WEEK IN REVIEW

26 FEBRUARY 2016

INVESTMENT PLANNING • RETIREMENT PLANNING • OFFSHORE INVESTMENTS
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GLOBAL MARKETS
DOUBTS OVER STRENGTH OF EUROZONE RECOVERY

THERE HAVE BEEN SOME INTERESTING STATS FLOATING AROUND:

- ► **USD 12.3tn of assets have been purchased by global central banks in the past eight years**
- ► **USD 8.3tn of global government debt is currently yielding 0% or less**
- ► **489 million people are currently living in countries with official negative interest rate policies (i.e. Japan, Switzerland, Sweden, Denmark, Eurozone)**
- ► **The most negative yield in the world is -1.2% (the 2-year Swiss government bond)**
- ► **McKinsey produced a report last year showing the world had added USD 57tn of debt between 2008 and Q2 of 2014, with global debt to GDP reaching 286%.**

Despite these figures, the quantitative easing trend continues. In the euro area, expansion in both the services sector and the manufacturing sector slowed in February, casting further doubts over the strength of the region's economic recovery. The Eurozone PMI fell to 52.7 in February, down from 53.6 in January, marking the lowest level in thirteen months and reinforcing fears that deflationary pressures in the region have intensified. The weak reading greatly increases the probability of further stimulus by the ECB at their next meeting in March.

Fears surrounding a Brexit remain and the Sterling has fallen sharply as a result, hitting a seven-year low against the USD this past week. Year-to-date, the GBP is down almost 6% and is one of the worst performers among the "major" currencies. UK Prime Minister David Cameron is strongly campaigning to keep Britain in the EU but opposition lies even within his own party for Britain to leave. The IMF and rating agencies have highlighted concerns over a Brexit, indicating that the negatives of leaving the economic union outweigh any positive impacts. The referendum is set for 23 June and until then, uncertainty is likely to weigh on the currency and UK markets.

Moody's joined the two other rating agencies in downgrading Brazil's debt to junk. Prospect of further deterioration in debt ratios as well as the risk of further external shocks had impacted the country's credit rating. Moody's is now the last of the three ratings agencies to downgrade the country. Although the downgrade was not a surprise, the BRL still fell 1.2% against the USD on the news.

The majority of markets ended the week positive, the MSCI World Index up 1.1% w/w. Most likely influenced by further beliefs of additional stimulus from the ECB, European indices were among the top performers, the Euro Stoxx 50 up 2.0% w/w.

DOMESTIC MARKETS

MARKET EXPECTED GREATER SEVERITY FROM GORDHAN

Finance Minister Pravin Gordhan delivered his budget speech on Wednesday afternoon. Given the difficult economic background the country is facing and pressures of a credit rating downgrade, expectations for a strong framework were greater than usual. Amidst a global economic slowdown as well as SA specific factors hindering growth, the government needs to stimulate the economy while at the same time increase fiscal consolidation. These are not typically measures that go hand in hand.

To his credit, Gordhan surprised with significantly stronger consolidation plans to reduce the budget deficit from -3.9% in 2015 to -2.4% in 2018 (down from -3%). However, this clearly did not meet market expectations as the Rand sold off roughly 2.5% on the day after recovering to almost pre-Nene levels earlier in the week. **The Rand has depreciated 5% against the USD over the week, the worst performer among its EM peers.**

It seems the market was expecting greater severity, specifically on tax rate increases and greater detail surrounding structural reforms (e.g. state-owned entity consolidation). Instead, tax proposals should have relatively mild consequences for revenue generation in the short-term and the deficit projections are reliant on rather optimistic GDP assumptions. Execution risk is certainly high in this budget.

The key highlights of the speech involved a combination of income adjustments and expenditure cuts. Capital gains tax and fuel levies are to increase but no adjustments were made to VAT, corporate tax rates or personal income tax (apart from bracket creep). On expenditure there is be a cutback in government spending with specific focus on containing the public sector payroll, as well as relatively steep cutbacks in longer-term bond issuances over the medium term.

GDP growth forecasts were more or less in line with the SARB's at 0.9%, 1.7% and 2.4% for 2016/2017/2018 respectively and the debt-to-GDP ratio is expected to peak at 51% in 2017/2018. However, as mentioned, the growth projections for GDP are possibly optimistic and if growth disappoints, given the limited revenue increases (from tax), the risk of the projected deficit not meeting expectations is to the downside.

From an expectations point of view, the market was clearly expecting the Finance Minister to pull a rabbit out of the hat but the budget may just be enough to assist SA in avoiding a credit rating downgrade to junk in June. S&P have indicated that they are unlikely to make any immediate moves on the rating of the country but they did point out that the budget lacks significant policy announcements which would spur GDP growth, or provide the much needed business confidence in the private sector. The risk of a downgrade is therefore certainly not off the table. Having set tough targets, the government now needs to deliver.

January PPI numbers were released, rising 7.6% y/y and overshooting expectations of 6.3% y/y. The increase is the largest seen in 18 months and is largely attributable to the rise in food inflation. Stats SA also released their quarterly labour force survey results which indicated a slight decrease in unemployment to 24.5% for Q4 2015 (down from 25.5% in Q3 2015).

Despite the Rand depreciating 5% against the USD and being the worst performer among its EM peers, most local indices ended the week up on positive global sentiment. While still negative year-to-date (-2.4%), the JSE All Share index was up 1.0% w/w and is up 0.6% month-to-date.

