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GLOBAL MARKETS

THREE INTEREST RATE HIKES EXPECTED IN THE USA

Inflation figures around the world have been rising. Although CPI numbers have being in line with expectations, the strong rises have certainly been a cause for concern, and speak to the warnings of some economists as to its being the necessary outcome of years of monetary easing by central banks. The European harmonised headline CPI estimate for February came in at 2.0%. This figure was as low as 0.5% in October. The US consumer price index currently stands at 2.5% y/y for urban consumers, and at 2.3% y/y for core consumer inflation. This is well above the Fed's 2% target inflation rate, and has led to a hardening of the hawkish stance of various Fed governors as to interest rates increases in the US.

As a result the market is now pricing in three rate hikes from the Fed over the next twelve months as opposed to only two a few weeks ago, starting with the first hike in March. The theme continues in other parts of the world e.g. China, for which Morgan Stanley has just revised inflation to rise to 2.0% over the four quarters of both 2017 and 2018, up from their prior 1.9% forecast.

These increases in inflation could spill over to emerging markets like South Africa, and could frustrate the steady fall of inflation over the year to the expected 5.5% at year end. Higher developed market inflation could also spill over to emerging markets in general.

Growth expectations also continue to rise around the world. Manufacturing purchasing manager's indices (PMI's) for February were released for many countries around the world this week. They showed an upward trend across both developing and emerging markets. The US and China's PMI's both surprised on the upside at 57.7 and 51.6 respectively. The figure for the European Union came in at 55.4, which was an improvement, led by Germany whose figure came in at 56.8. China's February exports y/y rose 16.9% in Yuan while its imports rose 20%, up from 15.9% and 16.7% respectively in January. Thus clearly, the new global protectionism is far from taking bite yet. This should help to underscore industrial metal prices.

Looking around the globe, there were many indicators that confirmed the higher growth path. The Japanese jobless rate fell to 3.0% from 3.1% in January. Eurozone y/y retail sales rose to 1.5% from 1.1% in January. Economic confidence in that region registered 108.1 versus 107.9 in January, and the business climate indicator rose from 0.77 to 0.79.

All in all, the data releases led to a good week on developed equity markets. The MSCI world index closed the week 0.44% higher in USD, with notable performances from Europe (+3.0%). The MSCI emerging markets index in contrast fell (-1.32%). The yield on the bellwether US10y bond yield rose from 2.31% to 2.48%.

DOMESTIC MARKETS

IF TAX SHORTFALL CONTINUES, MORE HIKES TO COME IN 2018

The South African investing community settled down after digesting the previous week's budget speech, in which taxes were raised to cover the greater tax take shortfall. In the cold light of day, particularly worrying for government finances is the sharp drop in tax buoyancy, which is the change of tax revenue growth relative to the change in GDP growth. This metric dropped from 1.45 in the previous two fiscal years to only 0.88 in this budget report. The reasons for this drop remain an enigma, but there might be slippage at SARS in terms of collection or it might be that taxpayers are arranging their tax affairs differently.

If this continues, we may even see higher taxes next year, even up to the extent of an increase in VAT despite its potential political unpopularity. Another concern is that of the additional R16.5bn extra personal income to be collected in the coming fiscal year, revenues through bracket creep (inflation drag) amount to R12.8bn, with R4.4bn coming from a new top marginal rate of 45% for those earning > R1.5m. The increases represent around 0.6% of total household spend and around 2% of discretionary household spend. This should have a negative impact on GDP and on retail counters in particular, especially those more reliant on discretionary spend.

Money supply figures for January were released, which showed that M3 grew at 6.00% y/y vs. 6.06% in January. Private credit extension beat January's 5.3% growth y/y, coming in at 5.56%. However, this remains firmly below the inflation rate and does not indicate any robust willingness in the economy to access credit.

The trade balance, which is a volatile number but central to the current account balance, came in at -R10.8bn for January, much worse than the expected R-3.4bn expected by the market. The figure for December was a positive R12bn. Imports were disappointing and grew by only 2.3% y/y, whereas exports accelerated to 12.9% y/y from 6.4% y/y in December. The market needs to see more persistently positive trade balances for it to sustain a stronger ZAR.

Vehicle sales, after giving the market hope in January with a positive print of 3.7% y/y after a string of strongly negative figures, once again slipped into the red, actually declining by -0.1% y/y when the market expected growth of 2.1%. Clearly, what growth signs there are in the economy still remain subdued.

The JSE All Share index rose 0.21% in ZAR over the week, no thanks to the industrial board which fell (-0.52%) over the period.

TAX RATES FOR INDIVIDUALS: 2017/2018 TAX YEAR

Taxable income (R)	Tax rate
R0 - R189 880	18% of each R1
R189 881 - R296 540	R34 178 + 26% of the amount above R189 880
R296 541 - R410 460	R61 910 + 31% of the amount above R296 540
R410 461 - R555 600	R97 225 + 36% of the amount above R410 460
R555 601 - R708 310	R149 475 + 39% of the amount above R555 600
R708 311 - R1 500 000	R209 032 + 41% of the amount above R708 310
R1 500 001 and above	R533 625 + 45% of the amount above R1 500 000

Tax Rebates	
Primary	R13 635
Secondary (Persons 65 - 75)	R7 479
Tertiary (Persons 75 and older)	R2 493

Tax Threshold	
Below age 65	R75 750
Age 65 and over	R117 300
Age 75 and over	R131 150

