ECONOMIC REPORT

by Glacier Research

glacier
by Sanlam

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REVIEW PERIOD: APRIL 2017

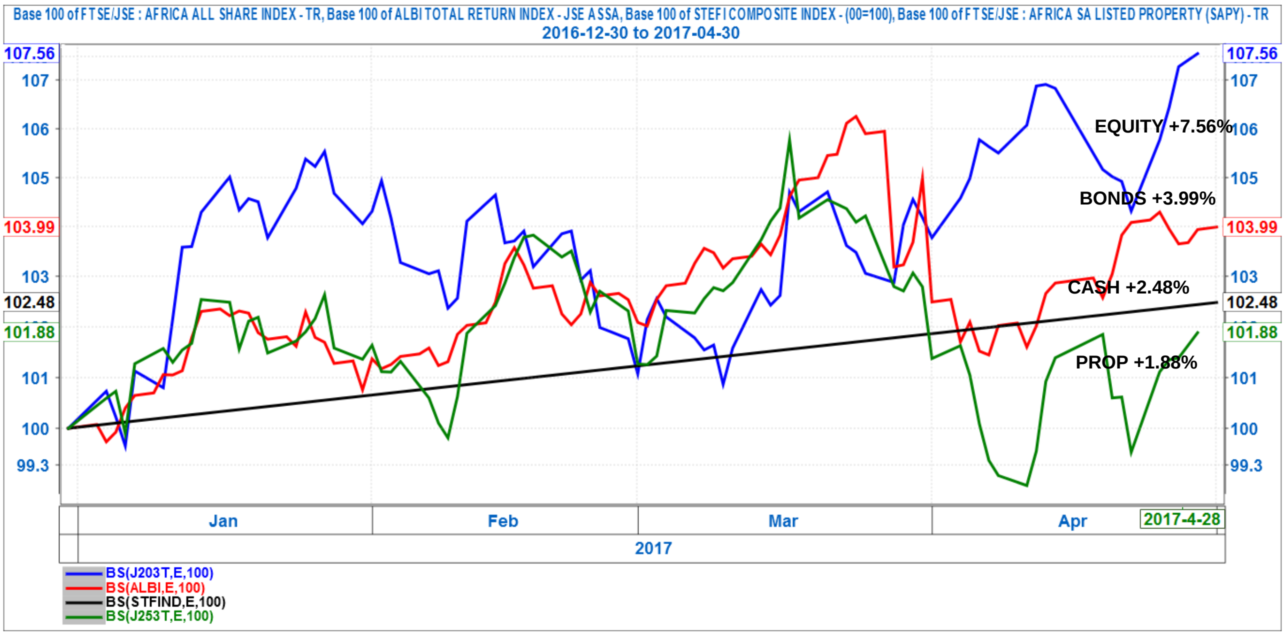
SUMMARY

Global equities advanced in US dollar terms in April with global bonds virtually matching their equity counterpart's return. In ZAR, both global bonds and global equities were positive, but slightly weaker due to the rand strengthening against the US dollar (-0.38%). Broadly positive economic data and encouraging news in the French Presidential election supported market sentiment. However, the relative asset class performances for the month of April show that, in comparison to expectations at the beginning of this year, investors have moderated their optimism on growth and predictions of higher inflation. The first round of the French Presidential elections took place, with Marine Le Pen and Emmanuel Macron set to face one another in the second round. The markets rallied in relief as Macron made it through to the second round. In the UK, Theresa May called a surprise general election which is set to take place in June, whereby the Conservative party is expected to obtain the majority of the votes. In other political news, the meeting between China's president Xi Jinping and Donald Trump appeared to go well. Both parties made positive comments following their meeting, which alleviated fears of undesirable and protectionist trade policies. Moreover, the Federal Reserve's March meeting minutes suggested that the central bank is planning to reduce its balance sheet towards the end of 2017. In contrast, the European Central Bank (ECB) was quite dovish, with the ECB policymakers stating that they are positive on the growth outlook situation and that they see limited upward pressure on inflation. Furthermore, emerging market equities outperformed developed markets once again, a trend that has lasted for just over a year now. This outperformance, even when commodity prices have weakened, implies that there is a renewed domestic growth dynamic and that perhaps emerging market companies are less reliant on commodities than they were in previous years.

