ECONOMIC REPORT

by Glacier Research

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REVIEW PERIOD: AUGUST 2017

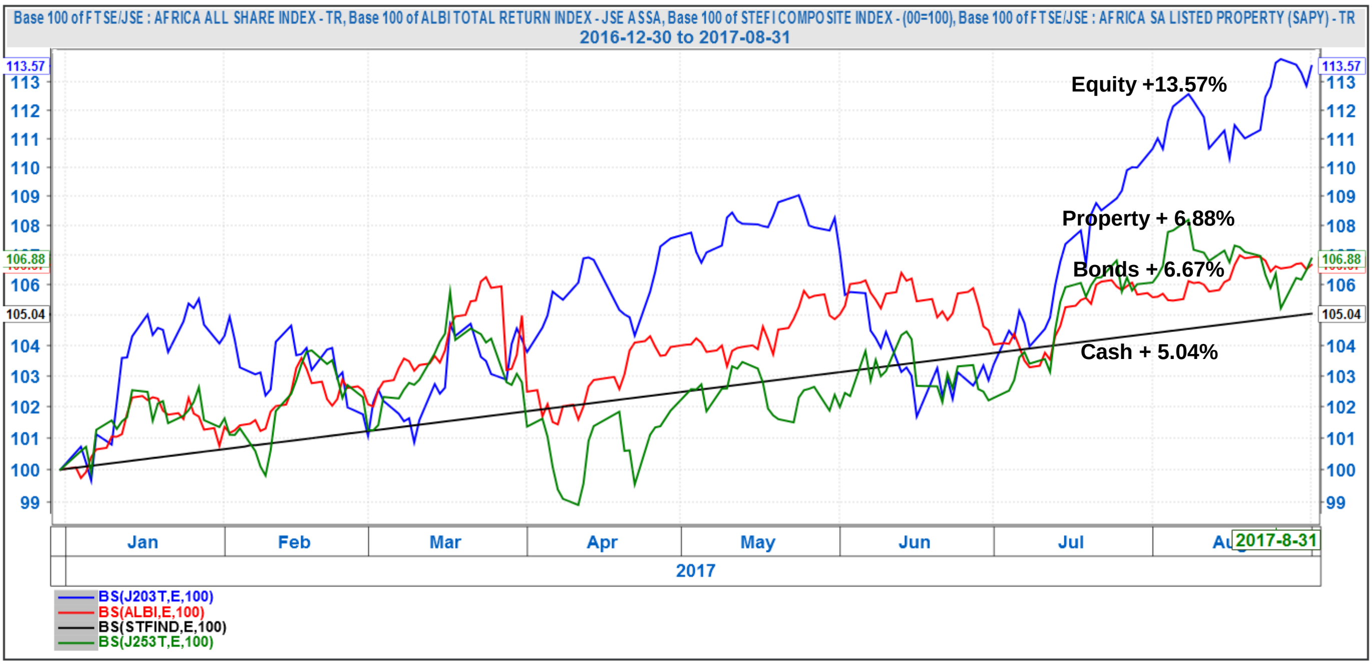
SUMMARY

Global equity markets remained under pressure for much of August. Geopolitical tensions, the struggles of President Donald Trump's administration, another terror attack in Europe and Hurricane Harvey dominated headlines, yet the MSCI World still managed to end in positive territory. In ZAR terms, both global bonds and global equities were lower, as the rand strengthened against most major peer currencies. Macroeconomic data releases were broadly positive, with stronger-than-expected growth registered in many countries including Europe, the United Kingdom (UK), Japan and Brazil, confirming that global growth remains robust. Brexit negotiations between the UK and the European Union continued, with no clear signs of progress being made. There was, however, a growing sense that the UK would seek a transitional deal. Such a deal would maintain current structures and relationships for a period beyond March 2019. The market's focus on Jackson Hole was mainly driven by an expectation that Mario Draghi would use his first speech at the event in three years as an opportunity to announce the European Central Bank's plans to reduce its stimulus package. However, lower inflation data, the downturn in market sentiment and a stronger euro all weighed against the likelihood of change. Of more immediate concern to the market is the United States (US) debt ceiling debate, whereby legislation needs to be passed so that the US government can continue borrowing and not default. Meanwhile, emerging markets outperformed developed market equities once again, marking the eighth successive month of outperformance. The emerging world was boosted by positive data from China, which posted higher-than-expected Q2 2017 GDP growth data of 6.9%, driven by improvements in industrial production and domestic consumption.