WEEK AHEAD

UPCOMING ECONOMIC EVENTS

DATE	EVENT	PERIOD	SURVEY	PRIOR
SOUTH AFRICA				
29-Feb	Private Sector Credit YoY	Jan	9.80%	10.28%
29-Feb	Trade Balance Rand	Jan	-13.5b	8.2b
1-Mar	Barclays Manufacturing PMI	Feb	44.2	43.5
1-Mar	GDP YoY	4Q	0.50%	1.00%
1-Mar	Naamsa Vehicle Sales YoY	Feb	-6.30%	-6.90%
UNITED STATES				
1-Mar	Markit US Manufacturing PMI	Feb	51.2	51
4-Mar	Change in Nonfarm Payrolls	Feb	188k	151k
4-Mar	Unemployment Rate	Feb	4.90%	4.90%
EUROZONE				
29-Feb	CPI YoY	Feb	0.00%	0.30%
29-Feb	CPI Core YoY	Feb	0.90%	1.00%
1-Mar	Markit Eurozone Manufacturing PMI	Feb	51	51
1-Mar	Unemployment Rate	Jan	10.40%	10.40%
2-Mar	PPI YoY	Jan	-3.00%	-3.00%
3-Mar	Retail Sales YoY	Jan	1.30%	1.40%
CHINA				
1-Mar	Manufacturing PMI	Feb	49.4	49.4
1-Mar	Non-manufacturing PMI	Feb		53.5
1-Mar	Caixin China PMI Mfg	Feb	48.4	48.4
3-Mar	Caixin China PMI Services	Feb		52.4
5-Mar	China's 2016 GDP Forecast			
JAPAN				
29-Feb	Industrial Production YoY	Jan	-3.80%	-1.90%
29-Feb	Retail Trade YoY	Jan	0.10%	-1.10%
1-Mar	Jobless Rate	Jan	3.30%	3.30%
1-Mar	Nikkei Japan PMI Mfg	Feb		50.2

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	16.11	-5.00%	-1.38%	-4.00%
ZAR/Pound	ZAR/GBP	ZAR	22.36	-1.03%	1.24%	2.00%
ZAR/Euro	ZAR/EUR	ZAR	17.62	-3.15%	-2.30%	-4.55%
Dollar/Euro**	USD/EUR	USD	1.09	-1.76%	0.96%	0.67%
Yen/Dollar	YEN/USD	YEN	113.05	-1.22%	7.16%	6.34%

COMMODITIES						
Description	**Classification**	**Currency**	**Price**	**Week**	**MTD**	**YTD**
Gold	Gold Spot	USD	1227.62	-0.27%	9.78%	15.69%
Brent Crude Oil	ICE Brent Futures	USD	35.50	6.33%	-1.36%	-7.86%
Platinum	Platinum Spot	USD	923.15	-2.68%	5.93%	3.54%
Copper	LME 3 month Copper	USD	4706.00	1.84%	3.18%	0.02%
Silver	Silver Spot	USD	14.70	-4.25%	3.06%	6.12%
Wheat	Generic active future	USD	446.25	-4.01%	-6.89%	-5.05%
Yellow Maize	Generic active future	USD	355.50	-3.01%	-4.44%	-0.91%
Soy	Generic active future	USD	855.75	-2.65%	-3.00%	-1.78%

GLOBAL EQUITY INDEXES (TOTAL RETURN)						
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**	**YTD**
Global	MSCI World*	USD	1554.47	1.06%	-0.19%	-6.13%
United States	S&P 500	USD	3656.42	1.63%	0.67%	-4.32%
Europe	Euro Stoxx 50	EUR	5592.74	2.02%	-3.76%	-10.17%
Britain	FTSE 100	GBP	4807.86	2.56%	0.81%	-1.70%
Germany	DAX	EUR	9513.30	1.33%	-2.91%	-11.45%
Japan	Nikkei 225	JPY	24264.07	1.45%	-7.53%	-14.89%
Emerging Markets	MSCI Emerging Markets*	USD	740.02	-0.13%	-0.22%	-6.69%

SA EQUITY INDEXES (TOTAL RETURN)						
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**	**YTD**
All Share	JSE All Share	ZAR	6642.74	1.00%	0.58%	-2.42%
Top 40	JSE Top 40	ZAR	5891.85	0.88%	-0.47%	-4.20%
Shareholder Weighted	JSE SWIX	ZAR	17007.22	1.02%	-0.02%	-2.32%
Small Companies	JSE Small Cap*	ZAR	54611.90	2.24%	8.05%	3.07%
Resources	JSE Resource 20	ZAR	1631.37	1.15%	12.51%	7.44%
Industrials	JSE Industrial 25	ZAR	12484.82	1.58%	-2.64%	-5.19%
Financials	JSE Financial 15	ZAR	7135.84	-1.54%	-1.93%	-5.31%
SA Listed Property	JSE SA Listed Property	ZAR	1928.61	-0.52%	4.15%	1.05%
Preference Shares	JSE Pref Shares	ZAR	1614.02	-1.93%	-4.21%	0.21%

SOUTH AFRICAN FIXED INTEREST						
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**	**YTD**
All Bond	BESA ALBI Index	ZAR	482.17	-0.65%	-0.21%	4.35%
Inflation Linked Bonds	BESA CILI	ZAR	234.11	0.20%	0.35%	1.07%
Cash	STEFI Composite*	ZAR	335.06	0.13%	0.51%	0.13%

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