ECONOMIC REPORT

by Glacier Research

glacier by Sanlam

25 April 2017

REVIEW PERIOD: MARCH 2017

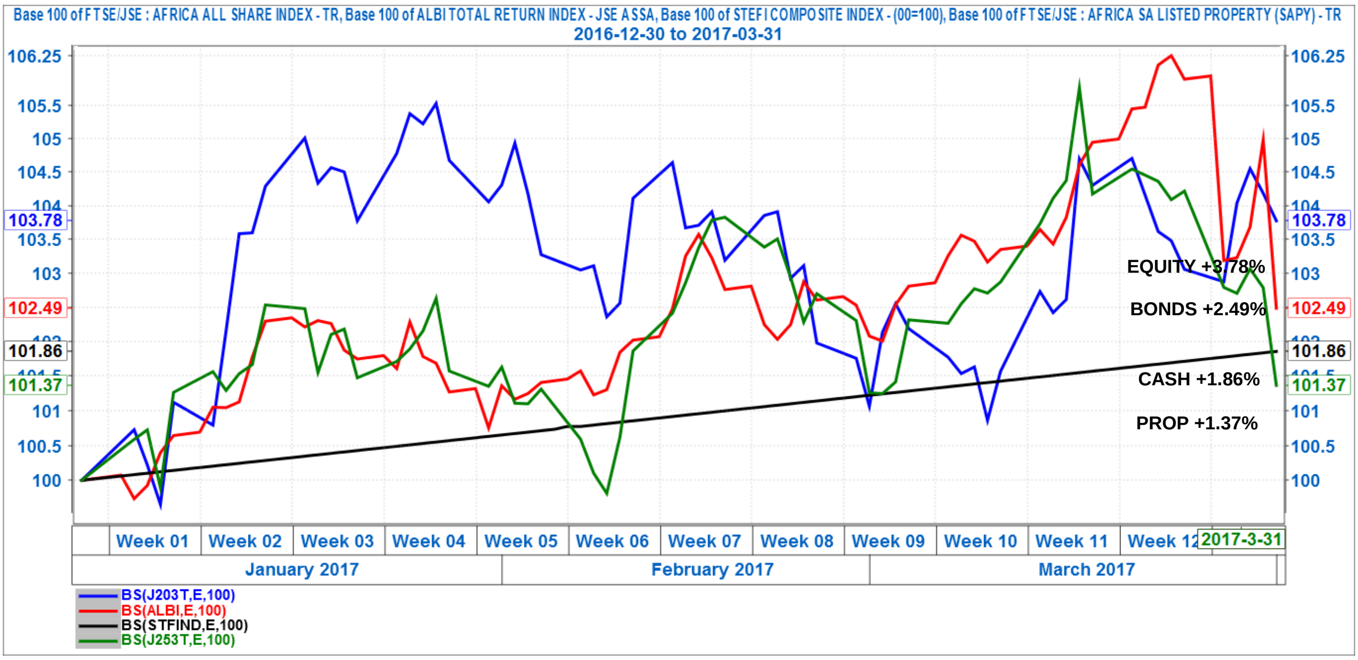
SUMMARY

Global equities continued to enjoy one of the strongest starts to a year since 2012, despite a modest pullback in the equity markets in March. The US election, coupled with the hope for tax cuts, and increased infrastructure spending and regulatory reform, have undoubtedly played a pivotal role in the rally which took place in November last year. However, investors turned more cautious as the month of March drew to a close, which was partly due to President Donald Trump's healthcare policy setback that raised concerns about his administration's ability to successfully deliver its policy agenda. Both offshore equities and bonds rose during the month of March in USD, while offshore equities and bonds benefitted from a weaker rand in ZAR. Encouraging economic growth prospects from the US, Europe and Asia, as well as improving employment and stronger manufacturing data supported global equities. As expected, the Bank of England (BoE) kept its interest rate unchanged at 0.25%, while UK inflation rose to 2.3% in February, breaking the BoE's 2% inflation target for the first time in over three years. Theresa May triggered Article 50, initiating the nation's formal exit from the European Union, which was met with a muted response. European elections have thus far rejected anti-Euro politics, with results in both Austria and the Netherlands showing that the widely predicted break-up of the Eurozone is probably not imminent. The Bank of Japan opted to retain its ultra-lax monetary stimulus. As a result, the yen strengthened against the US dollar. Emerging market equities gained further ground in March, making it the third month in a row of outperformance versus developed market equities.

