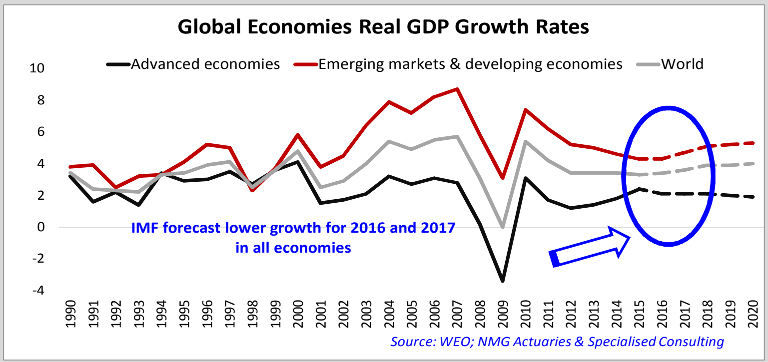
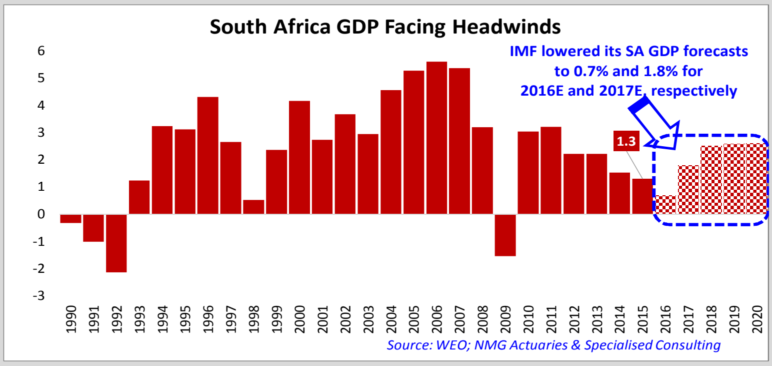

# The NMG Mercado

Week 4

## TOPICAL NEWS




### The IMF Slices South Africa's Growth Forecast

The International Monetary Fund (IMF) has cut South Africa's forecast for 2016 and 2017 to 0.7% and 1.8% respectively. The country was previously predicted to grow at rates of 1.3% and 2.1% for this year and the next. The forecast by the IMF is the lowest prediction, with the National Treasury having a forecast of 1.7%. The IMF has expressed concern over a number of countries within Sub Saharan Africa including the likes of Angola, Nigeria and South Africa among others. Tumbling commodity prices and raised borrowing costs have affected a number of African nations. SA is one of the largest regions to be affected by these issues. Aside from these issues, South Africa faces various other problems including the likes of structural issues, labour market constraints and electricity shortages among others. South Africa also faces a lower level of demand for its goods, as Chinese growth follows a downward trend. China constitutes SA's largest export market. If the country is not able to get its house in order, the possibility of a ratings downgrade would be imminent. A downgrade would have significant negative effects on SA, including further outflows from the country. Global growth predictions were also revised lower, with the forecasts sitting at 3.4% and 3.6% for this year and the following year respectively. Declining emerging market economies was the main reason for the decrease in global growth numbers. The IMF has also warned that the level of growth worldwide could actually be lower. Growth could tumble for a number of reasons including; lower-than-expected growth in China, higher interest rates out of the world's largest economy, increased geopolitical tension and further depreciation of emerging market currencies.

## Market Snapshot

| | CLOSE PRICE | WEEKLY % CHANGE | YTD 22 JAN 2016 |
|---|---|---|---|
| **FTSE/JSE Indices** | | | |
| All Share Index | 47,661.9 | 1.5% | -6.0% |
| Top 40 Index | 42,952.6 | 2.0% | -6.2% |
| Resources Index | 13,170.5 | 3.5% | -4.4% |
| Industrials Index | 74,931.2 | 1.3% | -5.5% |
| Financials 15 Index | 37,518.5 | 0.7% | -8.4% |
| **Interest Bearing Indices** | | | |
| BEASSA All Bond Index | 470.9 | 1.0% | 1.9% |
| STeFI 12 Month Index | 332.9 | 0.1% | 0.4% |
| Inflation-Linked Bond Index | 632.5 | 0.2% | 0.9% |
| **World Indices** | | | |
| MSCI World Index | 1,536.8 | 1.0% | -7.6% |
| MSCI Europe Index | 1,404.8 | 1.5% | -7.7% |
| MSCI Emerging Index | 710.7 | 0.2% | -10.5% |

