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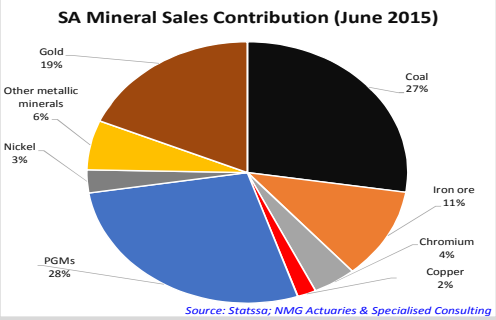
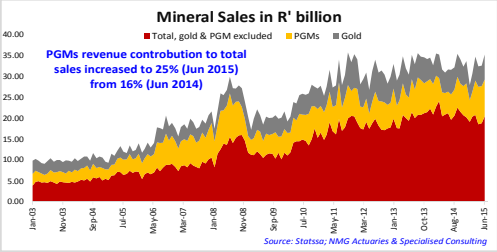
Week 38

TOPICAL NEWS





SA Mining and Manufacturing

The South African mining and manufacturing numbers seemed to paint a bright picture as both manufacturing and mining increased by 5.6% for July. However these high numbers do not indicate that production has shown a large increase. Instead the weak base created last year has allowed the figures to be artificially inflated. Lower growth numbers out of the world's second largest economy, China, seeks to dull future manufacturing and mining numbers in the upcoming months. Also lower commodity prices look to dampen possible growth opportunities in these sectors. Aside from outside influences, South Africa has a wide range of internal factors which could act as impediments to growth. The biggest risk to these sectors is the continuous possibility of strikes. The mining sector is still in the process of negotiating wage increases in the coal and gold mines. However the higher wages and declining commodity prices have forced a number of mines to continue to operate at a loss – this is leading to a high possibility of retrenchments in the volatile sector. Water and electricity shortages also act as hindrances to growth in both manufacturing and mining, however fewer blackouts over the last few weeks will assist these industries. The increase in mining production can be attributed to an increase in platinum group metals and iron ore which grew by 7.9% and 1.2% respectively. However without the weaker base which was created last year, it has been predicted that the mining sector would only have seen growth of 0.5% for July. Despite the uptick in year-on-year manufacturing numbers, the month-on-month numbers fell from 0.8% in June to 0.3% in July.

WEEK AHEAD

*__Federal Reserve Meeting__ – The Fed will announce whether they will be hiking rates this month.
*__Retail trade sales, July 2015__ – Retail sales is expected to slow from 3.5% in June to 2.4% for July 2015.
*__Reserve Bank Quarterly Bulletin__ – This report will contain in-depth analysis regarding second quarter economic spending.
*__Statistics of civil cases for debt, July 2015__
*__Wholesale trade sales, July 2015__
*__Motor trade sales, July 2015__
*__Selected building statistics of the private sector as reported by local government institutions, July 2015__

LOCAL ECONOMY

South Africa has been grouped into the group labelled the "Fragile Five" which are emerging market economies that have become too dependent on foreign investment. It has been stated that SA must do all that it possibly can to avoid further downgrades now rather than wait for another financial crisis. The remarks were in response to Brazil being downgraded to "junk" status by the Standard & Poors ratings agency. Aside from the local issues, SA is also being tormented by global concerns which is increasing the pressure on the country. This week a number of economic releases will come out which includes GDP from an expenditure perspective and the current account balance for the second quarter of the year. It is expected that fixed investment performance and consumer spending will have produced poor numbers during the period from April to June. The current account balance numbers will also move the local currency if the balance is worse-than-expected. In more negative news, the BankservAfrica index which was released last week shows that the economy could possibly move into a recession as the third quarter growth for the year is expected to be negative.

