ECONOMIC REPORT

by Glacier Research

glacier
by Sanlam

29 August 2017

REVIEW PERIOD: JULY 2017

SUMMARY

Global equity markets reached an all-time high in July as appetite for risk remained relatively robust. Economic data largely supported the global growth story over the month, which has come to the fore since the beginning of this year. In ZAR terms, both global bonds and global equities were higher, boosted further by the rand weakening against most major currencies. The United States Federal Reserve, the European Central Bank and the Bank of Japan all kept their key interest rates unchanged. Investigations into the possible collusion between Russia and the Trump campaign were ongoing, with a specific focus on the Trump campaign's influence on the outcome of the US presidential election. Global economic data were generally positive, which helped to underpin global equity markets.

In China, Q2 2017 economic growth was better than expected, rising 6.9% year-on-year. Industrial production, retail sales and exports were generally stronger as well. In Europe, despite PMI readings slipping slightly, they remained at a level that is consistent with stronger growth. Meanwhile, industrial production rose notably, while the Eurozone unemployment rate fell to its lowest level since 2009.

In the UK, the government published a set of papers outlining its position on a range of areas ahead of its Brexit negotiations, which continued to dominate the political backdrop. Emerging market equities turned in a stellar performance in July, outperforming developed market equities for the seventh successive month, supported by improving fundamentals and encouraging news on the corporate earnings front. Furthermore, a favourable mixture of lower interest rates, higher commodity prices and a weaker US dollar provided tailwinds for emerging market equities.

Locally, the month of July brought investors a strong sense of relief from the pain experienced in the previous month. The JSE All Share index was up firmly, surging 7% for the month, with industrials (+1.91%), resources (+13.32%) and financials (+5.04%) all boosting the index onto a trajectory to achieve record highs.

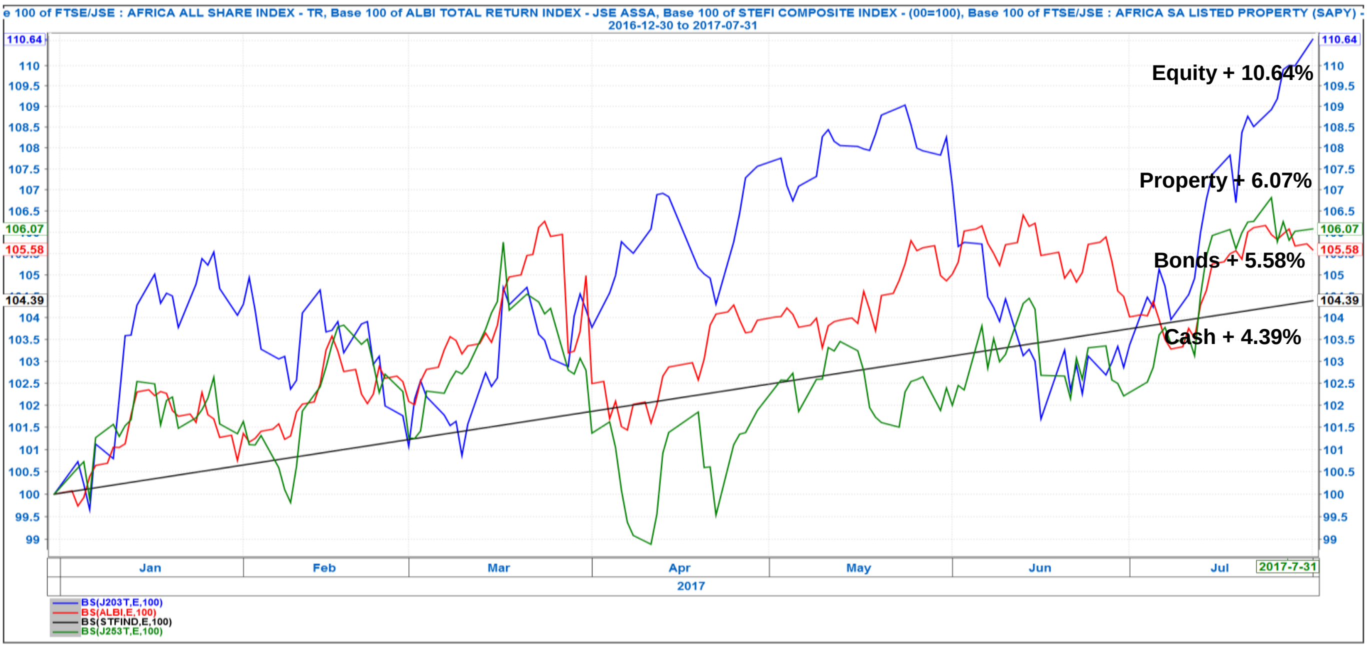
SA Industrials was a major contributing sector to the stellar performance over the month, as large rand-hedge counters such as Naspers and Bidcorp surged well over 10% and 5%, respectively. As a result foreigners turned to net buyers of SA Inc. for the first time this year.