Locally, the month of April started with a new finance minister and a subsequent downgrade of our sovereign credit rating to junk status by S&P Global Ratings, causing some panic among South African investors. This came about as the ratings agency made the decision at an emergency meeting, following President Jacob Zuma's cabinet reshuffle on 31 March, sending R186 (10-year bond) yields surging from 8.35% to 8.84%. This however, was a subdued reaction relative to the infamous 'Nenegate', when yields shot to 10.4%, indicating that most of the political uncertainty was already priced in, ensuring the absence of the previously felt knee-jerk reaction in

December 2015. Although the month started out gloomy, promising negative sentiment, investors gained confidence throughout the month with both equity and bond markets actually performing quite favourably. When the numbers are, however, taken into account we see that foreigners were net buyers of SA bonds but net sellers of SA equity and vice versa for South African citizens, indicating the road that sentiment is taking. Other worrying signs have also started to emerge in the local sphere. Government borrowing costs are already up R2.3 billion in 2017 due to the yield on the 30-year government bond being up 75bps. More prominent was the fall in PMI to 44.7 during the month, which has been a promising indicator for manufacturing activity, after being in expansionary territory since December 2016 (a value of above 50 indicates expansion). In addition to the above-mentioned, government revenues will continue to face pressure and in combination with increased interest costs and low growth, could spell the start of a costly spiral. The upcoming Director-General and Head of Procurement appointments at National Treasury will be crucial as to whether the challenges we face will be adequately addressed.

Developed market equities (+1.33% in USD, +0.95% in ZAR and -2.06% in GBP) underperformed emerging market equities (+2.04% in USD, +1.66% in ZAR and -2.03% in GBP) in April 2017. Developed market property added 0.90% in USD terms, while local investors would have experienced a muted return of 0.52% due to the rand strengthening against the US dollar. Meanwhile, global bonds underperformed global equities, adding 1.13% in USD and 0.75% in ZAR, while losing 2.26% in GBP. Locally, the ALSI turned in a stellar performance of 3.64% (+3.84% in USD and +0.36% in GBP) for the month of April. This strong performance was supported by gains in SA Industrials – which includes dual-listed companies (5.17%), Financials (3.56%), Industrials (2.82%), and the SA Listed Property Sector (0.51%). Each sector contributed positively to the ALSI's performance for the month, with Resources providing a marginal return of 0.01%. Fixed interest returns were subdued relative to local equities with the ALBI returning 1.47% supported by foreign inflows, despite the foreign debt rating downgrade by two credit rating agencies to sub-investment grade early in the month. Preference shares turned in a weak performance, giving up 0.58%, while Inflation-linked bonds added 1.15% for the month. The middle end of the yield curve (seven - 12 years) was best performing fixed interest asset class in April, returning 1.53%, followed by the longer end of the yield curve (over 12 years) which added 1.45%. The shorter end of the yield curve (one - three years) was the worst performer, returning +0.99%. Cash underperformed both the ALBI and the ALSI in April, returning +0.61%.



Source: I-Net - 1 May 2017

LOCAL OVERVIEW

South Africa's annual headline inflation declined in April to 5.30% y/y, showing a sharp downtick from 6.10% in March and below market expectations of 5.60%. Costs rose at a slower pace for food and non-alcoholic beverages (6.7% from 8.7% in March), miscellaneous goods and services (7.3% from 7.5%); transport (4.6% from 7.7%); alcoholic beverages and tobacco (2.9% from 3.2%); household contents (2.8% from 3.2%); recreation and culture (3.6% from 3.7%) and clothing and footwear (4% from 4.5%). In contrast, inflation was steady for housing and utilities (5.7%) and education (7%) and increased for restaurants and hotels (6.4% from 6.1%) and health (6.5% from 6.2%).