| | CLOSE PRICE | WEEKLY % CHANGE | YTD 22 JAN 2016 |
|---|---|---|---|
| **Currencies** | | | |
| Rand/Dollar | 16.41 | -2.1% | 6.1% |
| Rand/Pound | 23.34 | -1.9% | 3.5% |
| Rand/Euro | 17.78 | -3.1% | 5.8% |
| Dollar/Euro | 11.55 | 0.1% | 2.7% |
| **Commodities** | | | |
| Gold (US$) | 1,097.73 | 0.8% | 3.5% |
| Platinum (US$) | 831.50 | 0.2% | -6.7% |
| Brent Crude Oil (US$) | 32.18 | 11.2% | -13.7% |
| **Major Economies Indices (base currency)** | | | |
| S&P 500 (United States) | 1,906.9 | 1.4% | -6.7% |
| FTSE 100 (United Kingdom) | 3,241.5 | 1.2% | -5.9% |
| Nikkei 225 (Japan) | 16,958.5 | -1.1% | -10.9% |

## THE WEEK AHEAD

- South Africa Reserve Bank Monetary Policy Committee Meeting – The Bank looks to hike rates by an estimated 25 basis points to 6.5%. This should bring  he prime rate to 10.0%. The economy will be unlikely to handle any higher rates increases.
- Producer Price Index – PPI is expected to climb to 5.0% in December from 4.3% seen previously.
- Credit Extension – Credit extension is forecast to have rose to 10% on a year-on-year basis for the last month of 2015.
- December Trade data – A trade surplus of about R5 billion is expected for December.

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## LOCAL ECONOMY

The Consumer Price Index climbed to 5.2% on a year-on-year basis in December, up from 4.8% seen in the previous month. CPI quickened on the back of increased food and service costs. Inflation is sitting at the highest level in over a year and it looks to climb further in the upcoming months, as rand weakness continues to plague the country. This places the Reserve Bank in a tight position as the monetary policy committee meets this week to discuss the path of interest rates. However if the SARB increases rates, there is no promise that inflation or the path of the rand will see any change. The SARB began their rate hiking cycle during 2014, and since then the local currency has seen a downward trend. The country currently is facing a low level of growth and if rates have to climb this could serve to stifle growth to a greater extent. If South Africa fails to create growth, the country will receive even less investment from external sources. Foreign direct investment (FDI) into SA tumbled by 74% in 2015. This is the largest decline across the continent. FDI will probably see even greater declines during the upcoming year as the country struggles to create growth. Emerging markets as a whole are facing a struggle. Retail sales quickened during November, providing a bright light in a sea of negative data. Better-than-expected retail data may push the SARB to hike rates given that the bank believes that consumers will be able to handle further rate hikes.

## GLOBAL ECONOMY

Data from National Association of Realtors (NAR) last week showed that contracts for purchasing previously owned homes jumped 14.7%, the most on record to a 5.5 million annualized rate in December 2015, against consensus of 5.2 million. For all of 2015, sales climbed to 5.3 million from 4.9 million. The December sales rebound was driven by industry adjustments to new mortgage regulations that had delayed closings a month earlier. Strong hiring and low borrowing costs are drawing more prospective homebuyers into the market. However, we view that sales this year will face some headwinds from higher interest rates and constraints in supply because of elevated prices. The number of previously owned homes on the market dropped to 1.8 million last month. At the current sales pace, it would take 3.9 months to sell those houses, the lowest since January 2005 and down from 5.1 months at the end of the prior month, depicting a housing shortage to be on the cards. The median price of an existing home rose 7.6% from December 2014 to reach US$224 100. For all of 2015, the median cost climbed 6.7% to US$224 400. The European Central Bank (ECB) said it would re-examine its strategy of a US$1.6 trillion bond-purchase plan and negative interest rates on the back of drags of global trade and market disruptions caused mainly by the Chinese economic slowdown. Last month euro-area inflation was 0.2% and has not been near the ECB's target of just under 2.0% since early 2013. The ECB is facing headwinds from persistence of ultra-low inflation, which undermines economic revival. The three current drivers of the euro-area recovery are monetary policy, a fiscal stance that is broadly neutral if not slightly expansionary, and lower energy prices that support disposable income. Profits for companies in the S&P 500 Index are forecast to fall for a third consecutive quarter, squeezing corporate margins. This implies that it will get tougher for US employers to keep adding workers at the pace we witnessed in 2015 or award the much-awaited salary hikes. UK retail sales volumes including fuel, plunged 1.0% in December 2015 against consensus of a 0.3% decline. This is the biggest drop since September 2014. November sales were up 1.3% because of Black Friday promotions. Clothing, shoes and textiles were down, 6.2%.