Property and Bonds also outperformed cash, with the ALBI up 1.50%, and foreigners reverting to being net buyers of SA bonds. On an economic front, South Africa's Balance of Trade recorded a surplus of R 27.67 billion for the first half of the year, which is quite healthy when compared over the same period in 2016, which had seen a deficit of R 5.042 billion. This is a positive sign for growth prospects in the country's economy, despite the recent economic recessionary environment in which SA finds itself. In terms of monetary policy, the SARB unexpectedly cut the repo rate in July by 25 basis points with the prime rate at 10.25%. Four members voted for a cut, and two members voted for unchanged rates. The decision was based on better-than-expected inflation outcomes, a strengthening rand and a much-improved inflation outlook set against the background of a weak economy with further downside risks.

Developed market equities (+2.39% in USD, +3.11% in ZAR and +0.89% in GBP) underperformed emerging market equities once again (+5.96% in USD, +6.70% in ZAR and +4.40% in GBP), marking the seventh successive month of underperformance in July. On an equity-style basis, momentum was the top-performing style, returning +3.09% in USD, +3.81% in ZAR and +1.58% in GBP, followed by growth (+2.53% in USD, +3.25% in ZAR and +1.02% in GBP), value (+2.25% in USD, +2.97% in ZAR and +0.75% in GBP) and quality (+1.50% in USD, +2.21% in ZAR and +0.01% in GBP). Developed market property added 1.82% in USD terms, while local investors would have experienced a higher return of 2.53% due to the rand weakening against the US dollar (+0.85%).

Meanwhile, global bonds underperformed global equities, adding 1.68% in USD (+0.18% in GBP and +2.39% in ZAR). Locally, the ALSI had a stellar month advancing 7.03% in ZAR terms (+6.29% in USD and +4.73% in GBP), after giving up 3.49% in the previous month. The market was supported by resources (+13.32%), SA industrials, which includes dual-listed companies (+5.62%), telecommunications (+5.33%), financials (+5.04%), the SA listed property sector (+3.70%) and industrials (+1.91%). Meanwhile, technology (-10.25%) and healthcare (-2.10%) dragged the market lower.

Fixed interest returns were fairly strong for the month, but weak relative to local equities, with the ALBI adding 1.50%. Preference shares gave up 0.15%, while inflation-linked bonds were marginally up 0.05%. The middle end of the yield curve (7-12 years) was the best-performing fixed interest asset class in July, returning 1.76%, followed by the shorter end (3-7 years) which added 1.48%. The very short end of the yield curve (1-3 years) was the worst performer, returning 1.23%. Furthermore, cash underperformed both bonds and equities in July, returning +0.62%.