Locally, many could argue that SA financial markets were on a positive trajectory for the month and the first quarter of 2017 with SA equity and bond markets on the rise. However, this positive sentiment was short-lived as local political upheavals caused a brief rout in local markets. The rand reacted to the fear and eventual reality of an SA cabinet reshuffle that included the axing of the well-regarded Finance and Deputy Finance Ministers, which unsettled both the rand and the local bond market in the last week of the quarter. The effect was an entire downward shift in the short end of the yield curve, whilst the longer end remained relatively unchanged. Also, many financial and economic institutions have subsequently revised estimates for SA's economic growth lower and SA's inflation rate higher for the year. The outlook for the rand remains highly uncertain with further weakness and

volatility to be expected as the market grapples with the implications of President Zuma's cabinet reshuffle and particularly the change in leadership at National Treasury. Key commodities underlying inflation expectations came under pressure over the month with the price of Brent Crude falling by 4.09% to $53.53/barrel and maize dropping 0.68%. However, this alleviation in local inflationary pressure may be undone by a weakening rand, especially since certain credit rating agencies have subsequently downgraded SA's credit status to sub-investment grade.

Developed market equities (+0.82% in USD, +2.97% in ZAR and +0.63% in GBP) underperformed emerging market equities (+2.35% in USD, +4.54% in ZAR and +2.17% in GBP) in March 2017. Developed market property turned in a poor performance, surrendering 1.95% in USD terms, while local investors would have experienced a muted return of 0.15% due to the rand weakening against the US dollar (+2.14%). Meanwhile, global bonds underperformed global equities, adding 0.15% in USD and 2.30% in ZAR, while losing 0.33% in GBP. Locally, the ALSI turned in a strong performance of 2.68% (+0.53% in USD and -0.32% in GBP) for the month of March, which was marginally higher than the 2016 calendar year return of 2.63%. The stellar performance of the ALSI was supported by gains in SA Industrials – which includes dual-listed companies (4.19%), Resources (2.91%), and the SA Listed Property Sector (0.11%). The sectors that performed well in February turned in a poor performance for March. Industrials (-2.12%), Retailers (-1.12%), and Financials (-0.66%) dragged the market lower. Fixed interest returns were subdued relative to local equities with the ALBI returning 0.40%. Preference shares gained 1.69% after giving up 1.16% in February, while Inflation-linked bonds surrendered 2% for the month due to a decline in inflation expectations and political unrest in SA. The shorter end of the yield curve (three - seven years) was the best performing fixed interest asset class in March returning 0.82%, followed by the very short end of the yield curve (one – three years) which delivered +0.67%. The longer end of the yield curve, over 12 years, was the worst performer, returning +0.27%. Cash outperformed the ALBI, but underperformed the ALSI in March, returning +0.63%.



Source: I-Net - 1 April 2017

LOCAL OVERVIEW

South Africa's annual headline inflation rose again in March to 6.10% y/y, showing a slight downtick from 6.30% in February and below market expectations of 6.30%. Costs increased at a slower pace for food and non-alcoholic beverages (8.7% from 9.9% in February); clothing and footwear (4.5% from 4.8%) and restaurants and hotels (6.1% from 6.4%). In contrast, inflation was steady for recreation and culture (3.7%) and accelerated for housing and utilities (5.7% from 5.6%); miscellaneous goods and services (7.5% from 7.4%); transport (7.7% from 7.2%); alcoholic beverages and tobacco (3.2% from 2.8%) and education (7% from 4.6%). On a monthly basis, consumer prices rose 0.6%, below 1.1% in February and were boosted by cost of housing and utilities (0.9%); education (7%); food and non-alcoholic beverages (0.5%) and alcoholic beverages and tobacco (1.7%).

