ECONOMIC REPORT

by Glacier Research

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REVIEW PERIOD: JANUARY 2018

SUMMARY

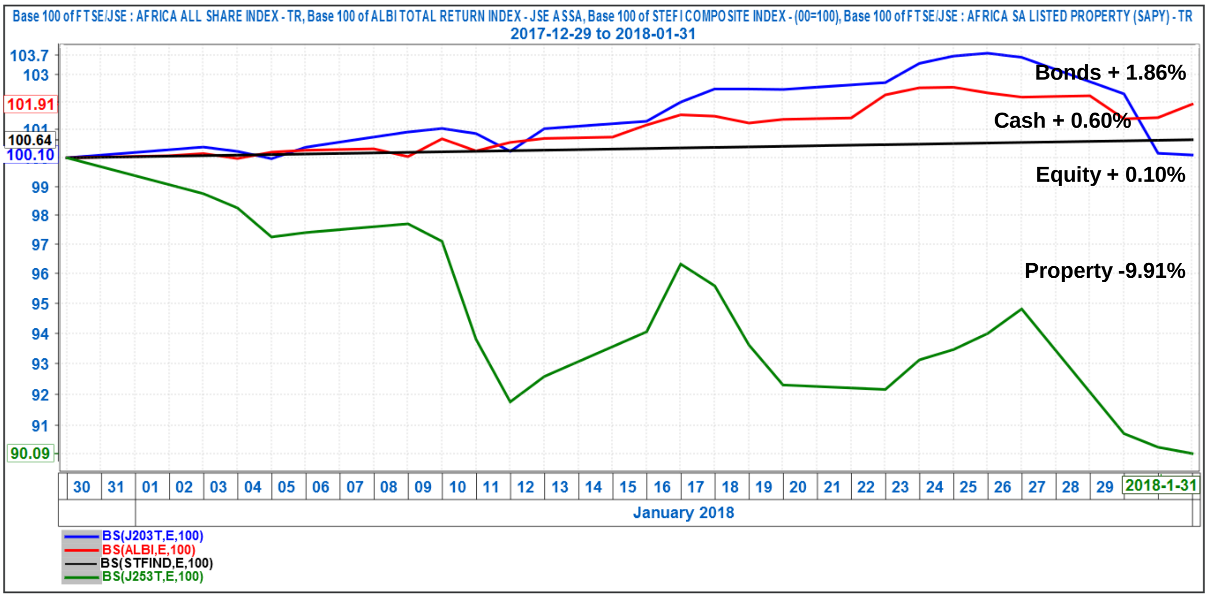
Global equity markets continued their ascent in January, extending the gains from 2017, supported by strong corporate earnings, a pick-up in economic growth and optimism over US tax cuts. Growing confidence among central banks that the strong recovery will bring inflation back towards target levels caused most government bond prices to weaken, most notably US treasuries. Global bonds were negative in ZAR terms and global equities were slightly positive despite the rand strengthening against the US dollar for the month. The recovery seen in the Eurozone towards the back-end of 2017 is still playing out, supported by good consumer confidence numbers and record high purchasing manager index business surveys. Investors are paying close attention to the European Central Bank's monetary policy language, anticipating any hints of future plans to withdraw stimulus. Concerns around the United Kingdom's economic outlook and the risk of a 'hard Brexit' weighed on investor sentiment and contributed to one of the factors that pushed the pound sterling to its highest level against the US dollar. Emerging markets registered positive gains in January, outperforming its developed market counterpart for the second consecutive month. The advance in emerging markets was supported by an improving global growth outlook and increasing optimism that companies will be able to deliver on the earnings front in 2018. Latin America was the best performing region with Brazil leading the way. Equity returns from China were impressive, after the market reacted positively to news that the Chinese economy expanded by 6.8% in Q4 2017.