Source: I-Net 1 August 2017

LOCAL OVERVIEW

Consumer inflation in South Africa increased 4.6% year-on-year in July 2017, lower than the 5.1% in June which was the lowest rate since September 2015. Figures came in line with market expectations due to a slowdown in the costs of food and electricity and a fall in fuel prices. Prices rose at a slower pace for food and non-alcoholic beverages (6.8% from 6.9% in June); housing and utilities (4.5% from 5.7%), namely electricity and other fuels (2.1% from 7.4%); transport rose by 1% compared to 3.3% in the previous month due to a fall in fuel prices (-3.6% from +2%). Household contents and services rose to 2.3% from 2.24%, while recreation and culture declined to 3.2% from 3.3%. In contrast, inflation increased for miscellaneous goods and services (7.6% from 7.1%), while it was steady for alcoholic beverages and tobacco (3.3%), restaurants and hotels (4.1%), education (7%) and healthcare (7%). On a monthly basis, consumer prices increased by 0.3%, after a 0.2% rise in June. Prices of food and non-alcoholic beverages climbed 0.3%; housing and utilities rose 1.2%; miscellaneous goods and services increased by 0.5% and transport dropped 1.5%.

	Feb'17	Mar'17	Apr'17	May'17	June'17	July'17
CPI (y/y)	**6.3%**	**6.1%**	**5.3%**	**5.4%**	**5.1%**	**4.6%**
PPI (y/y)	**5.6%**	**5.2%**	**4.6%**	**4.8%**	**4%**	**-**

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

South Africa's trade surplus increased to R 10.67 billion in June 2017 from a downwardly revised R 7.22 billion surplus in May, beating market expectation for a surplus of R 8.4 billion. Imports slumped 4.2% while exports declined at a slower 0.6%. Considering the first six months of the year, exports jumped 4.7% while imports went down 1.4%, shifting the country's trade balance into a surplus of R27.67 billion from a gap of R5.042 billion in the same period in 2016.

Exports fell to R102.14 billion from R 102.73 billion, due to lower shipments of mineral products (-16%); base metals (-6%); chemical products (-8%); wood pulp and paper (-16%); live animals (-14%); machinery and electronics (-2%) and plastic and rubber (-6%). In contrast, sales went up for precious metals and stones (11%), vegetables (33%) and vehicles and transport equipment (18%).

Imports declined to R91.46 billion from R 95.51 billion, mainly due to lower purchases of mineral products (-31%); machinery and electronics (-2%) and textiles (-11%). On the other hand, imports rose for vegetables (27%) and vehicles and transport equipment (21%).

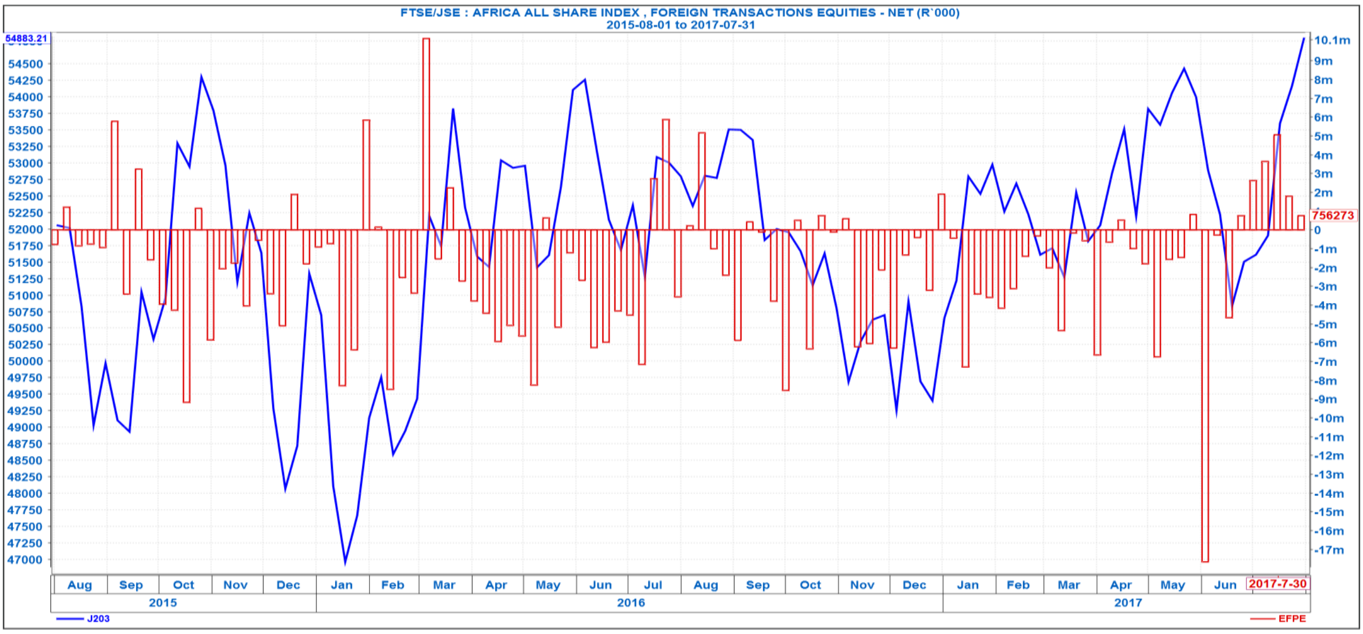
	31 July 2015	31 July 2016	31 July 2017
USD/ZAR	12.65	13.84	13.17
GBP/ZAR	19.66	18.28	17.38
EUR/ZAR	13.92	15.50	15.57