GLOBAL ECONOMY

The University of Michigan's Consumer Sentiment Preliminary Index dropped to 85.7 from an August 2015 reading of 91.9, as households are less upbeat about future growth in employment and wages. It is the largest decline since the end of 2012. We believe that due to the recent turmoil in global markets, US consumers need to see continued strength in employment in order to stay positive on the economy. The UK's inflation rate is expected to have returned to zero due to a slump in oil prices that is creating uncertainty in the economy. The current movement in oil prices is expected to strengthen the UK's disinflationary pressures already affecting its headline and core CPI inflation. We also believe that the forecasted 2.9% wage growth will boost consumer-spending power making the Bank of England (BoE) hike rates towards mid-year in 2016. The State Bank of Pakistan (SBoP) cut its benchmark interest rate to 6% from 6.5% as it seeks to encourage economic growth amid falling oil prices. The Central Bank of Russia (CBR) left interest rates unchanged at 11.0% for the first time in 2015 after the ruble's crash against the dollar deepened with slumping oil prices, arresting an easing cycle that has so far failed to reverse its first recession since 2009. Outlook of the world's biggest energy exporter is bleak due to prolonged lower oil prices. CBR is now forecasting an economic decline of 3.9% to 4.4% in 2015 and the September 2015 inflation is estimated at 15.8%. Chinese aggregate financing rose to US$169.5 billion from US$112.8 billion suggesting demand for loans is holding up after renewed rounds of monetary easing that followed the stock-market debacle over the past three months. This offers a relief to the economy as factory deflation deepens to the worst level since 2009 because of overcapacity and weaker demand.

MARKET SNAPSHOT

	CLOSE PRICE	WEEKLY % CHANGE	YTD 11 SEP 2015
FTSE/JSE Indices			
All Share Index	48,930.6	-0.4%	0.7%
Top 40 Index	43,450.4	-0.2%	1.2%
Resources Index	19,034.5	2.1%	-13.0%
Industrials Index	70,789.8	-0.7%	2.2%
Financials 15 Index	15,824.8	-0.6%	3.9%
Interest Bearing Indices			
BEASSA All Bond Index	492.0	0.7%	2.2%
STeFI 12 Month Index	344.4	0.1%	4.9%
Inflation-Linked Bond Index	618.5	-0.6%	2.3%
World Indices			
MSCI World Index	1,627.0	2.0%	-4.8%
MSCI Europe Index	1,542.6	2.3%	-4.1%
MSCI Emerging Index	802.5	1.8%	-16.1%

	CLOSE PRICE	WEEKLY % CHANGE	YTD 11 SEP 2015
Currencies			
Rand/Dollar	13.52	-2.2%	18.1%
Rand/Pound	20.76	-0.6%	15.7%
Rand/Euro	15.35	-0.7%	9.7%
Japanese Yen/Rand	8.90	3.8%	-13.9%
Dollar/Pound	1.54	1.7%	-0.9%
Commodities			
Gold (Rand)	14,965.1	-2.3%	8.1%
Platinum (US$)	969.5	-2.2%	-19.8%
Brent Crude Oil (US$)	49.0	-1.2%	-14.5%
Major Economies Indices			
S&P 500 (United States)	1,961.1	2.1%	-4.8%
FTSE 100 (United Kingdom)	6,117.8	1.2%	-6.8%
Nikkei 225 (Japan)	18,264.2	2.7%	4.7%

LOCAL MARKETS

South African stock markets closed the week off in the red as investors remained concerned over the US interest rate decision which is scheduled to take place this week. At Friday's close the All Share and Top 40 had declined by 1.2% and 1.3% respectively, with the gold index tumbling in excess of 8.0%. Over the week, the All Share fell by 0.4%, with industrials and financials declining whilst the resource index surprised to the upside. The BEASSA All Bond Index added 0.7% over the week, whilst the Rand moved to R13.52 against the US dollar. Analysts forecast that the rand may gain if the US is to hike interest rates this week. A strengthening of the currency may occur due to the fact that the uncertainty over the timing of the rate hike may be removed.