WEEK AHEAD

DATE	EVENT	PERIOD	SURVEY	PRIOR
SOUTH AFRICA				
03/07/17	Gross Reserves	Feb		$46.67b
03/07/17	GDP	4Q		0.70%
03/08/17	SACCI Business Confidence	Feb		97.7
UNITED STATES				
03/06/17	Durable Goods Orders	Jan		1.80%
03/07/17	Trade Balance	Jan	-$47.0b	-$44.3b
03/09/17	Initial Jobless Claims	March		223k
03/10/17	Change in Nonfarm Payrolls	Feb	175k	227k
03/10/17	Unemployment Rate	Feb	4.70%	4.80%
EURO AREA				
03/07/17	Household Consumption	4Q		0.30%
03/07/17	GDP	4Q		1.70%
03/09/17	ECB Rates Announcement	March		EU80b
CHINA				
03/08/17	Trade Balance	Feb	$26.40b	$51.35b
03/09/17	CPI	Feb	1.70%	2.50%
03/09/17	PPI	Feb	7.50%	6.90%
03/10/17-03/15/17	Money Supply M2	Feb	11.40%	11.30%
JAPAN				
03/08/17	GDP	4Q	0.40%	0.20%
03/08/17	Leading Economic Indicator	Jan	105.8	104.8
UNITED KINGDOM				
03/10/17	Industrial Production	Jan	3.00%	4.30%
03/10/17	Manufacturing Production	Jan	2.70%	4.00%
03/10/17	Trade Balance	Jan	£3300	£3304

COMMON ABBREVIATIONS USED FOR ECONOMIC INDICATOR TERMS

PPI	Producer price index (shows trends within the wholesale markets which feed through into inflation)
PMI	Purchasing managers index (indication of the economic health of the manufacturing sector)
GDP	Gross domestic product
ECB	European Central Bank
CI	Confidence Index
MoM	Month-on-month
YoY	Year-on-year
QoQ	Quarter-on-quarter
SA	Seasonally adjusted
NSA	Non-seasonally adjusted

WEEKLY TICKER

CURRENCIES

Description	Classification	Currency	Exchange Rate	Week	Month	Month-to-Date	Year-to-Date
ZAR/USD	ZAR/USD	ZAR	13.06	-0.58%	2.78%	0.49%	5.17%
ZAR/Pound	ZAR/GBP	ZAR	16.04	0.79%	4.57%	1.29%	5.61%
ZAR/Euro	ZAR/EUR	ZAR	13.84	-1.14%	3.99%	0.31%	4.41%
Dollar/Euro**	USD/EUR	USD	1.06	0.56%	1.27%	0.17%	0.73%
Yen/Dollar	YEN/USD	YEN	113.81	-1.71%	-1.10%	-0.91%	2.77%

COMMODITIES

Description	Classification	Currency	Commodity Price	Week	Month	Month-to-Date	Year-to-Date
Gold	Gold Spot	USD	1232.41	-1.78%	1.55%	-1.28%	7.40%
Brent Crude Oil	ICE Brent Futures	USD	55.61	-0.73%	-1.67%	-1.59%	-4.19%
Platinum	Platinum Spot	USD	991.15	-2.80%	-0.17%	-3.23%	9.75%
Copper	LME 3 month Copper	USD	5917.00	-0.19%	0.53%	-0.94%	6.89%
Silver	Silver Spot	USD	17.82	-2.15%	2.80%	-2.70%	11.86%

GLOBAL EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
Global	MSCI World*	USD	1232.41	-1.78%	1.55%	-1.28%	7.40%
United States	S&P 500	USD	55.61	-0.73%	-1.67%	-1.59%	-4.19%
Europe	Euro Stoxx 50	EUR	991.15	-2.80%	-0.17%	-3.23%	9.75%
Britain	FTSE 100	GBP	5917.00	-0.19%	0.53%	-0.94%	6.89%
Germany	DAX	EUR	17.82	-2.15%	2.80%	-2.70%	11.86%
Japan	Nikkei 225	JPY	29749.53	0.96%	2.31%	1.83%	1.93%
Emerging Markets	MSCI Emerging MKTS	USD	931.07	-1.32%	2.40%	-0.54%	8.11%

SOUTH AFRICAN EQUITY INDEXES (TOTAL RETURN)

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Share	JSE All Share	ZAR	1232.41	-1.78%	1.55%	-1.28%	7.40%
Top 40	JSE Top 40	ZAR	55.61	-0.73%	-1.67%	-1.59%	-4.19%
Shareholder Weighted	JSE SWIX	ZAR	991.15	-2.80%	-0.17%	-3.23%	9.75%
Small Companies	JSE Small Cap*	ZAR	5917.00	-0.19%	0.53%	-0.94%	6.89%
Resources	JSE Resource 20	ZAR	17.82	-2.15%	2.80%	-2.70%	11.86%
Industrials	JSE Industrial 25	ZAR	12388.41	-0.52%	-2.28%	0.43%	2.79%
Financials	JSE Financial 15	ZAR	7962.16	1.74%	3.47%	3.14%	2.03%
SA Listed Property	JSE SA Listed Property	ZAR	2151.89	-0.37%	1.20%	1.05%	2.32%
Preference Shares	JSE Pref Shares	ZAR	1928.75	0.98%	0.21%	1.45%	0.79%

SOUTH AFRICAN FIXED INTEREST

Description	Index	Currency	Index Value	Week	Month	Month-to-Date	Year-to-Date
All Bond	BESA ALBI Index	ZAR	548.33	0.20%	1.43%	0.72%	2.81%
Inflation Linked Bonds	BESA CILI	ZAR	249.59	-0.05%	0.02%	-0.04%	1.61%
Cash	STEFI Composite*	ZAR	360.74	0.14%	0.61%	0.06%	1.28%

*Price Index (not Total Return)

** Negative indicates Euro weakness

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