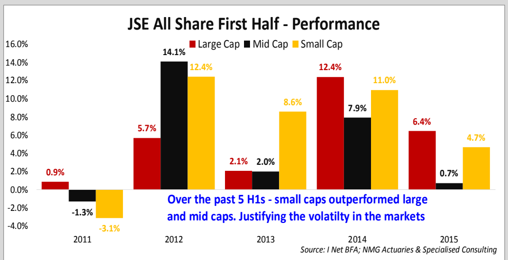
The NMG Mercado

Week 28

TOPICAL NEWS

PERFORMANCE HEAT MAP - H1 2015

JAN-2015	FEB-2015	MAR-2015	APR-2015	MAY-2015	JUN-2015
Financials 15 4.6%	Resources 8.4%	Financials 15 2.3%	Resources 8.0%	Industrials -2.9%	Industrials 0.6%
Industrials 3.2%	Financials 15 3.4%	Industrials -0.6%	Financials 15 4.9%	Resources -5.2%	Financials 15 -0.5%
Resources 1.2%	Industrials 2.9%	Resources -8.9%	Industrials 4.1%	Financials 15 -6.8%	Resources -7.1%



Source: I Net BFA; NMG Actuaries & Specialised Consulting

South African Equities

During the first half of 2015 (H1 2015), the FTSE JSE All Share Index has generated 5.6% returns, with industrials and Financials 15 posting 7.4% and 7.6%, respectively. Resources dropped by 5.0%. The markets were so risky, with resources companies topping the volatility list. Both specialised and diversified miners have been hit the most during the H1 2015. Anglo American, a diversified miner that used to be the largest company on the JSE by market cap fell to its 12-year low and its now only 3.3% of the index. Most companies that did not do well are mainly specialised miners such as Kumba Iron Ore (-35.3%), Impala Platinum (-26.7%), and Anglo Platinum (-18.4%). Although these companies underperformed in H1 2015, there are very attractive on a valuation basis and are currently trading at a discount to the market on forward multiples. Naspers the largest company by market capitalisation on the JSE generated 25.1% returns over the last six months. Naspers, was one of the industrial companies that did well. It is however currently trading at a premium of more 519% to the market at 108.7 times. Although it recently reported a strong set of results with an estimated earnings growth of more than 30%. We believe that soon we are going to see a correction on the South African equity markets that have been driven mainly by expensive industrial companies and other industrial companies that trading within the market range such as Mondi.

THE WEEK AHEAD

- Mining: Production and sales, May 2015
- Manufacturing: Production and sales, May 2015 Mining and manufacturing account for slightly more than 20% of the country's gross domestic product. Mining production is expected to climb as a result of the low base created last year from the strike. Manufacturing production is expected to see a decline of around 2.5%, due to weaker-than-expected business activity.

LOCAL ECONOMY

South Africa lost 44,000 jobs in the first quarter of 2015, as poor growth and rolling blackouts weighed. Turnover in the private sector declined by 5.2%, marking the largest decrease in 5 years. On a brighter note, SA reported a trade surplus during the month of May, this positive data managed to provide a boost to the local currency. The surplus amounted to R5bn and was mainly assisted by an increase in the amount of vehicles sold. The Kagiso Purchasing Managers Index climbed to 51.4 during June, with numbers above 50 indicating expansion. The average for the second quarter now stands at 49.2. Consumer confidence tumbled to a fourteen year low during the three month period from April to June. Low confidence levels indicate that spending levels will be low which does not bode well for economic growth.

GLOBAL ECONOMY

Last week Greece became the first developed country to miss a payment to the IMF when it skipped the US$1.7 billion obligation whilst the Bank of Greece (BoG) might only last until early this week.The IMF estimates that Greece need about US$40 billion in international support and require relaxed terms on its outstanding debt. The relaxed terms to Greece's debt include a 20-year grace period and 30% haircut. Apart from the IMF payment this month, Greece is required to pay €1 billion in bond interest payments and the bulk of the amortisation and interest payments are due on July 20, 2015. The Australian dollar dropped to a six-year low against the US dollar on signs of sluggish consumer spending that rose 0.3% in May 2015 on MoM basis, but were 0.2% below consensus and after iron ore prices slid the most in two months. We view this as a tailwind since the weaker currency may stimulate the economy. The Russian Purchasing Manager's Index fell to 49.5 in June 2015 from 52.8 in May 2015, signalling contraction. The underwhelming PMI reflects pressure on consumers attributed to falling oil prices and sanction imposed by the US and EU over Ukraine. The Russian economy has entered its first recession in six years. The Fitch ratings agency forecasted world economic growth rates of 2.4%, 2.9% and 2.8% for 2015 to 2017, respectively. Pick-up in growth rate for 2016 will be driven by recovery from the recession in Brazil and Russia. The US economy added 223 000 jobs in June 2015 and unemployment dropped 5.3%, the lowest in seven years, driven by flight from the workforce.