Locally, the month of August was relatively subdued across the board in terms of asset class returns. The JSE All Share index delivered another positive performance, rising 2.65% for the month, with resources (+5.10%) being the main contributor. This was largely due to a rally in precious metals prices, as global geopolitical tensions between the US and North Korea heightened, driving investors to safe haven assets and also the continued rally in bulk metal prices of iron ore, nickel and copper. SA government bonds gained overall in August improving on the back of rand strength against major peer currencies, declining inflationary pressure and improving trade data. The yield

curve shifted downward in August amid a continued search for yield by foreign investors. SA government bonds have been a significant recipient of inflows due to this phenomenon over the year, with foreign investors now owning almost 50% of SA government bonds. However, foreign inflows during the month of August were subdued as a result of a surge in the previous month following the rate cut. On an economic front, SA's economy remains vulnerable and weak despite SA GDP growth in Q2 2017 surprising on the upside. Headline inflation has yet again surprised on the downside, dipping below 5% in July 2017 for the first time since November 2015. Given these trends, analysts are forecasting another interest rate cut of 25 basis points at the September 2017 MPC meeting. On the political front, President Zuma survived the 8 August 2017 motion of no confidence in his leadership (brought to parliament by opposition parties and undertaken through secret ballot). However, the results were closer than expected.

Developed market equities (+0.14% in USD, -1.35% in ZAR and +2.46% in GBP) underperformed emerging market equities once again (+2.23% in USD, +0.71% in ZAR and +4.60% in GBP), marking the eighth successive month of underperformance in August. On a global equity style basis using the MSCI World style indices, momentum was the top performing style, returning (+1.45% in USD, -0.06% in ZAR and +3.80% in GBP), followed by quality (+1.16% in USD, -0.35% in ZAR and +3.50% in GBP), growth (+1.08% in USD, -0.42% in ZAR and +3.42% in GBP) and then value (-0.82% in USD, -2.29% in ZAR and +1.48% in GBP). Developed market property closed marginally higher, returning 0.13% in USD terms, while local investors would have experienced a weaker return figure of -1.36% due to the rand strengthening against the US dollar (-1.27%). Meanwhile, global bonds outperformed global equities, returning 0.99% in USD (+3.33% in GBP and -0.51% in ZAR). Locally, the ALSI turned in a solid performance, building on the previous month's stellar return, advancing 2.65% in ZAR terms (+3.96% in USD and +6.37% in GBP). Year-to-date, the ALSI has returned 13.57%. The market was supported by Telecommunications (+7.79%), Resources (+5.10%), Industrials (+4.57%), Health Care (+2.53%), Financials (+2.05%), SA Industrials, which includes dual-listed companies (+1.96%) and SA Listed Property (+0.76%). Fixed interest returns were weaker relative to local equities, with the ALBI adding 1.03%. Preference shares surrendered 0.30%, while Inflation-linked bonds were marginally up 0.17%. The longer end of the yield curve (over 12 years) was the best performing fixed interest asset class in August, returning 1.06%, followed by the shorter end (3-7 years) which added 1.04%. The very short end of the yield curve (1-3 years) was the worst performer, returning 0.82%. Furthermore, cash underperformed both bonds and equities in August, returning +0.62%.



Source: I-Net September 2017

LOCAL OVERVIEW

Consumer inflation in South Africa increased 4.8% year-on-year in August 2017, higher than the 4.6% in July which was the lowest rate since September 2015. Figures came in below market expectations due to the increase in the cost of transport, while food costs increased the least since November 2015. Prices rose at a faster pace for transport (3.9% from 1% in July) as the fuel cost recovered (5.7% from -3.6%) and alcoholic beverages and tobacco rose by 4.3% from 3.3%. Moreover, a slowdown was seen in the cost of food and non-alcoholic beverages (5.7% from 6.8%); while miscellaneous goods and services declined to 7.5% from 7.6% and recreation and culture dropped to 2.4% from 3.2%. In contrast, inflation was steady for housing and utilites (4.5%) and education (7%). On a monthly basis, consumer prices edged up 0.1%, after a 0.3% increase in July. Prices for alcoholic beverages and tobacco climbed 1.2% and transport rose 0.5%, but prices for food dropped 0.2%.