	Oct'16	Nov'16	Dec'16	Jan'17	Feb'17	Mar'17
CPI (y/y)	**6.4%**	**6.6%**	**6.8%**	**6.6%**	**6.3%**	**6.1%**
PPI (y/y)	**6.6%**	**6.9%**	**7.1%**	**5.9%**	**5.6%**	**-**

Sources: SA Reserve Bank, Statistics SA, I-Net, BER, Trading Economics, MorningStar, Reuters

South Africa posted a trade surplus of R5.22 billion in February 2017 compared to an upwardly revised R11.22 billion deficit in January. Exports advanced 9.4% to R87.8 billion, mainly driven by higher sales of vehicles & transport equipment (79%), machinery & electronics (25%), base metals (10%), plastics & rubber (33%) and prepared foodstuff (17%). Major destinations for exports were China (8.6% of total exports), Germany (7.9%), the US (6.7%), Japan (5.7%) and India (4.6%). Imports declined by 9.7% to R82.6 billion, as purchases went down for: machinery & electronics (-18%), chemical products (-10%), plastic & rubber (-22%), base metals (-15%), vegetable products (-25%) and vehicles & transport equipment (-6%). Imports came mainly from China (18.3% of total imports), Germany (11.8%), the US (6.4%), Saudi Arabia (5.5%) and India (4.9%).

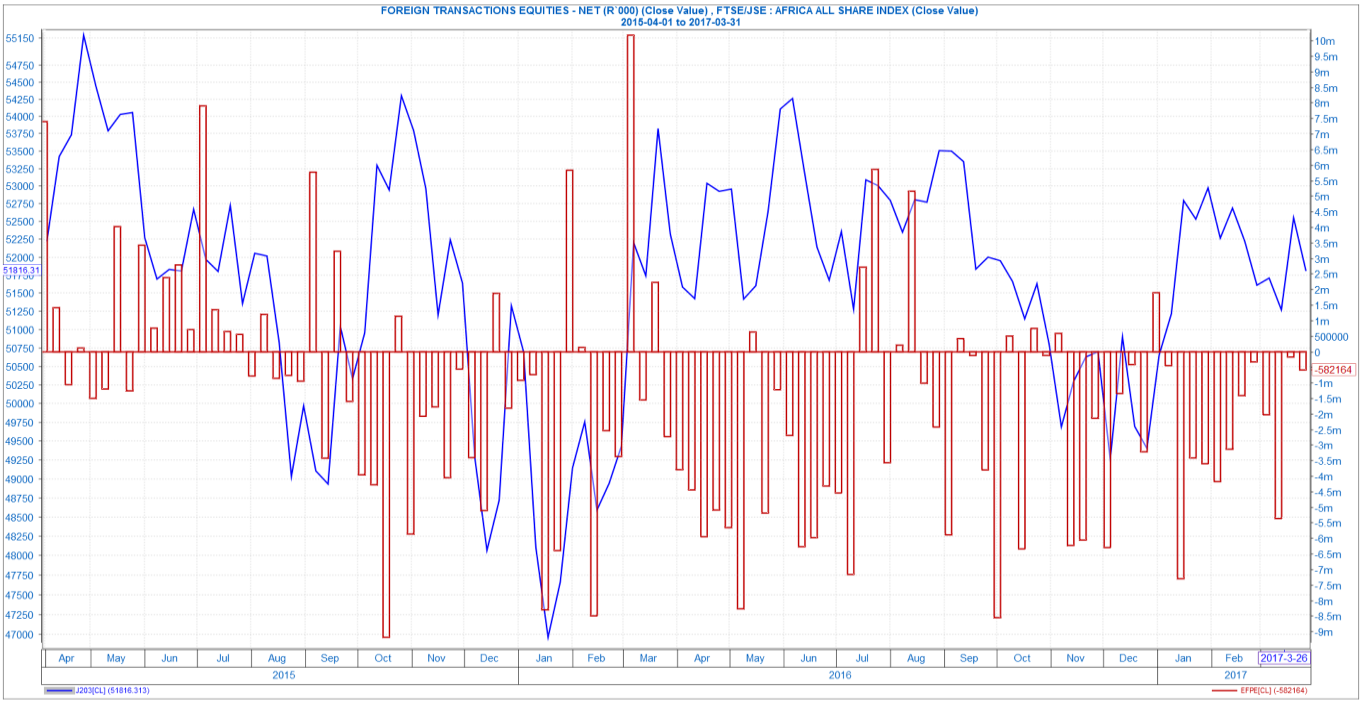
Despite SA posting a trade surplus overall, if trade between neighbouring countries such as Botswana, Lesotho, Namibia and Swaziland were excluded, the country actually posted a trade deficit of R1.2 billion in February.

