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GLOBAL MARKETS

MARKETS STRENGTHENED ACROSS THE BOARD

Central bank intervention continues to dominate market performance as expectations of further monetary easing and/or weak growth influence sentiment. We have recently witnessed comments by both the ECB and the BoJ indicating further stimulus, resulting in bond yields declining even further and equities regaining some of the ground lost in the first few weeks of the year. At the time of writing, 13 developed markets are experiencing negative bond yields on two-year sovereign paper, with Japan, Germany and France experiencing negative yields out as far as 7 years.

Market attention this past week was focused on the US January employment report, with payroll data released on Friday. Non-farm payrolls came in worse than expected at 151k, against expectations of 190k. This is down from 292k in December and suggests the US economy is not growing as strongly as the Fed would like. While still in positive territory, US Bond yields continue to slide lower with expectations for a rate hike in March now below 10%. The US 10yr treasury is trading at 1.86%

In the UK, the BOE kept rates unchanged at 0.5%. However, while in line with expectations, the split of the vote for the bank rate decision was changed. Previously, out of the 9 voting members, 1 had consistently voted for a rate hike over the past six months. However the split this time was 9-0, and therefore not one member was in favor of an increase. It seems any near term rate hikes in the UK are unlikely.

The Reserve Bank of Australia (RBA) also kept its benchmark rate unchanged at 2%. However, with recent inflation data indicating that inflation remains below the 2% - 3% desired level, a near term rate cut is certainly not off the table. The RBA has already cut rates by 25bps twice in the last 12 months.

In China, PMI numbers were released for January, reinforcing the view that the manufacturing side of the economy remains under pressure, however that services are benefitting from monetary stimulus.

Manufacturing PMI came in at 49.4, slightly lower than expectations and down from 49.7 in December. This latest print indicates that the manufacturing sector has now been in contraction for six months. In contrast, Chinese services PMI came in at 52.4 for January, up from 50.2 the previous month and putting the index at a six month high.

The Chinese fiscal deficit was also released, indicating the slowdown in the economy may be starting to weigh on fiscal policy too. The fiscal deficit widened from -2.1% of GDP in 2014 to -3.5% of GDP in 2015. Up to last year, the preferred method of stimulating spending in the Chinese economy had been through credit growth but it seems authorities may now be attempting to use fiscal policy as an alternative method.

Amidst a highly uncertain world of worsening economic fundamentals but increased liquidity, markets had a volatile week with EM outperforming DM (the MSCI EM Index was down 0.4% w/w against the MSCI World Index, down 2.5% w/w). Resources and in particular gold were among the top performers with oil under pressure once again. Gold is now trading at USD1165, putting the oil/gold ratio at its cheapest since 1988.

DOMESTIC MARKETS

PRESSURE ON GORDHAN FOR STRONG BUDGET

South Africa has benefitted of late from the more risk-on environment and many of the losses witnessed in the first few weeks of the year have begun to be recouped. Although still negative year-to-date, the JSE All Share Index was up 1.2% w/w with resource shares being the star performers, the JSE Resource 20 Index up 7.6% w/w. The Rand too has regained some strength and while still suffering consequences from the Finance Minister debacle, it seems to be trading just below the ZAR/USD 16.00 level.

Barclay’s manufacturing PMI and vehicle sales numbers were released, both suggesting the economy started 2016 on a very weak note. The manufacturing PMI fell for a sixth consecutive month to 43.5. Manufacturing is the fourth biggest contributor to GDP and as inventories continue to outstrip new orders, production will remain muted, adding further constrains to economic growth and likely leading to further job cuts. Vehicle sales fell more than expected, dropping 6.9% y/y. In particular, passenger car sales which are a good proxy for consumer demand dropped 5.5% y/y.

Near term electricity tariff hikes are likely to be implemented, adding further strain to the consumer. After being the center of attention for a substantial part of the 2015 year, news surrounding Eskom has been much quieter of late with rolling blackouts having only occurred once in the past six months. However, Eskom remains in a battle to recover costs, applying to the National Energy Regulator of South Africa (NERSA) for tariff increases to cover R22.8bn in expenditure overruns and revenue shortfalls. If NERSA grants the entire application, it could lead to electricity price increases of over 16% in April and July, roughly double the 8% agreed at the multiyear price determination process. NERSA was due to close their hearings on Friday and we can expect the outcome of their decision shortly. With the electricity provider’s ability to supply power having stabilised, Eskom has indicated that it is unlikely to implement rolling blackouts for the rest of the summer and winter.

The above indicates that while South Africa may be benefitting from a more positive investor sentiment environment, fundamentals still remain weak. This past week, the World Bank joined the growing number of institutions to lower their growth forecast for South Africa, stating the country is “flirting with recession.” GDP growth is forecast at 0.8% for 2016 (down from 1.4%) and at 1.1% for 2017 (down from 1.6%). According to the Bank, South Africa will need to grow by 7.2% from 2018 in order to meet objectives set out in the National Development Plan.

Finance Minister Pravin Gordhan has promised to deliver a strong budget policy review at the end of the month in an attempt to grow the economy while maintaining fiscal consolidation. Speculation is that the budget will involve income tax increases as well as expenditure cuts.