	Nov'16	Dec'16	Jan'17	Feb'17	Mar'17	Apr'17
CPI (y/y)	**6.6%**	**6.8%**	**6.6%**	**6.3%**	**6.1%**	**5.3%**
PPI (y/y)	**6.9%**	**7.1%**	**5.9%**	**5.6%**	**5.2%**	**4.6%**

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

South Africa posted a trade surplus of R11.4 billion in March 2017 compared to a downwardly revised R4.78 billion surplus in February. Exports advanced 16% to R101.2 billion, mainly driven by higher sales of vehicles and transport equipment (19%), machinery and electronics (27%), precious metals and stones (33%), chemicals (17%) and mineral products (8%). Major destinations for exports were Germany (8.8% of total exports), China (8.7%), the US (6.2%), India (4.6%) and Botswana (4.4%). Imports increased by 8.9% to R87.79 billion, as purchases went up for: machinery and electronics (18%), vehicles and transport equipment (41%), optical photographic products (30%) and original equipment components (12%). Imports came mainly from China (15.3% of total imports), Germany (14.7%), the US (8.6%), India (5.2%) and Saudi Arabia (4.9%). Excluding trade with neighbouring

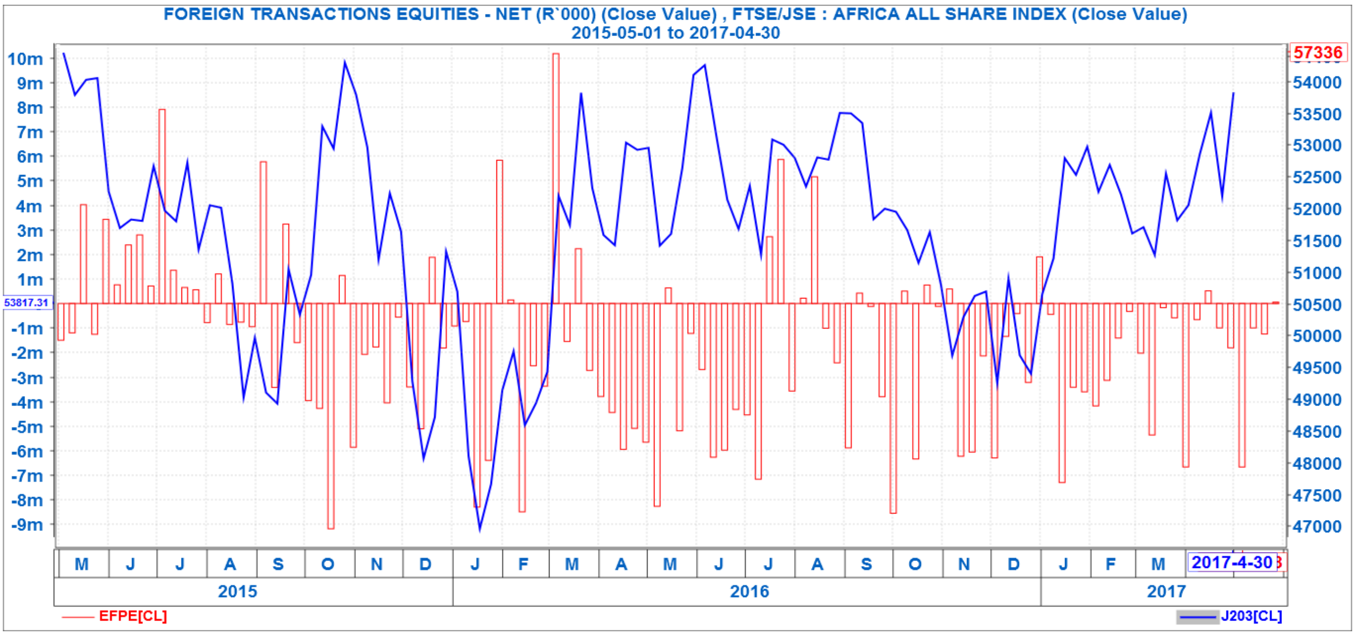
Botswana, Lesotho, Namibia and Swaziland, the country posted a trade surplus of R3.5 billion in March, compared to R1.6 billion gap in February.