	Mar'17	Apr'17	May'17	June'17	July'17	Aug'17
CPI (y/y)	**6.1%**	**5.3%**	**5.4%**	**5.1%**	**4.6%**	**4.8%**
PPI (y/y)	**5.2%**	**4.6%**	**4.8%**	**4%**	**3.6%**	**4.2%**

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

South Africa's trade surplus decreased to R8.99 billion in July 2017 from a downwardly revised R10.46 billion surplus in June, beating market expectations of a R5.8 billion surplus. Imports slumped 8% while exports declined at a faster pace of 8.7%. Compared with the previous month, exports declined to R93.09 billion from R102.02 billion, mainly due to lower shipments of precious metals and stones (-21%); base metals (-12%); mineral products (-5%); machinery and electronics (-5%) and wood and wood articles (-30%). Major destinations for exports were China (8.7% of total exports), Germany (7.8%), the US (7.6%), Japan (5.3%) and Namibia (4.3%). Imports fell to R84.11 billion from R91.46 billion, due to lower purchases of mineral products (-27%); original equipment components (-17%); base metals (-18%); vehicles and transport equipment (-11%) and machinery and electronics

(-5%). Imports came mainly from China (18% of total imports), Germany (11.9%), the US (7%), India (5.4%) and Japan (3.6%).

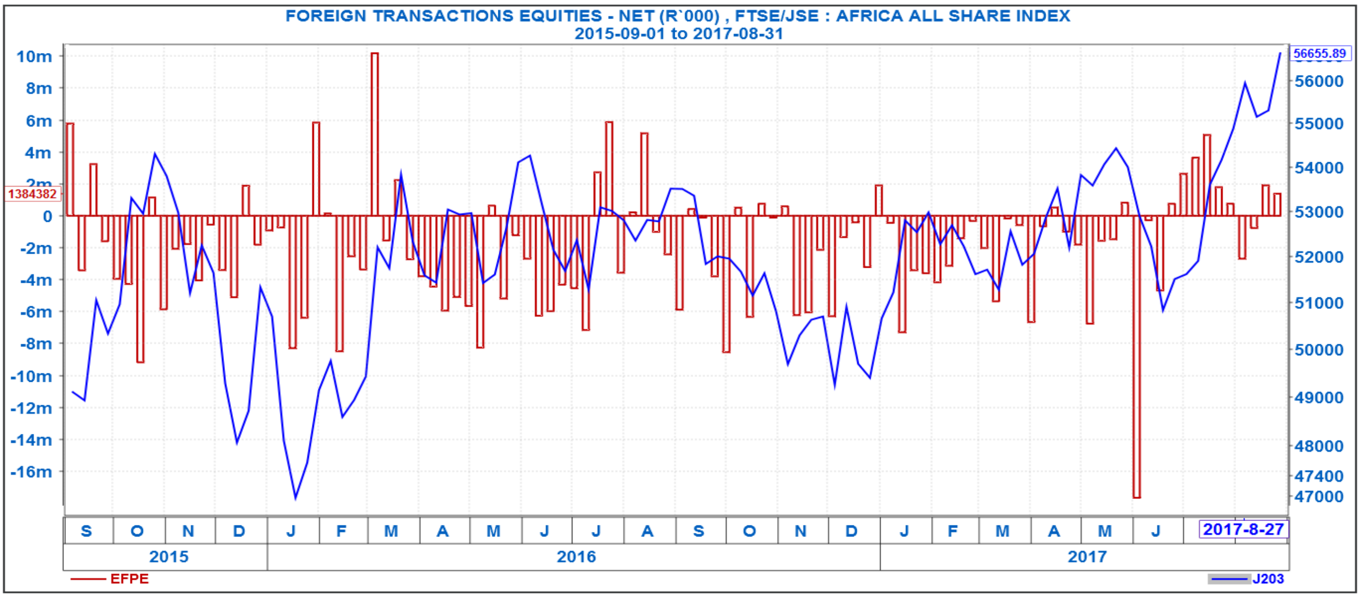
In terms of economic growth, the South African economy expanded an annualised 2.5% quarter-on-quarter in the three months to June 2017, ending two quarters of contraction and beating market expectations of a 2.1% rise. It is the strongest growth rate in a year with agriculture, forestry and fishing making the largest upward contribution, namely field crops and horticultural products.