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

Locally, the ALSI was up 7.03% in rand terms. US foreign investment in SA equities would have fared similarly with a return of 6.29% in USD, as the rand weakened (+0.85%) only slightly against the US dollar in July. Resources led the charge on the ALSI, surging 13.32% over the month. SA industrials followed suit adding 5.65% in July, with large rand-hedge stocks in the Top 40 and SA retailers (+5.94%) strongly rebounding after a dismal June month. Industrials were the lowest returning major sector, ending the month 1.91% higher. The financials index added 5.04%, with the big four banks all closing higher. Firstrand (+9.99%) and Standard Bank (+13.67%) drove most of the gains over the month. By market-cap, the Top 40 index led the gains adding 7.65% as the rand weakened against other major currencies. Mid-cap stocks added 4.69%, while small-cap stocks ended the month relatively flat returning 0.56%.

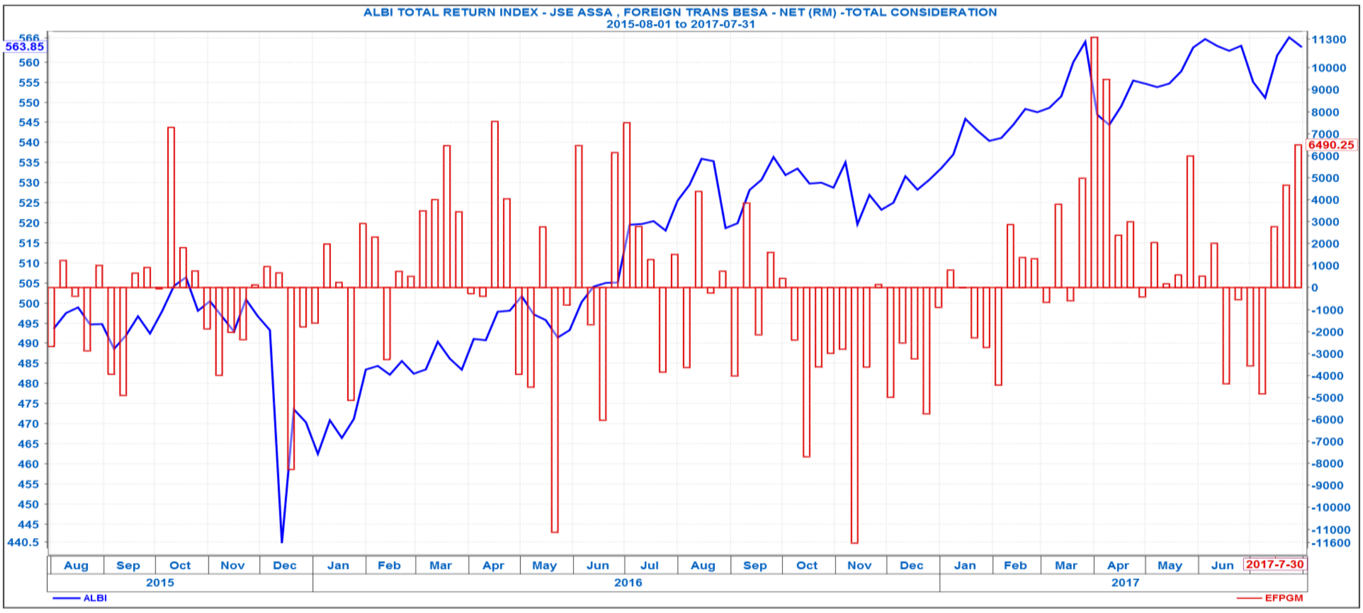
Basic materials was the best-performing sub-sector, after being heavily battered in the previous month, adding 13.32% over July. This was followed by consumer services, up 11.21%. Technology (-10.25%) was the worst-performing sub-sector, followed by healthcare (-2.10%). The gold mining sub-sector recovered by 9.73%, as the gold price rose 2.25% over the month. Gold Fields (+17.92%), Sibanye Gold (+11.69%), Harmony Gold (+8.12%) and Anglo Gold Ashanti (+3.98%) all led the gold mining index higher. Under the large diversified miners, Anglo American PLC (+23.49), and BHP Billiton (+20.01) rocketed higher as the price of iron ore (+13.47%), nickel (+10.29%) and copper (+7.44%) rose aggressively over the month. Other notable mining company performances include Kumba Iron Ore (+14.77%) and African Rainbow Minerals (+11.24%). Rand-hedge stocks in the Top 40, such as Naspers (+14.28%), Bidcorp (+5.72%), Compagnie Fin Richemont (+3.68%) and Mediclinic (+1.34%) contributed to performance, as the rand weakened marginally against the US dollar. Anglo American (+23.49%) and BHP Billiton (+20.03%) were the best-performing large-cap stocks. The financials index experienced a strong month driven mainly by gains in major banking stocks in the Top 40 index, namely, Standard Bank (+13.67%), Firstrand (+9.99%), Nedbank (+4.92%), Old Mutual (+4.31%) and Capitec (+3.68%), while Barclays Africa

