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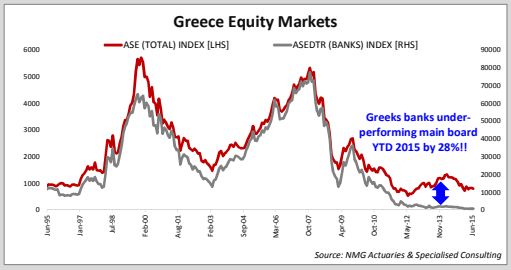
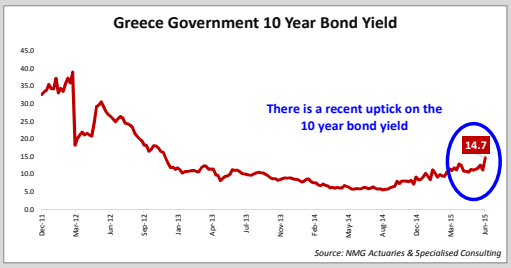
The NMG Mercado

Week 27

TOPICAL NEWS





Whats for the Greeks?

If Greeks fail to pay the US$1.7 billion it owes the IMF tomorrow, might be worse for the lender than the Greeks. Under the fund's policy, countries that miss payments are deemed to be in "arrears" rather than in "default." If Greece fails this will blow the IMF's reputation as the world's lender of last resort, especially to emerging markets countries like China and India. It may become tougher for IMF to win support for future bailouts. We believe that going forward the scrutiny will increase on countries that can either be considered wealthy in their own right or are part of a larger geo-economic structure like the euro zone. Greece's non-payment would land Greece in a club of countries in arrears that currently includes Zimbabwe, Sudan and Somalia. These three countries have overdue payments of US$1.8 billion. The US$26 billion to be repaid by Greece is almost four times the total of overdue funds in the IMF's history. Also, Greece has a US$3.9 billion bond held by the ECB maturing on July 20, 2015. A default to ECB would probably freeze emergency liquidity to Greek banks. According to IMF, once a nation misses payment, it sends a cable urging a country to pay up promptly. Greece would be ineligible for further bailout money until the arrears are cleared. Two weeks after missed payment IMF would contact Greece's IMF governor to urge 'full and prompt settlement'. Within one month the IMF chief will then inform the board that a payment has been missed and the information would only become publicly available on the website after three months. IMF can only force Greece out of its membership only after two years of missed payment. On this background the Greek markets have gyrated new twist. The ASE (Athens Stock Exchange) Index rose 16.0% to 797.5 last week, after it plunged and fell 11.3% the week before that. Although Greek companies make up about 0.1% of the broader Stoxx Europe 600 Index, they have been detecting the European stock moves in recent weeks. More interesting, the 30-day correlation between the Euro Stoxx 50 and the ASE has reached 0.7 from almost zero in April 2015.

THE WEEK AHEAD

- **Quarterly Financial Statistics (QFS), March 2015**
- **Electricity generated and available for distribution, May 2015**
- **Quarterly Employment Statistics (QES), March 2015**

LOCAL ECONOMY

Rolling blackout remains the biggest risk to South Africa's economic growth, with the continuous state support to the power utility Eskom also weighing on public finances. The International Monetary Fund has stated that Eskom requires the tariff increase in order to become financially stable. In more negative news, it has been seen that local firms have increased their investments abroad indicating that they have found not only enhanced returns but also a better policy environment elsewhere. Foreign direct investment outflows has amounted to $6.9billion last year, climbing from 2013. Whilst inflows have seen a decline. FDI has seen a fall in many countries across the globe as the international economy struggles to get on its feet, however South Africa has also had to bear the brunt of a number of issues including the likes of strikes and electricity constraints among others. This has hurt the level of FDI. The Producer Price Inflation has ticked upwards to 3.6% in May, whilst economists had forecast a rate of 3.3%. PPI is expected to gain momentum.

GLOBAL ECONOMY

The University of Michigan's final index of sentiment increased from 90.7 to 96.1 for June 2015. This capped the most optimistic first half of any year for households since 2004. This reading is the second highest since January 2007 and 5.4-point increase from May to June is the largest since December 2013. The increase is attributed to improved confidence, more employment opportunities, prevalence of discounts and sales hence, making US households more sanguine about the pricing environment. Household spending in the first quarter was a little better than previously reported, making slowdown in GDP during Q1 2015 less daunting as it has been revised from -0.7% to -0.2%. Japanese consumer prices excluding fresh food rose marginally to 0.1% for the month of May 2015 and unemployment remain unchanged at 3.3%. Japanese slow growth that is expected for Q2 2015, will further damp inflation that is also being affected by low oil prices. Markets are expecting that China will attain endorsement of the yuan as a reserve currency from the IMF. The yuan overtook the euro in 2013 as the world's second most used in trade finance and was the fifth most popular for global payments in May 2015. If yuan joins the dollar, euro, pound and yen as IMF's reserve currency, it is estimated that there may be inflows; valued US$1 trillion into yuan assets. This will also allow China to challenge the dollar's dominance in global trade and finance. Canadian companies issued C$57 billion in Canadian corporate bonds in H1 2015, surpassing the C$49.4 billion issued in H1 2014. The US corporate bond sales soared to US$945 billion in H1 2015 registering similar trends with Canadian bond markets.