	31 August 2015	31 August 2016	31 August 2017
USD/ZAR	13.27	14.69	14.88
GBP/ZAR	20.37	19.30	16.40
EUR/ZAR	14.88	16.81	15.48

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

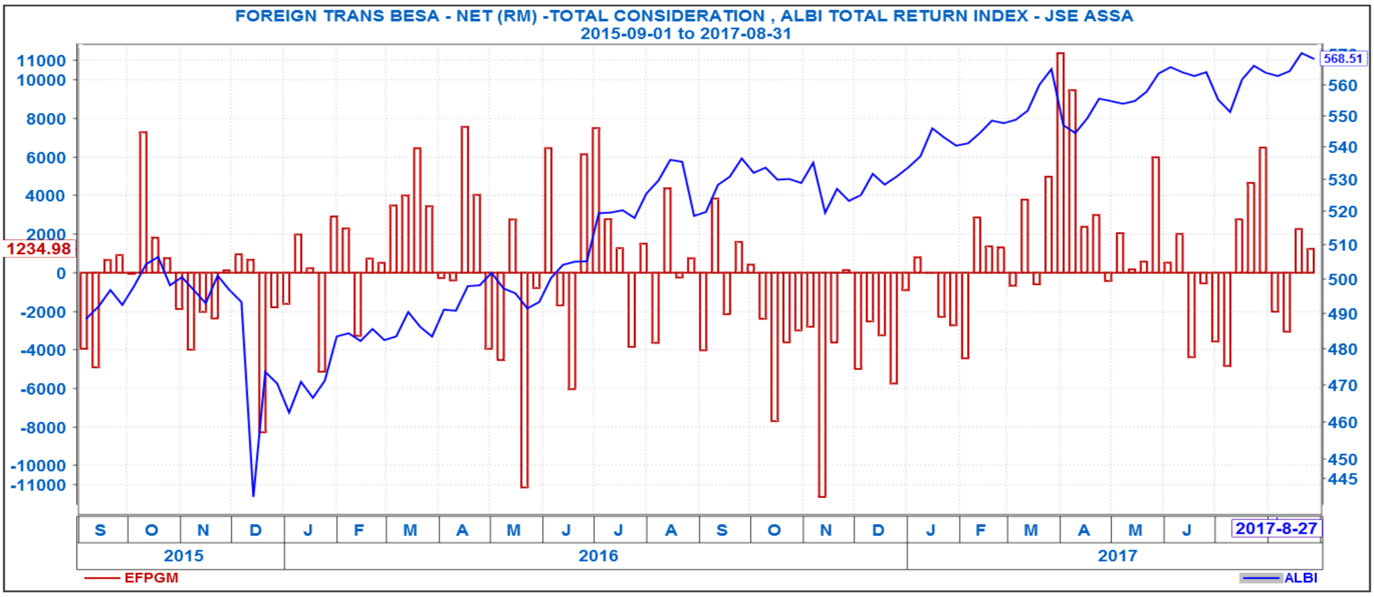
Locally, the ALSI was up 2.65% in rand terms. US foreigners invested in SA equities would have fared exceedingly better with a return of 3.97% in USD, as the rand strengthened (+1.27%) against the US dollar in August. Resources led the charge on the ALSI for a consecutive month, surging 5.10% over the month. Industrials followed suit adding 4.57% in August, despite large rand-hedge stocks in the Top 40 dragging on performance. The Financials index added 2.05%, with the big five banks all closing higher, along with major life insurers. Sanlam (+8.21%), Firstrand (+7.08%) and Capitec (+4.73%) drove most of the financials index gains over month.