	30 April 2015	30 April 2016	30 April 2017
USD/ZAR	11.79	14.21	13.36
GBP/ZAR	18.19	20.57	17.26
EUR/ZAR	13.11	16.30	14.56

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

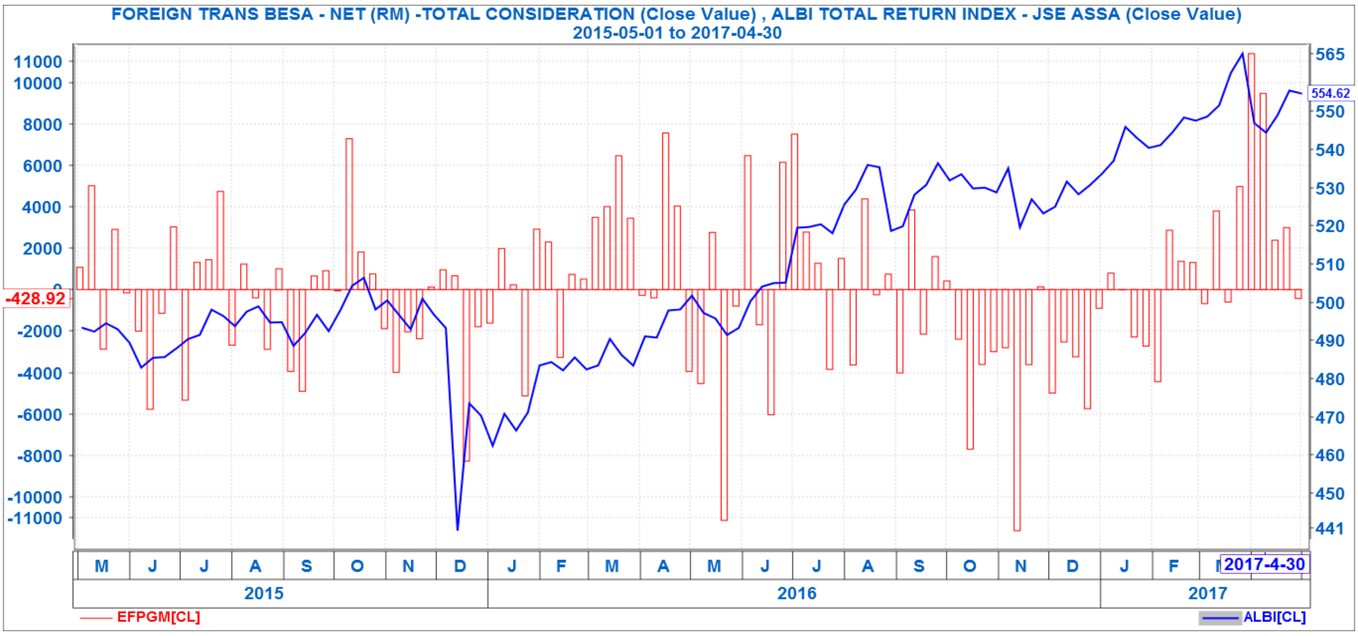
Locally, the ALSI was up 3.64% in rand terms. US foreigners invested in SA equities would have returned 3.84% in USD, slightly helped by the rand appreciating by 0.38% against the US dollar in April. SA Industrials led the gains on the ALSI, advancing 5.17% in April, as SA retailers recovered from being hit hard in March. Resources were the lowest returning sector, ending the month flat after a strong start to the month, as precious metal demand dampened following the favourable French election outcome and base metals came under pressure over doubts on China's demand sustainability. The Financials index regained some of the previous month's losses, up 3.56%, as banks recovered after alleviating political concerns. By market-cap, the Top 40 index yet again led the gains, rising 4.470% as the rand weakened against both the euro and pound, with only minute appreciation versus the dollar. Mid-cap stocks ended the month 0.80% lower and the small-cap index lost a notable 2.56% during April.