MARKET SNAPSHOT

	CLOSE PRICE	WEEKLY % CHANGE	YTD 26 JUN 2015
FTSE/JSE Indices			
All Share Index	52669.8	1.7%	7.4%
Top 40 Index	47054.5	1.9%	8.6%
Resources Index	22276.9	-2.4%	-1.0%
Industrials Index	75971.1	2.2%	8.9%
Financials 15 Index	16676.1	3.4%	8.7%
Interest Bearing Indices			
BEASSA All Bond Index	487.9	0.5%	1.4%
STeFI 12 Month Index	339.4	0.1%	3.4%
Inflation-Linked Bond Index	614.9	0.5%	1.7%
World Indices			
MSCI World Index	1,776.2	0.1%	3.9%
MSCI Europe Index	1,707.0	1.2%	6.1%
MSCI Emerging Index	980.6	0.6%	2.5%

	CLOSE PRICE	WEEKLY % CHANGE	YTD 26 JUN 2015
Currencies			
Rand/Dollar	12.17	0.3%	6.3%
Rand/Pound	19.17	-0.5%	6.8%
Rand/Euro	13.63	-1.3%	-2.6%
Japanese Yen/Rand	10.15	0.5%	-1.9%
Dollar/Pound	1.58	-0.8%	1.1%
Commodities			
Gold (Rand)	14239.7	-3.0%	2.8%
Platinum (US$)	1083.0	-0.2%	-10.4%
Brent Crude Oil (US$)	63.2	0.3%	10.6%
Major Economies Indices			
S&P 500 (United States)	2101.5	-0.4%	2.1%
FTSE 100 (United Kingdom)	6753.7	0.6%	2.9%
Nikkei 225 (Japan)	20706.2	2.6%	18.7%

LOCAL MARKETS

Last week the rand plunged 1.3% against the euro on the back of looming risks of Greece missing payment that is due tomorrow. The 10-year government bond yield has also increased to 8.4%. We believe investors will continue selling off risky assets until Greece gains more confidence in handling its debt. The equities gained 1.7% by the close of the week with most dual listed companies underperforming the single listed companies. Vodacom, which may be used by the government to fund Eskom, gained 0.3% last week and it is currently 7.0% YTD 2015.

GLOBAL MARKETS

Last week, the Shanghai Composite Index fell 6.4% to 4 192.9, bringing its drop from its June 12, 2015 high to 18.8% also the Shenzhen Index plunged 20% from 2015's peak. China's US$8.8 trillion stock market has plunged from first to worst on global performance rankings, threatening to end the longest bull market since 1990. The Shanghai Index has surged 105.9% over the rolling year as margin debt climbed to a record and investors speculated monetary stimulus would revive Chinese weakest economic expansion in more than two decades. The bull market, turned 935 days old last Friday, is more than five times the average lifespan of previous rallies. Our view is weak earnings growth; high valuations, increased equity supply and surge in margin debt will cause the Shanghai Composite to plunge by about 35% – 40% over the next 12 months. The MSCI Emerging Markets Index gained 0.6% last week. The pound gained 0.9% last week to 70.88 pence per euro, posting its third weekly gain. The UK 10 year gilt yields increased 18 basis points, last week to 2.19%. The Stoxx Europe 600 Index gained 2.9% last week as Greek creditors proposed a five-month extension to the aid program and €15.5 billion in disbursements to help seal a debt agreement. The US 10 year treasury yield rose by 17 basis points to 2.47% last week – just below the 2015 high of 2.50% recorded on June 11. The US 10 year bond yield has climbed 55 basis points end of Q1 2015 and is on track of steepest quarterly climb since Q2 2013. The S&P 500 and Dow Jones Industrial Average Indices both fell 0.4% last week.

TOP PERFORMERS (TOP 40)

NAME	CLOSE PRICE	WEEKLY % CHANGE	YTD 26 JUN 2015
Capital & Counties Properties Plc	84.80	7.3%	28.5%
Steinhoff International Holdings Limited	76.92	5.7%	29.5%
Discovery Limited	126.88	5.6%	13.9%

WORST PERFORMERS (TOP 40)

NAME	CLOSE PRICE	WEEKLY % CHANGE	YTD 26 JUN 2015
AngloGold Ashanti Limited	110.36	-6.3%	8.5%
Impala Platinum Holdings Limited	56.72	-5.5%	-25.2%
Imperial Holdings Limited	183.01	-3.0%	-1.1%

COMMODITIES

In the US, the number of rigs targeting crude slumped by three to 628 last week, to the lowest since August 6, 2010. However, the five new gas rigs added lasted week, boosted the total number of rigs by two. Wheat futures jumped 15% at Chicago Board of Trade (CBOT) last week, entering a bull market. Corn climbed 9.4% and milling wheat rose 8.7% in Paris. The advances are the largest since 2012. This is attributed to heavy downpours that have eroded grain quality across US Midwest and Plain whilst fields in France have been parched by heat and dry weather. Midwest has received three times more rain than average this month and Illinois has about to recorded the wettest June since 1895. Last week gold was trading 28% below the 100-day average justifying our view that this year it has lost its appeal as a store for value. Last week gold fell by 3.0%. Investors are favouring assets with better yields prospects and gold lacklustre this year has as well been contributed by gains for the dollar, an improving US economy and the outlook for higher US interest rates. Zinc dropped by 0.8% to US$2 036 a tonne last week, registering the fourth straight weekly decline, the longest slump since September 2013. Zinc prices are declining after reaching an eight-month high on May 05, 2015. This year, Europe may approximately use 2.3 million tonnes of refined zinc and the demand is forecasted to drop by 8.9% to 2.1 million tonnes in 2016.

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