(+0.59%) had a weak month. SA equities were bought aggressively in July by foreigners, as they were net buyers of R10.7 billion worth of equities. Year-to-date, however, they are net sellers of R58.9 billion worth of SA equities.



Source: I-Net 1 August 2017

Local fixed income markets saw positive returns over the month as the ALBI (+1.50%) outperformed cash (+0.62%), and also outperformed preference shares (-0.15%). The shorter (1 to -3 years) end of the yield curve was the worst-performing interest-bearing asset class, returning 1.23%, followed by 12+ years bonds (+1.47%). The 7 to -12-year section of the yield curve was the best performer, returning +1.76%. Year-to-date the 3 to 7-year period was the best performer (+7.44%) followed by the 7 to 12-year period (+6.96%), while the 3 to 7-year (+10.20%) was the best performer over the past 12 months. SA listed property (a hybrid asset class) had a positive performance over the month returning 3.70%.



Source: I-Net 1 August 2017

During July, foreigners were net buyers of R8.10 billion worth of SA bonds. Year-to-date the SA bond market has experienced a net foreign inflow of R41.08 billion. In a global fixed income context, global bonds performed admirably as the Barclays Global Aggregate Bond Index (+2.39%) and the Citigroup World Government Bond Index (+2.56%) closed higher in rand terms. In July, SA's currency weakened against major global peers. The rand marginally depreciated against the US dollar (+0.85%) and more so against the euro (+4.37%) and the British pound sterling (+2.44%).

GLOBAL OVERVIEW

Global equities and bonds climbed higher in July in US dollar terms than in the previous month. A steady flow of economic news lent optimism to investors, who shrugged off political uncertainty. In the US, themes of expansion in the manufacturing sector and a strong jobs market continued. The latest release of initial jobless claims confirmed that the labour market remains healthy.

The US equity market remained within earshot of an all-time high, which was supported by corporate earnings and economic news. The US economy expanded by an annualised 2.6% in Q2 2017, following a 1.2% growth in the previous quarter and matching market expectations.