	31 March 2015	31 March 2016	31 March 2017
USD/ZAR	**12.13**	**14.65**	**13.41**
GBP/ZAR	**17.97**	**21.09**	**16.63**
EUR/ZAR	**13.14**	**16.70**	**14.30**

Sources: SA Reserve Bank, Statistics SA, I-Net, BER, Trading Economics, MorningStar, Reuters

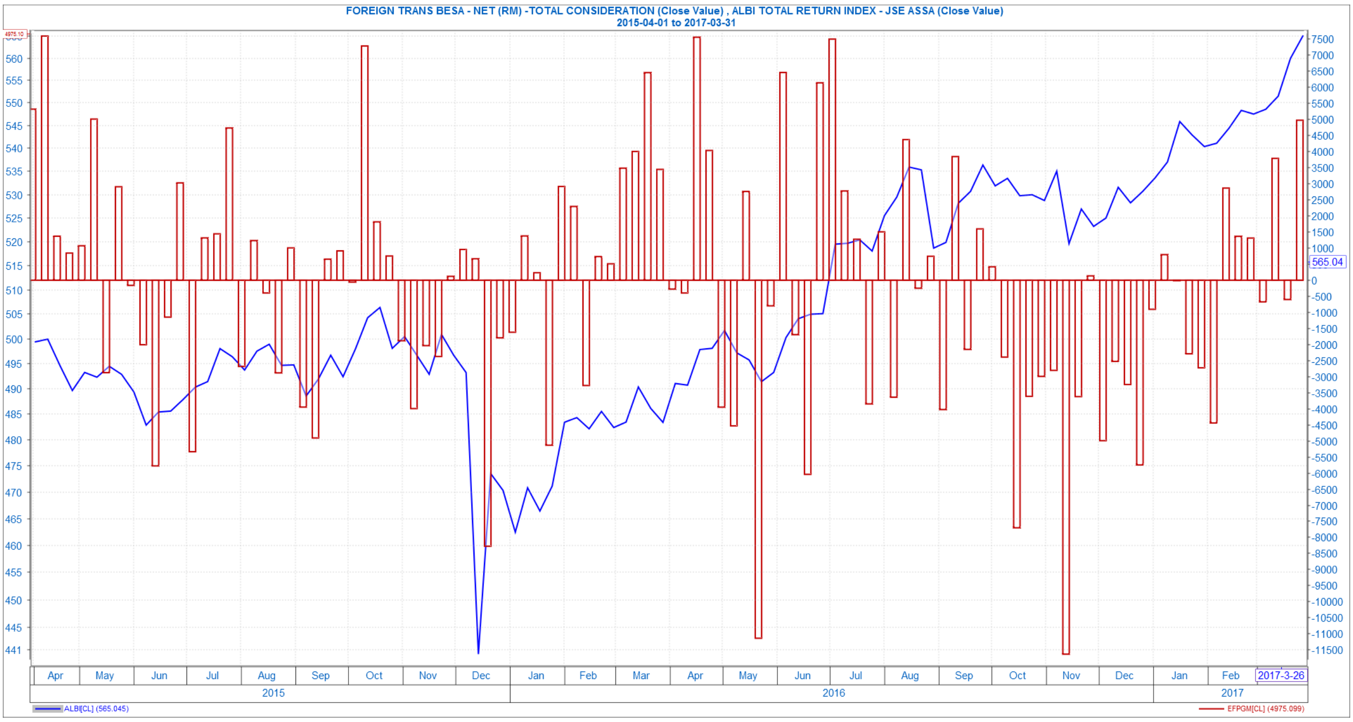
Locally, the ALSI was up 2.68% in rand terms. US foreigners invested in SA equities would have returned 0.53% in USD, despite the rand weakening by 2.14% against the US dollar in March. Industrials led the losses on the ALSI, declining 2.12% in March as SA retailers were hit at the end of the month by the political cabinet re-shuffle debacle. Resources led the gains as precious metals, in particular the gold mining index, rallied as investors flocked to safe haven assets. The Financials index, down 0.66%, also dragged on the ALSI, as banks spiralled down after the announcement of the change in SA's finance minister. By market-cap, the Top 40 index led the gains, rising 3.30% as the rand weakened against every other major currency in March. Small-cap stocks returned a marginal 0.16% and mid-cap stocks fell by 0.13% for the month.