Consumer Services was yet again the top performing sub-sector for a third consecutive month, returning an impressive 7.27% for the month. This was followed by Technology, up 5.95%. Basic materials (+0.01%) was the worst performing sub-sector, followed by Telecommunications (+2.23%). The Gold Mining sub-sector came off its good performance in March to lose 1.15% in April due to increased investor risk appetite. Sibanye Gold (-5.0%), Harmony Gold (-6.2%) and Gold Fields (-5.7%) led the Gold mining index lower, while Anglo Gold Ashanti (+4.1%) bucked the trend for the sub-sector. Under the large diversified miners, BHP Billiton (+2.4%), South 32 (+5.8%) and Glencore (+5.1%) performed admirably while Anglo American PLC (-5.9%) came under pressure on lower iron ore, copper and coal prices. Other notable mining company performances include Kumba Iron Ore (-14.22%), receding on substantially lower iron ore prices, and Impala Platinum (-5.02%) treading lower, while Anglo American Platinum (+7.83%) provided support to the platinum index. Rand-hedge stocks in the Top 40, such as Mediclinic (+18.33%), Naspers (+9.66%), Investec (9.50%) and Mondi (+8.18%) excelled. These rand-hedges were assisted by the rand weakening against most major currencies over the month. Meanwhile, Nedbank (-6.65%) was the worst performing large-cap stock due to its associate, Ecobank, yet again reporting very poor results. Listed property experienced a weak month with counters such Growthpoint (-1.08%) and Redefine (-0.09%) weighing on the index, returning a meagre 0.51%, although Capital & Counties Properties (+13.16%) surged. The financials index experienced a good month, bouncing back from a negative March, ending 3.56% stronger. The index was supported by gains in major banking stocks in the Top 40 index, namely, Barclays (+5.37%), RMB Holdings (+4.73%) and Firstrand (+7.53%), while other Top 40 financial stocks such as Old Mutual (+0.03%) and Capitec (+0.15%) struggled over the month. SA equities were sold off again in April by foreigners. They were net sellers of R3 billion worth of equities in April, almost R10 billion less than the March figure, possibly indicating a gradual increase in investor confidence in SA equity. YTD they have sold R41.5 billion worth of SA equities.



Source: I-Net 1 May 2017

Local fixed income markets saw subdued returns over the month relative to equities, although the ALBI (+1.42%) outperformed cash (+0.61%), and Preference Shares (-0.58%). The seven – 12 year end of the yield curve was the best performing interest-bearing asset class, returning 1.53%, followed by 12 year+ bonds (+1.45%). The shorter end of the yield curve (one – three years) was the worst performer, returning +0.99%. Over the last three months the three-seven year period was the best performer (+3.49%) followed by the seven-12 year period (+2.86%), while the three-seven year (+11.53%) was the best performer over the past 12 months. SA listed property (a hybrid asset class) had a consecutive paltry month returning 0.51% for April and 0.61% over two months.



Source: I-Net 1 May 2017

During April, foreigners were net buyers of R17.1 billion worth of bonds, despite two foreign debt ratings downgrades to 'junk' status by two rating agencies early in the month. YTD the bond market has experienced a net foreign inflow of R32.8 billion. However, one has to be cognisant of the fact that emerging market debt, which attracted $8 billion in foreign flows in April, is an asset class in vogue and that it's not necessarily a call on SA Inc. In April, SA's currency returns weakened against major global peers on average. Although the rand appreciated against the US dollar (-0.38%) and Japanese yen (-0.42%), it weakened more extensively versus the pound sterling (+3.77%) and the euro (1.86%).