Locally, the effects of the ANC December elective conference continued in January as market optimism grew stronger over not only the victory of Cyril Ramaphosa becoming President of the ANC, but also over the looming removal of President Jacob Zuma as President of the country, a transition which sparked a tailwind on the rand at the end of January 2018. Market optimism was further heightened as Cyril Ramaphosa flexed his muscle by appointing a new Eskom board thereby sending strong anti-corruption signal waves which drove markets higher as business confidence was slowly recovering in South Africa. The rosy picture of January was distracted by Capitec's short-lived debacle which came as a result of Steinhoff's nemesis, Viceroy, publishing a research report that alleged Capitec engaged in irregular reporting and lending practices which sparked a panic sell-off on Capitec

shares that saw a 20% decline very shortly after the report was published. The share price, however, bounced back as the South African Reserve Bank posted a statement that refuted Viceroy's report and provided assurance of Capitec's solid business. Another thorn in the side was the plummeting of South African Listed Property counters, which could partially be attributed to Viceroy as well. The positive highlight for the month was the strengthening of rand which hovered below the R12 mark, posting buoyant gains of 4.07% against the US dollar to close at R11.87 and other major currencies, thereby signalling remarkable confidence in the South African economy, despite the IMF's downward revision of South Africa's economic growth outlook.

Developed market equities (+5.28% in USD, +0.97% in ZAR and +0.15% in GBP) underperformed emerging market equities for the second consecutive month in January (+8.33% in USD, +3.90% in ZAR and +3.06% in GBP). On a global equity style basis using the MSCI World style indices, momentum was the top performing style (+8.06% in USD, +3.64% in ZAR and +2.80% in GBP), followed by growth (+6.28% in USD, +1.93% in ZAR and +1.10% in GBP), quality (+5.16% in USD, +0.86% in ZAR and +0.03% in GBP) and then value (+4.27% in USD, 0.00% in ZAR and -0.81% in GBP). Developed market property was relatively flat (-0.01%) in USD terms, while local investors would have experienced a negative return of -4.10% due to the rand strengthening against the US dollar (-4.07%). Meanwhile, global bonds underperformed global equities, returning 1.19% in USD (-3.74% in GBP and -2.95% in ZAR). Locally, the ALSI returned 0.10% in ZAR terms (+4.37% in USD and -0.72% in GBP). The market was supported by Industrials (+5.76%), General Retailers (+4.60%), Resources (+3.18%) and Basic Materials (+3.18%).

Meanwhile, SA listed property (-9.91%) and Financials (-2.98%) stumbled, where weakness was attributed to rumours of an imminent Viceroy report on the Resilient Stable. Technology gave up 5.33% and Health Care surrendered 1.70%. Fixed interest returns were strong relative to local equities with the ALBI advancing 1.86%. Preference shares retreated 0.66%, while inflation-linked bonds gave up 2.16%. The longer end of the yield curve (over 12 years) was the best performing fixed interest asset class in January, returning 2.13%, followed by the middle end (7-12 years) which advanced 1.50%. The very short end of the yield curve (1-3 years) was the worst performer in this asset class, returning 1.04%. Furthermore, cash outperformed equity, but underperformed bonds in January, returning 0.60%.



Source: I-Net January 2018

LOCAL OVERVIEW

The domestic economic outlook remained steady as GDP quarterly growth figures are awaited after recording an annualized 2% in Q3 2017, which was preceded by a 2.8% expansion in Q2 2017.

The South African unemployment rate improved to 26.7% in Q4 2017. This is an improvement on the Q3 rate of 27.7%. However, it is important to note that this improvement was due to a decrease in the labour force size rather than a rise in employment. GDP growth is forecasted to contract to 1.1% for Q1 and Q2 of 2018 before a forecasted upturn of 2.7% in Q3 of 2018, while the unemployment rate is forecasted to worsen to 28% in Q1 of 2018 and 27.8% in Q2 of 2018.