The unemployment rate in the US fell to 4.3% in July, from 4.4% in June. The trade balance deficit narrowed to $43.6 billion in June from a $46.3 billion gap in the previous month. During the month, Federal Reserve Chair Janet Yellen signalled that the central bank would not rush to increase interest rates and would do so only gradually. Telecoms and IT were the best-performing sectors, while the healthcare sector was the worst-performing sector for the month. The price of healthcare-related stocks slipped when President Donald Trump's healthcare reform bill ended in failure. In corporate news, US-based luxury lifestyle brand, Michael Kors, agreed to buy London-based Jimmy Choo for $1.2 billion and Amazon's market value hit the half-a-trillion dollar mark for the first time on the 26th of July 2017, joining an elite group of company's valued above $500 billion.

The broader Bloomberg commodities index added 2.16% for the month of July. The gold price recovered in July reaching a 14-month high amid geopolitical tension and increasing uncertainty over Donald Trump's ability to execute policy reform. As a result, the Bloomberg gold index gained 2.00%. The price of platinum rose in tandem with gold as a weaker dollar boosted commodity prices across the board. The Bloomberg platinum index closed 1.64% higher. Brent crude delivered a solid performance, advancing 7.19% as the price of Brent crude broke above $50 per barrel once again. Furthermore, the Bloomberg precious metals index added 1.75%, while the Bloomberg wheat and natural gas index gave up 9.71% and 7.73% respectively.

On a total return basis, the global technology sector was the top-performing sector for the month of July returning 3.9% in USD, 2.3% in GBP and 4.6% in ZAR. This was followed by the communications services sector which returned 3.6% in USD, 2.1% in GBP and 4.3% in ZAR, after being the worst-performing sector in the previous month. Financial services remains the top-performing sector over a one-year period in USD (+34.6%), GBP (+35.5%) and ZAR (+28.1%). The worst-performing global sector in July was the healthcare sector returning 0.5%

in USD, -0.9% in GBP and +1.2% in ZAR. Furthermore, real estate was the worst-performing global sector over a one-year period returning -2.6% in USD, -1.9% in GBP and -7.3% in ZAR.

In rand terms, global developed market equities (+3.11%) underperformed emerging market equities (+6.70%) once again in July. In USD, the MSCI World added 2.39% and the MSCI Emerging Markets Index advanced 5.96% for the month. Developed market property added 1.82% in USD, outperforming bonds, which added 1.68% in USD.

Developed markets indices in ZAR terms were positive across the board for the month of July, supported further by rand weakness against the US dollar (+0.85%), the Australian dollar (+5.03%), the pound sterling (+2.44%) and the euro (+4.37%).

The ASX 200 (+4.80% in ZAR, +4.07% in USD and +2.54% in GBP), the Canadian TSX (+4.44% in ZAR, +3.72% in USD and +2.19% in GBP), the Euro Stoxx 50 (+4.39% in ZAR, +3.67% in USD and +2.15% in GBP), the CAC 40 (+3.79% in ZAR, +3.07% in USD and +1.56% in GBP), the FTSE 100 (+3.08% in ZAR, +2.37% in USD and +0.86% in GBP), the DAX (+2.34% in ZAR, +1.64% in ZAR and +0.14% in GBP), the NASDAQ (+4.14% in ZAR, +3.42% in USD and +1.90% GBP) and the S&P 500 (+2.77% in ZAR, +2.06% in USD and +0.55% in GBP) all contributed positively for the month.

In emerging markets, China's Shanghai Composite index advanced 3.24% in its base currency (+4.74% in ZAR, +4.02% in USD and +2.49% in GBP) and the Brazilian Bovespa equity index gained 4.80% in its base currency (+11.89% in ZAR, +11.12% in USD and +9.48% in GBP). The US dollar weakened against both the euro (+3.48%) and the British pound (+1.31%).

Spot Rates	31 July 2015	31 July 2016	31 July 2017
EUR/USD	1.91	1.12	1.18
GBP/USD	1.56	1.32	1.32
USD/JPY	123.91	102.06	110.36

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