GLOBAL OVERVIEW

Both offshore equities and bonds rose during the month of April in USD, supported broadly by some positive economic data and encouraging news in the French Presidential election. President Donald Trump outlined plans to cut US corporate tax to 15% and to reduce the number of income tax bands. The markets response was fairly muted as investors expect these proposals to be scaled back, given the government's difficulty in funding current plans. The core inflation rate in the US increased by 1.9% in April 2017 y/y and represents the lowest core inflation rate since October 2015. The US economy grew an annualised 0.7% q/q in Q1 2017, following a 2.1% expansion in the previous period. Meanwhile, retail sales in the US increased by 0.4% in April m/m, following a 0.1% rise in March. The broader commodities index added 0.14% in April, dragged lower by significantly weaker iron ore prices as well as Brent crude and other precious metals. The gold price rose by 1.53% in April, as greater risk-off sentiment drove investors to safe-haven assets amid concerns of the impending conflict between North Korea and the US. After a significant drop in the platinum price of 8.65% in March, the platinum price added 0.64% in April. Brent crude oil prices increased early in April, but the rise was short-lived as expectations for an extension of OPEC's current production ceiling began to fade, resulting in a drop of 2.76% for the month. Furthermore, iron ore sank 14.42%, sliver surrendered 5.86%, nickel gave up 3.95% and copper lost 2.74%.

On a total return basis, the global technology sector was the top performing sector for the month, returning 2.3% in USD, -1.1% in GBP and 2.1% in ZAR. This was followed by the consumer cyclical sector which returned 2.2% in USD, -1.2% in GBP and +2% in ZAR. Technology was the top performing sector over a one year period in USD (+36.5%), GBP (+54.5%) and ZAR (+28.8%). The worst performing global sector in April was the energy sector returning -3.5% in USD, -6.7% in GBP and -3.7% in ZAR. Furthermore, the energy sector was also the worst performing global sector over a one year period, returning 1.7% in USD, 15.1% in GBP and -4% in ZAR.

In rand terms, global developed market equities (+0.95%) underperformed emerging market equities (+1.66%) in April. In USD, the MSCI World added 1.33% and the MSCI Emerging Markets Index advanced 2.04% in USD for the month. Developed market property added 0.90% in USD, underperforming bonds, which added 1.13% in USD. Looking at developed markets, most global indices were positive in ZAR for the month of April due to rand weakness, except against the US dollar and the Australian dollar, which the rand strengthened against. The CAC 40 (+4.74% in ZAR, +5.14% in USD and +1.20% in GBP), the Euro Stoxx 50 (+3.57% in ZAR, +3.97% in USD and +0.34% in GBP), the DAX (+3.40% in ZAR, +3.80% in USD and -0.59% in GBP), and the FTSE 100 (+2.09% in

ZAR, +1.55% in USD and -1.33% in GBP) were the top performers for the month. Meanwhile, the Canadian TSX (-2.59% in ZAR, -2.09% in USD and -5.36% in GBP), and the ASX 100 (-1.50% in ZAR and -1.13% in USD) were the worst performers for the month. In emerging markets, China's Shanghai Composite index surrendered 2.11% in its base currency (-2.94% in ZAR, -2.42% in USD and -5.69% in GBP), and Indian Nifty 50 gained 1.42% in its base currency (1.48% in ZAR, 2.37% in USD and -1.05% in GBP), while the Brazilian Bovespa equity index added 0.65% in its base currency (0.58% in USD and -2.78% in GBP). The US dollar weakened against both the euro (+2.25%) and the British pound (+3.23%).

Spot Rates	30 April 2015	30 April 2016	30 April 2017
EUR/USD	**1.11**	**1.14**	**1.09**
GBP/USD	**1.54**	**1.46**	**1.29**
USD/JPY	**119.04**	**106.33**	**111.52**

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