Consumer prices in South Africa decreased to 4.4% in January 2018 down from 4.7% in the prior month and below market expectations. The slight downtick from December to January was mainly driven by a lower increase in prices of transport. Year-on-year, cost advanced less for transport (4.4% vs 6.4% in December), mainly fuel (9.1% vs 14.2%) and food (4.5% vs 4.8%), amid lower prices of bread and cereals (-5.1% vs -5%); oils and fats (-3.4% vs -2.6%); fruit (-3.6% vs -4.2%) and milk and dairy products (4.2% vs 4.8%). Also, cost rose at the same pace for housing and utilities (4.4%) but eased for miscellaneous goods & services (7% vs 7.1%); furnishings (1.5% vs 1.7%) and clothing & footwear (1.7% vs 1.8%). Meanwhile, prices continued to climb for: alcoholic beverages & tobacco (5.3% vs 4.9%); recreation & culture (0.7% vs 0.4%); restaurants & hotels (3.6% vs 3%) and health (6% vs 5.7%). On a monthly basis, consumer prices rose 0.3%, following a 0.5% increase in December, matching market expectations.

The South African Reserve Bank kept its benchmark repo rate unchanged at 6.75% on the 18th of January 2018, in line with market expectations and thereby maintaining the prime lending rate at 10.25%. The governor of the South African Reserve Bank, Lesetja Kganyago, highlighted positive sentiment over SA's economic growth outlook and cautioned against another ratings downgrade which potentially will have dampening effects on the rand and long bond yields. Policy makers have urged that the inflation outlook has improved and will remain near the target range midpoint although upside risks still remain. The interest rate is expected to ease 25 basis points to 6.5% over Q1, Q2 and Q3 of 2018. In the long run, however, rates are expected to hover around 7%.

	Aug'17	Sep'17	Oct'17	Nov'17	Dec'17	Jan'18
CPI (y/y)	**4.8%**	**5.1%**	**4.8%**	**4.6%**	**4.7%**	**4.4%**
PPI (y/y)	**4.2%**	**5.2%**	**5%**	**5.1%**	**5.2%**	**5.1%**

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

South African January trade surplus figures are awaiting release against a December 2017 widening trade surplus of R15.72 billion, up from R13.05 billion in the prior month, and above market expectations of a R10.05 billion surplus. The December 2017 trade surplus marks the highest width since May 2016 as exports decreased 10.2% month-on-month to R104.3 billion driven by vehicles & transport equipment (-23%), machinery & electronics (-21%), base metals (-14%) and mineral products (-12%) against a 31% export rise in vegetables. On the other hand, imports declined 14.1% month-on-month to R88.6 billion driven by original equipment components (-58%), base metals (-30%), chemicals (-18%) and machinery & electronics (-15%) while an upturn of 23% was seen in purchases of mineral products. In terms of trade partners, the main export partners were China (11.6% of total exports), United States (7.1%), Germany (6%), India (5.4%) and the United Kingdom (4.3%) with the main import partners being China (18.9% of total imports), Germany (7.9%), United States (6.4%), Oman (5.5%) and India (5%). The balance of trade is expected to contract to R9 381 million in Q1 of 2018 with a further contraction to R5 927 million and R3 904 million in Q2 and Q3 of 2018 respectively.