Consumer Services was the top performing sub-sector for a consecutive month returning an impressive 6.27% for the month of March. This was followed by consumer goods, up 5.70%. Health Care (-6.17%) was the worst performing sub-sector, followed by Technology (-3.04%). The Gold Mining sub-sector rose significantly in March, returning 5.98%. Gold Fields (+16.20%), Sibanye Gold (+9.08%) and Harmony (+2.98%) led the Gold mining index higher, while Pan Africa Resources (-5.40%) and Anglo Gold Ashanti (-1.62%) weighed on the index. Other mining companies that performed poorly were platinum miners, with Lonmin plunging 23.67%, Northam Platinum dropping 5.22% and Anglo American Platinum returning a meagre 0.85%. Diversified miners such as Anglo American (0.22%) and BHP Billiton (-0.83%) also had a tough month as many investors took profits in March, following resources' strong run in January and February. Rand-hedge stocks in the Top 40, such as Compagnie Financiere Richemont (+10.98%), Naspers (+10.36%), British American Tobacco (+7.32%) and Mondi (+6.65%) excelled under the rand weakness over the month and were the best performing large-cap stocks, while Netcare (-19.50%), Barclays (-8.19%) and Steinhoff (-8.11%) were the worst performing large-caps. Industrials, in particular retailers, had a weak month with counters such Mr Price (-5.94%) and Woolworths (-0.13%) weighing on the index. The financials index also had a difficult month, shedding 0.66%. The index was dragged down by losses in major banking stocks in the Top 40 index, namely, Barclays (-8.19%), RMB Holdings (-7.63%) and Firstrand (-6.76%), while other Top 40 financial stocks such as Old Mutual (-4.07%) and Sanlam (-0.59%) also struggled over the month. SA equities were sold off again in March by foreigners. They were net sellers of R12.85 billion worth of equities in March, signalling a continued decrease in investor confidence in SA equities. YTD they have sold R38.5 billion worth of SA equities.



Source: I-Net 1 April 2017

Local fixed income markets saw subdued returns over the month relative to equities, with the ALBI (+0.40%) underperforming cash (+0.63%), and Preference Shares (+1.69%). The three-seven year end of the yield curve was the best performing interest-bearing asset class, returning 0.82%, followed by one-three year bonds (+0.67%). The longer end of the yield curve (12yrs+) was the worst performer, returning +0.27%. Over the last three months the three-seven year period was the best performer (+3.35%) followed by the seven-twelve year period (+2.63%), while the three-seven year (+11.57%) was the best performer over the past 12 months. SA listed property (a hybrid asset class) had a difficult month, returning a meagre 0.11%.