By market-cap, Mid-cap stocks (+4.52%) led the gains, followed by the Top40 (+2.57%), while small-cap stocks ended the month positively as well, returning 2.15%. Telecommunications was the best performing sub-sector over the month of August. This was followed by basic materials, up 5.10%, adding to its impressive performance in July as prices of commodities continued to rally. Consumer Goods (+0.56%) was the worst performing sub-sector, followed by Consumer Services and Technology, both returning 1.24%. The Gold Mining sub-sector continued its recovery, adding 8.62% over the month, as the price of gold rose 4.15%. This was largely driven by global geopolitical tensions driving investors to safe haven assets, such as gold. Sibanye Gold (+23.56%), Harmony Gold (+10.24%) and Gold Fields (+9.48%) all led the Gold mining index higher. Under the large diversified miners, Anglo American PLC (+8.45%) and BHP Billiton (+3.06) rose higher as the price of iron ore (+7.07%), nickel (+13.53%) and copper (+7.01%) rose aggressively over the month. Other notable mining company performances include Assore (+30.05%), Exxaro Resources (+20.15%) and African Rainbow Minerals (+17.18%). Rand-hedge stocks in the Top 40, such as Bidcorp (-6.61%), British American Tobacco (-2.15%) and Mediclinic (-0.39%) detracted from performance, as the rand strengthened significantly against the US dollar and other global peer currencies. Naspers (+1.12%) and Richemont (+3.22%) however, still managed to return a positive performance over the month. Impala Platinum (+14.17%) and Shoprite (+11.76%) were the best performing large-cap stocks. SA equities were sold off by foreigners in August, as they were net sellers of R1.91 billion worth of equities. Year-to-date, they are also net sellers of R60.86 billion worth of SA equities.



Source: I-Net September 2017

Local fixed income markets saw positive returns over the month as the ALBI (+1.06%) outperformed property (+0.76%), cash (+0.62%) and also Preference Shares (-0.30%). The shorter (1-3yr) end of the yield curve was the worst performing interest-bearing asset class, returning 0.82%, followed by 7-12yr bonds (+0.99%). The 12yrs+ section of the yield curve was the best performer, returning +1.06% over the month. Year-to-date the 3-7yr period has been the best performer (+8.55%) followed by the 7-12yr period (+8.02%), while the 3-7yr (+12.02%) was the best performer over the past 12 months. SA listed property (a hybrid asset class) had a positive performance over the month, returning 0.76% and is the second best performing SA asset class year-to-date (+6.88%), after equities.



Source: I-Net September 2017

During August, foreigners were net sellers of R2.40 billion worth of SA bonds. Year-to-date the SA bond market has experienced a net foreign inflow of R38.67 billion. In a global fixed income context, global bonds performed positively as the Barclays Global Aggregate Bond Index (+0.99%) and the Citigroup World Government Bond Index (+1.18%) closed higher in USD terms. However, due to rand strength, these indices closed negatively at (-0.51%)

and (-0.33%) respectively. In August, SA's currency strengthened against major global peers. The rand appreciated marginally against the euro (-0.56%), against the US dollar (-1.27%) and more so against the British pound sterling (-3.29%).

GLOBAL OVERVIEW

Despite geopolitical tensions, the struggles of Trump's administration, another terror attack in Europe and Hurricane Harvey, the US market still managed to close in positive territory in USD terms. The month started off well, with the US market touching a fresh record high. However, on 17 August 2017, the US equity market recorded its biggest one-day fall since May as the North Korea stand-off and Charlottesville violence were followed by the disbanding of the US administration's business council. The US economy expanded by an annualised 3.00% in Q2 2017, following a 1.20% growth in the previous period. Core inflation in the US increased by 1.70% in July over the same month in the previous year and remains the lowest core inflation rate since May 2015. The US trade balance deficit widened slightly to $43.7 billion in July, following a $43.5 billion gap in June. Meanwhile, the US unemployment rate came in at 4.4% in July from 4.3% in the previous month. The energy sector was the worst performing sector as much of the drilling and refining activity in the area came to a standstill. Financials were also impacted, in particular insurance companies, as growing concerns grew that flooding from Hurricane Harvey would lead to excessive losses. Consumer discretionary-related stocks, particularly retailers, were lower, showing the pressure that online retailing is placing on traditional bricks and mortar businesses. However, the technology sector continued to rally, supported by investor enthusiasm ahead of the launch of Apple's new iPhone. In corporate news, Gilead Sciences reached an $11.9 billion agreement to acquire Kite Pharma, adding a cutting edge cancer-fighting technology to its portfolio. Kite is a leader in cell therapy, a new form of treatment which involves re-engineering patients' own white blood cells to attack cancer cells.