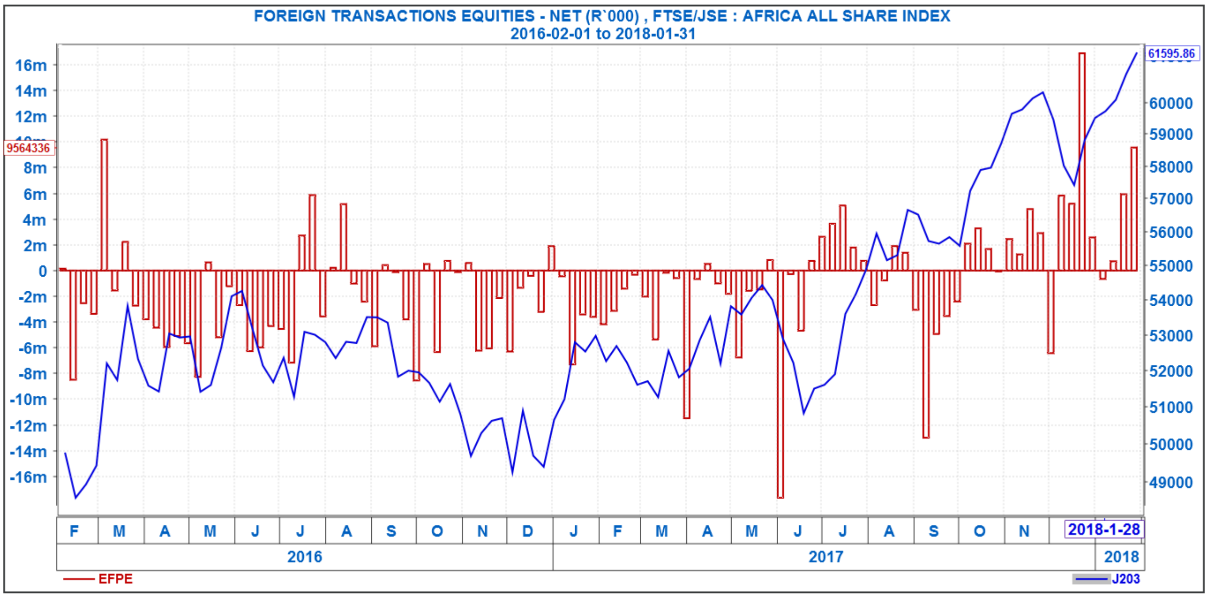
	31 January 2016	**31 January 2017**	**31 January 2018**
USD/ZAR	**15.86**	**13.46**	**11.87**
GBP/ZAR	**22.61**	**16.95**	**16.88**
EUR/ZAR	**17.22**	**14.54**	**14.79**

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

Locally, the All Share Index (ALSI) climbed 0.10% in rand value against the backdrop of investor confidence resulting from the outcomes of the December ANC elective conference. Industrials led the gains in the ALSI adding 5.76% in the month of January while retailers rallied 3.18% against a drop of 2.98% from financials. While optimism drove industrials, SA Industrials (which includes SA dual listed stocks) sluggishly added 0.43% on the back of a stronger rand. The Top 40 index was mildly positive in January recording a meagre gain of 0.16%, while mid-cap stocks ended the month lower at 0.56% and small-cap stocks also closed the month 0.50% lower.

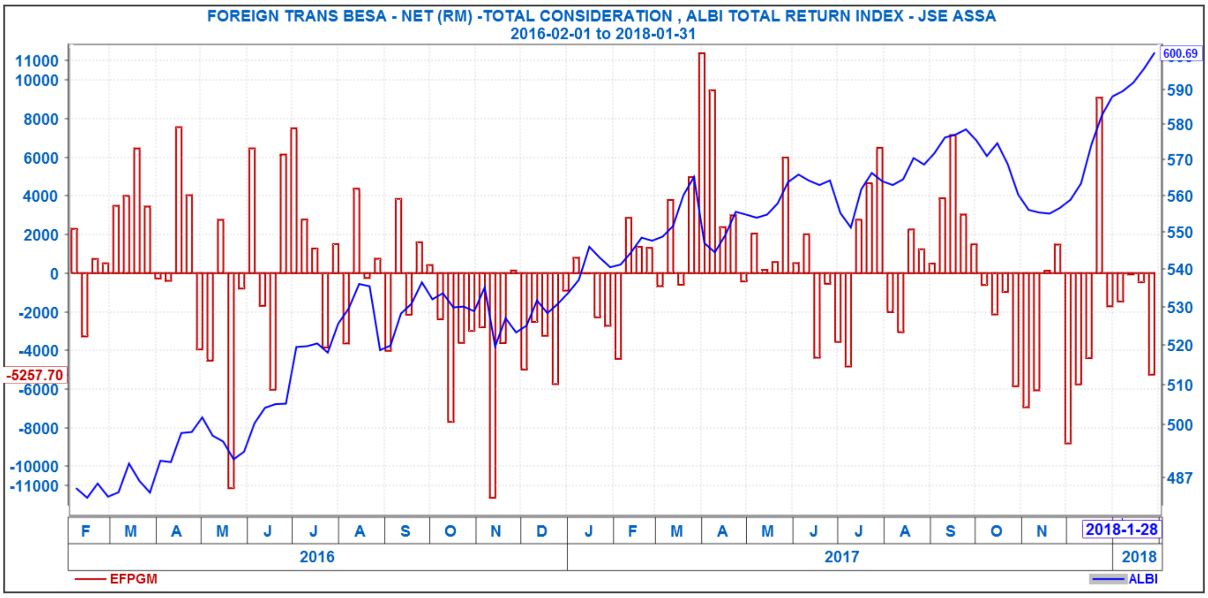
General retailers posted the highest gains in the sub-sector universe, adding 4.6% with consumer goods rising 1.69% and telecommunications posting a sluggish gain of 0.5% against downturns from the technology, health care, and consumer services sectors which shed 5.33%, 1.7%, and 0.86% respectively. The property market took a huge knock closing the month of January 9.9% lower as major property stocks plummeted.