Source: I-Net 1 April 2017

For the month, foreigners were net buyers of R18.57 billion worth of bonds, particularly as local political turmoil caused yields on SA bonds to spike. YTD the bond market has experienced a net inflow of R15.7 billion. In March, SA's currency returns weakened against major global peers. The rand depreciated against the US dollar (+2.14%), the pound sterling (+2.32%), the euro (+3.04%) and the Japanese yen (+3.62%).

GLOBAL OVERVIEW

Offshore equities and bonds rose during the month of March in USD, supported by encouraging economic growth prospects from the US, Europe and Asia, as well as improving employment and stronger manufacturing data. The lack of policy progress and rising market scepticism was reflected in the increased market volatility and a modest pullback in the US equity markets. As expected, the Federal Reserve hiked its interest rate by 25 basis points to 1% during its March meeting, underpinning the confidence in the US economic outlook. Consumer prices in the US increased by 2.7% y/y in February, following a 2.5% rise in January, marking the highest inflation rate since March 2012. Moreover, the US economy advanced an annualised 2.1% q/q in Q4 of 2016 from a 3.5% growth in the previous quarter. The broader commodities index gave up 2.79% in March with losses across the board. The gold price experienced significant volatility as political events in the US and Europe influenced the precious metal price. The gold price ended flat (+0.03%), iron ore sank 11.92%, nickel gave up 9.15%, platinum weakened by 8.65%, while copper and silver lost 1.47% and 0.22% respectively. Brent crude oil prices came under pressure in March, losing 4.09% as an on-going build-up in US crude oil inventories and an increase in the number of active US oil rigs has bolstered the concerns surrounding a global supply glut.

On a total return basis, the global technology sector was the top performing sector for the month, returning 2.5% in USD, 2% in GBP and 5.1% in ZAR. This was followed by the consumer cyclical sector which returned 2.3% in USD, +1.8% in GBP and +4.8% in ZAR. Financial services was the top performing sector over a one year period in USD (+32%), GBP (+51.7%) and ZAR (+20.3%). The worst performing global sector in March was the financial sector returning -2.5% in USD, -2.9% in GBP and flat in ZAR. Furthermore, the real estate sector was the worst performing global sector over a one year period returning 4.7% in USD, 20.4% in GBP and -4.5% in ZAR.

In rand terms, global developed market equities (+3.14%) underperformed emerging market equities (+4.54%) in March. In USD, the MSCI ACWI added 0.82% and the MSCI Emerging Markets Index advanced 2.35% in USD for the month. Developed market property gave up 1.95% in USD underperforming bonds, which added 0.15% in USD. Looking at developed markets, all global indices were positive in ZAR for the month of March due to the rand weakening against most major currencies. The Euro Stoxx 50 (+8.67% in ZAR, +6.31% in USD and +5.82% in GBP), the CAC 40 (+8.63% in ZAR, +6.28% in USD and +5.66% in GBP), the DAX (+7.06% in ZAR, +4.74% in USD and 4.22% in GBP), and the Australian ASX (+5.23% in ZAR, +3.03% in USD and 2.02% in GBP) were the top performers for the month. In emerging markets, China's Shanghai Composite index gave up 0.59% in its base currency and returned a steady 1.18% return in ZAR, while the Brazilian Bovespa equity index weakened by 2.52% in its base currency. The US dollar weakened against both the euro (+0.80%) and the British pound (+1.33%).

Spot Rates	31 March 2015	31 March 2016	31 March 2017
USD/EUR	**1.08**	**1.14**	**1.07**
USD/GBP	**1.48**	**1.44**	**1.25**
Yen/USD	**120**	**112.52**	**111.4**

Sources: SA Reserve Bank, Statistics SA, I-Net, BER, Trading Economics, MorningStar, Reuters