MARKET SNAPSHOT

	CLOSE PRICE	WEEKLY % CHANGE	YTD 03 JUL 2015
FTSE/JSE Indices			
All Share Index	52,215.5	-0.9%	6.0%
Top 40 Index	46,627.8	-0.9%	6.9%
Resources Index	21,322.6	-4.3%	-6.3%
Industrials Index	75,685.3	-0.4%	8.0%
Financials 15 Index	16,624.5	-0.3%	8.4%
Interest Bearing Indices			
BEASSA All Bond Index	490.0	0.4%	1.9%
STeFI 12 Month Index	339.9	0.1%	3.5%
Inflation-Linked Bond Index	616.2	0.2%	1.8%
World Indices			
MSCI World Index	1,744.5	-1.8%	2.0%
MSCI Europe Index	1,641.8	-3.8%	2.1%
MSCI Emerging Index	964.3	-1.7%	0.8%

	CLOSE PRICE	WEEKLY % CHANGE	YTD 03 JUL 2015
Currencies			
Rand/Dollar	12.23	0.5%	7.3%
Rand/Pound	19.11	-0.3%	6.8%
Rand/Euro	13.57	-0.4%	-2.2%
Japanesse Yen/Rand	9.91	-2.3%	-3.6%
Dollar/Pound	1.56	-0.9%	0.0%
Commodities			
Gold (Rand)	14,276.9	0.3%	4.1%
Platinum (US$)	1,084.0	0.1%	-10.4%
Brent Crude Oil (US$)	62.4	-1.3%	5.2%
Major Economies Indices			
S&P 500 (United States)	2,076.8	-1.2%	0.9%
FTSE 100 (United Kingdom)	6,630.5	-1.8%	0.3%
Nikkei 225 (Japan)	20,539.8	-0.8%	17.7%

LOCAL MARKETS

Local markets closed in the red on Friday ahead of Sunday's Greek referendum. SA equities moved lower, following the pattern of international markets as investors remained concerns over the issues in Greece. At Friday's close, the All Share dropped by 0.5%, whilst the Top 40 fell by 0.6%. The gold index on the other hand rose by more than 2.0% for the day. Over the week, equities maintained the downward trend, whilst bonds saw a gain. The resource sector is expected to see further declines during the course of 2015, as Chinese growth weighs. The resource index has not experienced a positive year since 2010.

GLOBAL MARKETS

The dollar rose for a second week after unemployment dropped and hit a seven-year low. The Bloomberg Dollar Spot Index, which tracks the greenback versus 10 of its major peers, advanced 0.6% last week to 1 187.1. Last week the Shanghai Composite Index lost 12.1% and closed at 3 686.9. The index has lost 28.6% in the last three weeks, which is equivalent to US$2.8 trillion – about 15 times Greece's GDP. To stem the biggest three-week drop since 1992, Chinese brokerage firms are setting up a stock market fund with a value of at least US$405.3 billion that will invest in blue-chip exchange traded funds. The MSCI Emerging Markets Index retreated 1.7% last week on the back of selling off Chinese equities. The emerging markets measure is currently trading at 11.7 times and its 27.8% discount to the MSCI World Index, which is valued at a multiple of 16.2. Across Euro area, we witnessed yields swung last week as Greece approaches the referendum vote. Safest assets such as the 10-year German bund lost 13 basis points whilst high-risk assets such as the Greece 10 year bond gained 366 basis points. 10-year bond yields of other countries such as Portugal increased by 22 basis points, whilst both Ireland and Spain increased by 10 basis points. We view that contagion to the bonds of higher-debt euro-zone nations has been limited amid optimism the ECB will be able to contain risk coming from the Greeks. The S&P 500 Index traded 1.2% lower last week; the FTSE 100 Index lost 2.5%, whilst however the Sensex gained 1.0%.

TOP PERFORMERS (TOP 40)

NAME	CLOSE PRICE	WEEKLY % CHANGE	YTD 03 JUL 2015
Tiger Brands Limited	298.00	5.7%	-19.6%
MTN Group Limited	235.05	4.5%	5.5%
Shoprite Holdings Limited	171.52	2.7%	1.0%

WORST PERFORMERS (TOP 40)

NAME	CLOSE PRICE	WEEKLY % CHANGE	YTD 03 JUL 2015
Kumba Iron Ore Limited	140.53	-10.9%	-44.8%
Impala Platinum Holdings Limited	51.75	-8.8%	-32.1%
Anglo American Platinum Limited	265.08	-6.0%	-21.8%

COMMODITIES

Iron ore capped the biggest weekly loss since April 2015 of 11% to US$55.26 a tonne as slowdown in China's steel production deepens and surging of shipments. This eroded the gains we saw in Q2 2015 when prices rebounded from a decade low. The commodity affected iron ore majors share prices – Rio Tinto Group dropped to its lowest since 2009 and Anglo American traded on its 12-year low and Vale SA share price went south by 8.8%. Iron ore shipments from Brazil increased by 8.2% from 29.6 million tonnes to 32 million tonnes. The Chinese steel industry PMI contracted to a seven-year low of 37.4 last month. Iron ore holdings at Chinese ports expanded 2.8% last week to 81.6 million tonnes, the first increase since April 2015. In June, OPEC produced 7.0% above its 30 million barrels a day quota for a 13th month and the US produced 9.61 million barrels a day last week. US crude inventories expanded to 465.4 million barrels, which is 90 million above the five-year average. Crude oil dropped by 1.3% last week as US oilrigs increased by 1.9% to 640 last week. Gold dropped 0.6% last week as the outlook for higher US interest rates this year outweighed demand for a haven spurred by Greece's debt crisis. Silver marginally changed last week by 0.7% to US$15.70 an ounce and palladium snapped a seven-week slump as it increased by 0.9%. Last week nickel dropped by 3.6% and posted a longest streak of weekly loses since April 2015 after Chinese equities capped its steepest three-week decline since 1992.

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