Large rand hedge stocks were shaken by the rand rally, with Bidcorp bleeding 11.89%, Aspen Pharmacare shedding 2.45%, Naspers losing 1.99%, British American Tobacco down 1.87% and Remgro adding only 0.11%. Property shares took the biggest knock in the month as Fortress Income (-28.72%), Nepi Rockcastle (-24.66%) and Resilient (-23.00%) suffered double-digit downturns. Capitec was down 27.08% owing to the Viceroy fiasco. The major contribution to the Top 40 came from local retailers as shares of Mr Price (+16.80%), Bidvest (+14.63) and Shoprite (+11.56%) added significant gains. Steinhoff performed well on a sharp resilient recovery, posting gains of 47.10% though off a low base, while financial services & banking shares had a mildly positive month as Old Mutual (+3.89%), Investec (+3.56%), Nedbank (+3.09%) and Sanlam (+1.38%) added to the gains. RMB, however, closed the month 0.47% lower. Foreigners, net buyers of R10.57 billion worth of equities, continued to buy SA equities.



Source: I-Net February 2018

The local fixed income market recorded consistent growth with the All Bond Index (ALBI) adding gains of 1.86% in the month of January, slightly down from December's 5.66%, which was sparked by outcomes of the December ANC elective conference. The lower January growth of the ALBI was driven by a shift from cautious asset classes to more risky asset classes as market optimism continued for equity markets. Cash maintained its steady positive return of 0.6% while the 1-3yr period of the yield curve added 1.04% and the 3-7yr period closed the month at 1.27%. The longer end of the yield curve (12yr +) recorded the highest gain of 2.13% followed by the 7-12yr period which ended the month 1.5% higher. Inflation-linked bonds was the only fixed income category that slid in the month, ending 2.16% lower. Foreigners continued to be net sellers of R6.93 billion worth of SA bonds in January.



Source: I-Net   February 2018

GLOBAL OVERVIEW

The US equity market continued its ascent in January, supported by global synchronised growth. January posted the strongest start to the year since 1987, mainly driven by earnings from corporate America and a surge in optimism following the end of the US government shutdown. In economic news, consumer prices in the United States increased 2.1% year-on-year in December of 2017, easing from a 2.2% rise in November. US retail trade increased 0.4% month-on-month in December 2017, following an upwardly revised 0.9% rise in November which was in line with expectations. The US economy expanded an annualised 2.6% quarter-on-quarter in Q4 2017, below 3.2% in the previous period and in line with market expectations of 3%. The Federal Reserve kept its target range for the federal funds rate unchanged at 1.25-1.5% during its January 2018 meeting, in line with market expectations. The discretionary and IT stocks sector led the gains on optimism that Republican tax cuts would result in higher corporate earnings. Health care stocks performed strongly for most of the month, as it was expected that the health care sector, which has a high concentration of cash and investments overseas, would return part of those assets to shareholders in the form of stock buybacks and dividends. However, at the end of January, the health care sector dipped lower on news that Amazon, Berkshire Hathaway and JP Morgan Chase would create a non-profit health care company to help contain their cost. Brent crude rose above $70 per barrel for the first time in three years. On the US corporate news front, global deal-making has made its strongest start to the year since the turn of the century, reflecting confidence over the US tax reform, the strengthening global economy and equity market strength. Deals included Dominion Energy’s takeover of US utility group Scana and Bermuda-based Bacardi’s acquisition of the company that makes Patron tequila.