## LOCAL MARKETS

South African markets made a comeback on Friday afternoon, after experiencing an extremely volatile weak. Shares climbed on the back of an increase in the oil price as well as the possibility of further economic stimulus measures from Japan and the Eurozone. At Friday's close, the All Share and Top 40 added 3.0% and 3.4% respectively, with the resource sector producing the best returns for the day. The stocks that saw major improvements on Friday were those that had suffered large declines in earlier periods, including the likes of Assore, African Rainbow Minerals and Kumba Iron Ore. A slightly stronger rand also helped to lift Financial Stocks. Despite bouts of rand strength, the currency looks to face a number of difficulties going forward. The elevated level of weakness that we have seen in the rand as of late looks to be the new norm. The share gains are partly based on the possibility of greater stimulus measures. If this does not happen, stocks could see declines again. Over the week, both bonds and equities made some gains, however the year-to-date returns are still poor.

## GLOBAL MARKETS

Last week, the yen fell 1.5% to 118.78 per dollar after touching a one-year high on speculation the Bank of Japan (BoJ) will increase stimulus to revive inflation, when they meet this week. Japan's currency gained almost 3.0% during the previous two weeks. This was the biggest two-week rally since mid-2013. The Bloomberg Dollar Spot Index rose 0.3%, reaching the strongest level in more than 10 years. The gauge has gained 1.9% since the Fed's December rate increase. Although the Fed signalled that they might raise rates four times this year, we view that it would only be once because we do not see it necessary to tighten the markets because of a China-led global slowdown. The US 10-year bond yield rose two basis points, last week to 2.05%. This is the first increase in three weeks. The yield differential between the US 10-year bond yield and the German's 10-year bund closed last week at 1.57% as we witnessed yield uptick on the US Treasuries. The yield differential between the US two-year and 10-year yields closed the week at 1.18%. However, during the week it dropped to 1.14%, the lowest since 2008, before rebounding. The two-year and five-year note yields rose two and three basis points, respectively last week. The S&P 500 Index gained 1.4% last week and closed at 1 906.9 points. The Dow Jones Industrial Average Index climbed 0.7% last week and closed at 16 093.5 points. This was 2016's first up week for US equities. UK's equities rallied and the FTSE 100 Index climbed 1.7% and closed the week at 5 900.0 points and YTD it has lost 5.5%. Commodity and energy companies on the bourse led the climb. Chinese stocks joined the global rebound for equities after the European Central Bank (ECB) signalled it may boost stimulus. The Shanghai Composite Index rose 0.5% last week and has lost 17.6% YTD 2016. Currently it is the worst global benchmark measure based on the common gauges widely known. The MSCI Emerging Markets Index was up 0.2% and YTD 2016 is currently down 10.5%.

## COMMODITIES

Brent crude oil rallied 11.2% last week and West Texas Intermediate (WTI) crude jumped 9.4% and closed the week at US$32.18 and US$32.19, respectively. We believe that a slump to a 12-year low prompted some investors to buy back record bearish bets. However, this year Brent crude has declined 13.7% and WTI is down 13.1% as turbulence in global markets adds to concerns over bursting US stockpiles and the prospect of additional Iranian barrels. We continue viewing that because of the sharp volatility, the global energy industry are struggling to deal with oil glut. The US halted five oilrigs and the remaining active rigs are now 510. 26 rigs have been put to stop already this year. The oil industry is facing many pressures amid continuing shrinking fees for floating rigs. Data from Norway shows that since oil started to tumble, the governments are also slashing the tariffs. In Nordic countries, fees for the most advanced floating rigs have fallen to about US$250 000 a day from as much as US$650 000 in 2013. In Norway, more than 27 000 - job cuts have been announced in the oil industry since the beginning of 2014 and in the UK, the oil & gas industry has lost 65 000 jobs over the same period. Copper had the biggest weekly increase since October 09, 2015, on speculation that central banks will do more to counter market turmoil around the world. Copper futures for delivery in March (3-month futures) increased 2.6% at the London Metal Exchange (LME) and on the Commodity Exchange (COMEX) in New York it increased 3.0%. Gold in dollar terms increased by 0.8% and closed the week at US$1 098 per ounce. Gold this year is the best performing metal as concern over China's slowdown and a crash in oil prices to a 12-year low drove demand for haven assets. South Africa, the largest corn producer in Africa, might harvest 39% less of the grain in the 2015-16 season than a year earlier because of the lowest rainfall engineered by the global El Nino weather pattern. Farmers are forecast to produce 6.1 million tonnes of corn this season, down from 9.9 million tonnes in the previous season. Farmers are estimated to have sowed 1.6 million hectares this season. This is 36% less than what farmers had planned. Last season, they planted 2.7 million hectares.

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