This upcoming week, the political calendar kicks off with the opening of parliament and the President's State of the Nation Address (SONA) on Thursday, an important precursor to the Budget Review on 24 February. While the SONA does not typically address policy issues covered in the Budget, President Zuma is expected to comment on the current environment, largely as an attempt to regain some lost support from the Nene debacle.

WEEK AHEAD

UPCOMING ECONOMIC EVENTS

DATE	EVENT	PERIOD	SURVEY	PRIOR
SOUTH AFRICA				
11-Feb	Mining Production YoY	Dec		-0.80%
11-Feb	Manufacturing Prod NSA YoY	Dec	-1.50%	-1.00%
UNITED STATES				
12-Feb	Retail Sales	Jan	0.40%	-0.30%
12-Feb	Univ. of Mich. Consumer Sentiment	Feb	92.5	92
EURO AREA				
8-Feb	Sentix Investor Confidence	Feb	7.4	9.6
12-Feb	Industrial Production WDA YoY	Dec	0.90%	1.10%
12-Feb	GDP SA YoY	4Q	1.50%	1.60%
CHINA				
7-Feb	Foreign Reserves	Jan	$3210.0b	$3330.0b
8-Feb	Foreign Direct Investment YoY CNY	Jan	-5.50%	-5.80%
JAPAN				
8-Feb	BoP Current Account Balance	Dec	¥1051.7b	¥1143.5b
10-Feb	PPI YoY	Jan	-2.80%	-3.40%

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	15.99	-0.86%	-0.62%	-3.26%
ZAR/Pound	ZAR/GBP	ZAR	23.21	-2.68%	-2.48%	-1.75%
ZAR/Euro	ZAR/EUR	ZAR	17.80	-3.82%	-3.26%	-5.49%
Dollar/Euro**	USD/EUR	USD	1.11	3.02%	2.77%	2.48%
Yen/Dollar	YEN/USD	YEN	117.40	3.52%	3.19%	2.40%

COMMODITIES						
Description	**Classification**	**Currency**	**Price**	**Week**	**MTD**	**YTD**
Gold	Gold Spot	USD	1165.95	4.94%	4.27%	9.88%
Brent Crude Oil	ICE Brent Futures	USD	34.31	-5.36%	-4.67%	-10.95%
Platinum	Platinum Spot	USD	905.15	4.61%	3.87%	1.53%
Copper	LME 3 month Copper	USD	4630.00	1.51%	1.51%	-1.59%
Silver	Silver Spot	USD	14.90	5.26%	4.47%	7.58%
Wheat	Generic active future	USD	466.50	-2.61%	-2.66%	-0.74%
Yellow Maize	Generic active future	USD	365.50	-1.68%	-1.75%	1.88%
Soy	Generic active future	USD	867.25	-1.67%	-1.70%	-0.46%

GLOBAL EQUITY INDEXES (TOTAL RETURN)						
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**	**YTD**
Global	MSCI World*	USD	1523.87	-2.45%	-2.39%	-8.20%
United States	S&P 500	USD	3521.60	-3.04%	-3.04%	-7.85%
Europe	Euro Stoxx 50	EUR	5497.70	-5.39%	-5.39%	-11.70%
Britain	FTSE 100	GBP	4586.93	-3.83%	-3.83%	-6.22%
Germany	DAX	EUR	9286.23	-5.22%	-5.22%	-13.56%
Japan	Nikkei 225	JPY	25193.61	-3.99%	-3.99%	-11.63%
Emerging Markets	MSCI Emerging Markets*	USD	739.61	-0.37%	-0.35%	-6.82%

SA EQUITY INDEXES (TOTAL RETURN)						
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**	**YTD**
All Share	JSE All Share	ZAR	6686.27	1.24%	1.24%	-1.78%
Top 40	JSE Top 40	ZAR	5971.87	0.88%	0.88%	-2.90%
Shareholder Weighted	JSE SWIX	ZAR	17082.25	0.42%	0.42%	-1.89%
Small Companies	JSE Small Cap*	ZAR	52515.79	3.85%	3.85%	-0.95%
Resources	JSE Resource 20	ZAR	1560.17	7.60%	7.60%	2.75%
Industrials	JSE Industrial 25	ZAR	12802.97	-0.16%	-0.16%	-2.78%
Financials	JSE Financial 15	ZAR	7256.53	-0.27%	-0.27%	-3.71%
SA Listed Property	JSE SA Listed Property	ZAR	1882.78	1.68%	1.68%	-1.35%
Preference Shares	JSE Pref Shares	ZAR	1654.31	-1.82%	-1.82%	2.71%

SOUTH AFRICAN FIXED INTEREST						
Description	**Index**	**Currency**	**Index Value**	**Week**	**MTD**	**YTD**
All Bond	BESA ALBI Index	ZAR	484.10	0.19%	0.19%	4.77%
Inflation Linked Bonds	BESA CILI	ZAR	233.72	0.19%	0.19%	0.91%
Cash	STEFI Composite*	ZAR	333.78	0.13%	0.13%	0.13%

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