The broader Bloomberg commodities index gained 1.99% for the month of January, supported by the energy and metals subcomponents. Oil prices continued to rally, supported by lower inventory levels and with OPEC staying the course with regards to production cuts. As a result, Brent crude oil advanced 3.98%. Platinum surged 7.17%, zinc added 6.88%, nickel advanced 6.56% and gold gained 2.34%.

On a total return basis, the consumer cyclical sector was the top performing sector for the month of January returning +8.60% in USD, +3.3% in GBP and +4.1% in ZAR. This was followed by the technology sector which returned +7.3% in USD, +2.10% in GBP and +2.90% in ZAR. The top performing sector over a one year period remains the technology sector, returning +40.70% in USD, +24.40% in GBP and +23.90% in ZAR. The worst performing global sector for the month in January was the real estate sector returning -3.70% in USD, -8.40% in GBP and -7.60% in ZAR, followed by the utilities sector returning -3.2% in USD, -7.9% in GBP and -7.1% in ZAR.

In rand terms, developed market equities (+0.97%) underperformed emerging market equities (+3.90%) for the month of January. In USD, the MSCI World advanced (+5.28%) and the MSCI Emerging Markets Index gained 8.33% for the month. Developed market property was marginally flat (-0.01%) in USD, underperforming bonds, which added 1.19% in USD. Developed markets indices in ZAR terms were mixed for the month of January.

The rand strengthened against the US dollar (-4.07%), the Australian dollar (-0.70%), and the euro (-0.51%) but weakened against the pound sterling (+0.84%). The NASDAQ (+3.01% in ZAR, +7.40% in USD and +2.17% in GBP), the CAC 40 (+2.69% in ZAR, +7.07% in USD and +1.85% in GBP), the Euro Stoxx 50 (+2.58% in ZAR, +6.95% in USD and +1.74% in GBP), and the Dax (+1.60% in ZAR,+5.93% in USD and +0.77% in GBP) were higher in ZAR terms, while the Canadian TSX (-3.39% in ZAR, +0.73% in USD and -4.18% in GBP), the FTSE 100 (-1.15% in ZAR, +3.06% in USD and -1.96% in GBP) and the ASX 200 (-1.15% in ZAR, +3.06% in USD and -1.96% in GBP) were lower for the month.

In emerging markets, China's Shanghai Composite index returned 4.50% in its base currency (+3.74% in ZAR, +8.16% in USD and +2.89% in GBP), the Brazilian Bovespa advanced 11.14% in its base currency (+11.65% in ZAR, +16.41% in USD and +10.74% in GBP) and the Indian Nifty gained 4.72% in its base currency (+0.79% in ZAR, +5.09% in USD and -0.03% in GBP). The Argentinean Merval Index advanced 16.21% in its base currency (+6.97% in ZAR, +11.53% in USD and +6.09% in GBP) and the Nigerian All Share Index added 15.95% in its base currency (+11.06% in ZAR, +15.79% in USD and +10.15% in GBP). The US dollar weakened against both the euro (+3.71%) and the British pound (+5.11%).

Spot Rates	31 January 2016	31 January 2017	31 January 2018
EUR/USD	1.08	1.08	1.25
GBP/USD	1.42	1.26	1.42
USD/JPY	121.11	112.78	109.18

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