP	4Q	-4.10%	-4.10%
10-Mar	Mining Production YoY	Jan	-0.60%	-0.30%
10-Mar	Manufacturing Prod NSA YoY	Jan	0.30%	0.40%
EURO AREA				
7-Mar	Sentix Investor Confidence	Mar	8.5	6
8-Mar	GDP SA YoY	4Q	1.50%	1.50%
10-Mar	ECB Main Refinancing Rate	10-Mar	0.05%	0.05%
10-Mar	ECB Deposit Facility Rate	10-Mar	-0.40%	-0.30%
10-Mar	ECB Marginal Lending Facility	10-Mar	0.30%	0.30%
JAPAN				
7-Mar	Leading Index	Jan	101.6	102.1
8-Mar	GDP Annualized SA QoQ	4Q	-1.60%	-1.40%
8-Mar	Consumer Confidence Index	Feb	42.2	42.5
10-Mar	PPI YoY	Feb	-3.40%	-3.10%

This report was compiled in association with Counterpoint Asset Management.
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WEEKLY TICKER

CURRENCIES						
Description	**Classification**	**Currency**	**Exchange Rate**	**Week**	**MTD**	**YTD**
ZAR/USD	ZAR/USD	ZAR	15.36	5.09%	3.30%	0.68%
ZAR/Pound	ZAR/GBP	ZAR	21.84	2.65%	1.14%	4.42%
ZAR/Euro	ZAR/EUR	ZAR	16.89	4.47%	2.16%	-0.42%
Dollar/Euro**	USD/EUR	USD	1.10	0.65%	1.10%	1.21%
Yen/Dollar	YEN/USD	YEN	113.67	0.23%	-0.86%	5.76%

COMMODITIES						
Description	**Classification**	**Currency**	**Price**	**Week**	**MTD**	**YTD**
Gold	Gold Spot	USD	1263.70	2.90%	2.02%	19.09%
Brent Crude Oil	ICE Brent Futures	USD	39.43	9.26%	7.82%	0.08%
Platinum	Platinum Spot	USD	984.65	7.06%	5.44%	10.44%
Copper	LME 3 month Copper	USD	5027.50	6.83%	7.08%	6.85%
Silver	Silver Spot	USD	15.58	5.50%	4.52%	12.53%
Wheat	Generic active future	USD	459.00	2.59%	3.15%	-2.34%
Yellow Maize	Generic active future	USD	357.25	0.00%	1.06%	-0.42%
Soy	Generic active future	USD	876.75	1.81%	2.78%	0.63%

GLOBAL EQUITY INDEXES (TOTAL RETURN)						
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**	**YTD**
Global	MSCI World*	USD	1608.04	3.45%	4.01%	-2.84%
United States	S&P 500	USD	3755.47	2.71%	3.54%	-1.73%
Europe	Euro Stoxx 50	EUR	5799.31	3.69%	3.11%	-6.86%
Britain	FTSE 100	GBP	4898.76	1.89%	1.87%	0.16%
Germany	DAX	EUR	9824.17	3.27%	3.46%	-8.55%
Japan	Nikkei 225	JPY	25502.68	5.10%	6.16%	-10.54%
Emerging Markets	MSCI Emerging Markets*	USD	790.97	6.88%	6.87%	-0.25%

SA EQUITY INDEXES (TOTAL RETURN)						
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**	**YTD**
All Share	JSE All Share	ZAR	7017.62	5.64%	5.64%	3.09%
Top 40	JSE Top 40	ZAR	6211.20	5.42%	5.53%	0.99%
Shareholder Weighted	JSE SWIX	ZAR	17977.81	5.71%	5.63%	3.25%
Small Companies	JSE Small Cap*	ZAR	57556.48	5.39%	5.89%	8.92%
Resources	JSE Resource 20	ZAR	1854.89	13.70%	13.01%	22.16%
Industrials	JSE Industrial 25	ZAR	12956.89	3.78%	3.73%	-1.61%
Financials	JSE Financial 15	ZAR	7452.48	4.44%	5.45%	-1.11%
SA Listed Property	JSE SA Listed Property	ZAR	1961.75	1.72%	2.22%	2.79%
Preference Shares	JSE Pref Shares	ZAR	1651.57	2.33%	2.54%	2.54%

SOUTH AFRICAN FIXED INTEREST						
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**	**YTD**
All Bond	BESA ALBI Index	ZAR	483.22	0.22%	0.73%	4.58%
Inflation Linked Bonds	BESA CILI	ZAR	234.63	0.22%	0.20%	1.30%
Cash	STEFI Composite*	ZAR	335.50	0.13%	0.07%	0.13%

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