The broader Bloomberg commodities index closed 0.40% higher for the month of August. The Bloomberg WTI crude oil index surrendered 4.96% as demand for oil was temporarily lower as refining facilities in Texas were closed following Hurricane Harvey. As a result, gas prices surged higher, with the Bloomberg natural gas index advancing 7.17%. Due to the geopolitical tensions experienced in August, the Bloomberg gold index gained 3.92% as investors flocked to safe haven assets. The Bloomberg precious metals index closed 4.01% higher, with nickel, platinum and silver advancing 15.39%, 6.24% and 4.25% respectively.

On a total return basis, the global technology sector was the top performing sector for the second consecutive month in August, returning 3.40% in USD, 5.80% in GBP and 1.80% in ZAR. This was followed by the utilities sector which returned 3.10% in USD, 5.50% in GBP and 1.50% in ZAR. The top performing sector over a one year period was technology, returning 30.20% in USD, 32.30% in GBP and 15.00% in ZAR. The worst performing global sector in August was the energy sector returning -5.40% in USD, -3.30% in GBP and -6.90% in ZAR. Furthermore, the energy sector was also the worst performing global sector over a one year period surrendering -7.10% in USD, -5.60% in GBP and -17.90% in ZAR.

In rand terms, global developed market equities (-1.35%) underperformed emerging market equities (+0.71%) once again in August. In USD, the MSCI World was marginally higher (+0.14%) and the MSCI Emerging Markets Index added 2.23% for the month. Developed market property gained 0.13% in USD, underperforming bonds, which added 0.99% in USD. Developed markets indices in ZAR terms were negative across the board for the month of August due to rand strength. The rand strengthened against the US dollar (-1.27%), the Australian dollar (-2.05%), the pound sterling (-3.29%) and the euro (-0.56%). The FTSE 100 (-2.14% in ZAR, -0.66% in USD and +1.63% in GBP), the ASX 200 (-1.44% in ZAR, +0.05% in USD and +2.36% in GBP), the CAC 40 (-1.41% in ZAR, +0.08% in USD and +2.40% in GBP), the Euro Stoxx 50 (-1.38% in ZAR, +0.11% in USD and +2.43% in GBP), the S&P 500 (-1.19% in ZAR, +0.31% in USD and +2.63% in GBP) and the Dow Jones (-0.84% in ZAR, +0.65% in USD and +2.98% in GBP) were all lower in ZAR terms for the month. In emerging markets, China's Shanghai Composite index added 2.25% in its base currency (+2.74% in ZAR, +4.29% in USD and +6.70% in GBP), the Brazilian Bovespa equity index advanced 7.46% in its base currency (+5.14% in ZAR, +6.72% in USD and +9.19% in GBP) and the Indian Nifty gave up 1.58% in its base currency (-2.70% in ZAR, -1.23% in USD and +1.05% in GBP). The Argentina Merval index surged 9.30% in its base currency (+9.72% in ZAR, +11.37% in USD and +13.95% in GBP) and the Nigerian All Share Index lost 0.95% in its base currency (-14.19% in ZAR, -12.90% in USD and -10.88% in GBP). The US dollar weakened against the euro (+0.62%), but strengthened against the British pound (-2.13%).

Spot Rates	31 August 2015	31 August 2016	31 August 2017
EUR/USD	1.12	1.11	1.19
GBP/USD	1.54	1.31	1.29
USD/JPY	121.2	103.33	110.07

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