GLOBAL MARKETS

Commodities currencies such as the South African rand and Australian dollar marked their 1st weekly gain since China's unexpected shift on the yuan on August 11, 2015 stirred markets. The Australian dollar gained by 2.6% against the dollar last week. The Japanese yen dropped 1.3% against the dollar to 129.59 per dollar. The Bloomberg Dollar Spot Index recorded its first weekly decline since August as the dollar weakened 1.7% against the euro to US$1.13 per euro. The pound gained 1.7% to US$1.54 per dollar last week, the first biggest weekly gain since June 19, 2015. The gain was boosted by speculation that the Bank of England (BoE) will be next major central bank after the Fed to raise interest rates. Both the S&P 500 Index and Dow Industrial Average Index advanced 2.1% last week amid volatile trading and light volumes. This was the biggest gain for S&P 500 since July 17, 2015 and for Dow Jones, it was the biggest since March 20, 2015. US investors are divided over whether the Fed will raise their benchmark lending rate this week. This would be the 1st time in nine years. The Fed reduced its key rate to 0.25% in December 2008, during the financial crisis; this has supported the equities market's seven-year run. The Stoxx Europe 600 gained 0.7% last week, its best performance since July 17, 2015. The MSCI Emerging Markets Index posted their biggest weekly gain since April 10, 2015. Emerging markets shares have slumped for four straight months because higher US interest rates would make the dollar assets more appealing to investors, spurring them to shift capital from developing nations. The MSCI Emerging Markets Index is trading at a 1-year forward price earnings multiple of 10.6 times which is at a 21.9% discount to this year's average of 13.6 times. The gauge has lost 15.8% this year.

TOP PERFORMERS (TOP 40)

NAME	CLOSE PRICE	WEEKLY % CHANGE	YTD 11 SEP 2015
Kumba Iron Ore Limited	96.00	11.8%	-60.0%
Anglo American Plc	151.22	7.9%	-29.8%
Steinhoff International Holdings Limited	82.10	6.0%	38.2%

WORST PERFORMERS (TOP 40)

NAME	CLOSE PRICE	WEEKLY % CHANGE	YTD 11 SEP 2015
Anglo American Platinum Limited	297.67	-7.7%	-12.7%
Aspen Pharmacare Holdings Limited	307.64	-7.3%	-24.2%
AngloGold Ashanti Limited	96.75	-5.4%	-4.9%

COMMODITIES

Gold in dollar terms fell 1.4% to a one month low of US$1 107.78 per ounce as investors held off on making big moves as they await this week's Fed's meeting. In rand terms, the bullion retreated 2.3% per ounce. We view that gold is heading for a third straight annual loss after it lost 26.7% in 2013 and 1.4% in 2014. This year, the bullion has already lost 7.4%. Copper posted 6.1% last week; it is first weekly gain in four months. We believe the gain was driven by Glencore's decision to trim output from two of its flagship operations in Africa (Katanga Mining in DRC and Mopani Mining in Zambia), taking 400 000 tonnes of the metal out of the market over the next 18 months. Brent crude oil lost 3.0% last week and closed at US$48.14. The negative news on the world oil glut, concerns over slowing growth in China and International Energy Agency (IEA) estimates of decreases in production by the most in more than two decades in 2016 fuelled the decline. 10 oilrigs in the US were halted last week leaving 652 rigs operating. Last week's 1.5% retreat followed a 1.9% decline recorded in the previous week. The US Department of Agriculture (USDA) is estimating corn harvest to be down 4.4%, to 345 million tonnes from 361 million tonnes. The production drop is due to the damage caused by the wet weather. The USDA reduced its global forecast by 2.8% to 189.7 million tonnes from 195.1 million tonnes. This marks the first reduction in global corn inventories in five years. The reduction in harvest and inventories is positive to corn farmers as they now expect an improvement in price.

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