

Rising Eurozone inflation presents ECB with impasse

- pg. 2

Retailers show hike in sales

- pg. 3

## Market moves

Performance: 06/01/2017 to 12/01/2017	Return (Cumulative)
<b>Local Markets</b>	
All Share TR ZAR	3.95
Ind/Financials TR ZAR	1.56
Ind/Industrials TR ZAR	3.94
Financials&Indl 30 TR ZAR	3.16
Ind/Basic Materials TR ZAR	6.66
Gold Mining TR ZAR	1.77
SA Listed Property TR ZAR	1.77
Beassa ALBI TR ZAR	1.38
<b>Commodities</b>	
Oil Price Brent Crude PR	-1.55
LBMA Platinum AM PR USD	3.99
Gold London AM Fixing PR USD	2.86

## The week ahead

### Domestic

**19 Jan** Business confidence Q4

**24 Jan** Interest rate

### International

**19 Jan** EA: ECB interest rate

**20 Jan** US: President-elect Trump inauguration

## Macro

### UK

Theresa May said yesterday the UK 'cannot possibly' remain within the European single market, as staying in it would mean 'not leaving the EU at all'. She promised to push for the 'freest possible trade' with European countries and to sign new deals with others around the world. She also announced Parliament would get to vote on the final deal agreed between the UK and the EU. May announced the UK's priorities for Brexit negotiations, including:

- Maintaining the common travel area between the UK and Irish Republic
- Tariff-free trade with the EU
- A customs agreement with the EU
- New trade agreements with countries outside the EU
- Continued 'practical' sharing of intelligence and policing information
- 'Control' of immigration rights for EU citizens in the UK and UK citizens in the EU
- A 'phased approach'
- May said there would not be a 'blow-by-blow' account of negotiations, set to get under way after Article 50 of the Lisbon Treaty is invoked by the end of March

## Markets\*

### Best performer

For the week was Anglo American with a return of 16%. African Rainbow Minerals and Richemont were second, both with a 14% return for the same period.

### Worst performer

CAPCO was the worst performer for the week with a loss of 8%. Followed by RCL Foods with a 6% drop for the week.

### Sectors

The best performing sector for the week was personal goods with a return of 13.9% for the week. The mobile telecommunications sector was the worst performing sector with a 3.2% loss.

\*Disclaimer: Total weekly returns based on closing values from Monday to Monday.

## Macro note

### Rising Eurozone inflation presents ECB with impasse

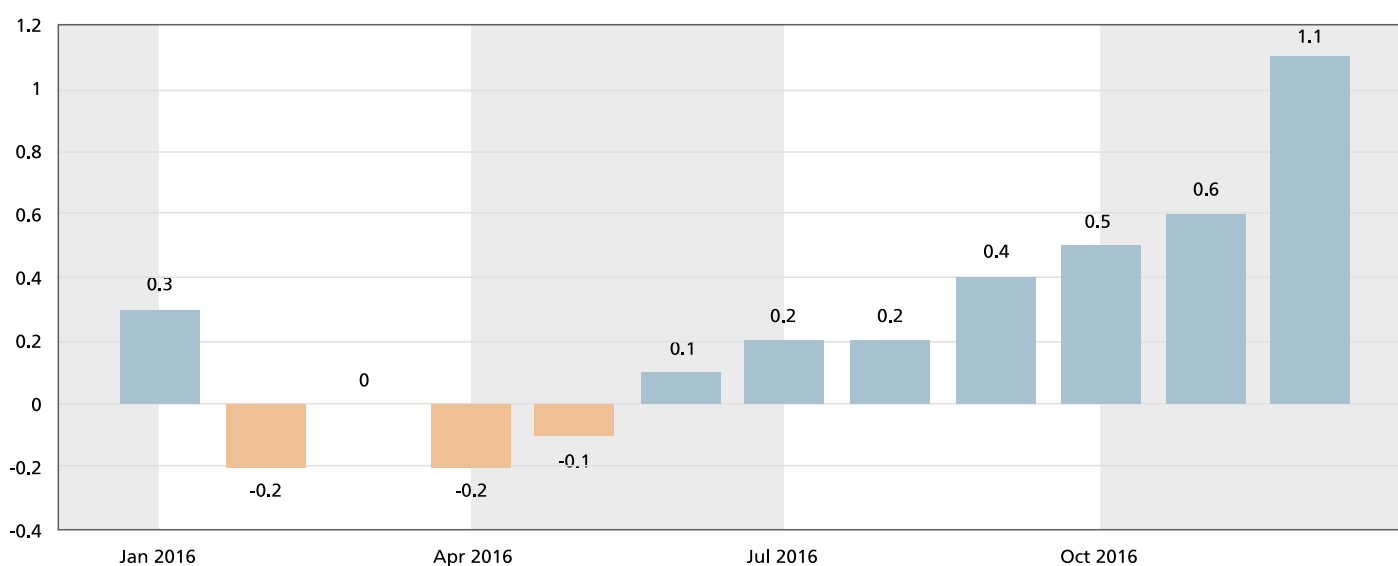
The latest inflation data from the Eurozone indicate a substantial jump in inflation for December (1.1%) raising calls, especially from Germany, that the ECB should raise its policy rate. Inflationary expectations have jumped up in Europe and along with rising inflationary expectations in the United States, the picture is being painted of further increases in interest rates.

The European Central Bank has an inflation target of 2%, but ECB policy-making in the past several years has been dominated by the slow economic growth being experienced by the community and by the actual fear of deflation.

The rise in the stock markets and the increase in inflationary expectations appear to be connected with optimistic hopes that these funds going into the financial circuit will be re-directed into the industrial circuit of the economy producing faster economic growth, more inflation, and more jobs. This scenario, however, raises concerns.

What if the European Central Bank now starts to consider reversing itself and begins to raise its policy rate of interest? What kind of pressure might this put on the Federal Reserve System?

### Eurozone inflation since January 2016



Source: Trading Economics

## Bottom line

There are clear indications that global economic growth has bottomed and that it is starting to improve. Many arguments can be made about what the rate of improvement may be. Or whether interest rates should be increased faster or not. It is not going to change the facts.

The improvement in world economic growth will be good news for companies in terms of an improvement

in company profits, and therefore also for individuals in terms of job opportunities and higher income levels.

The exposure of the PSG Wealth Solutions are not restricted to our domestic markets, but to all markets in the world. As such good news for the world is therefore also good news for our solutions, especially during a period of a stronger rand.

## Market note

### Retailers show hike in sales

Markets responded favourably to sales updates by three major retailers in the last few days.

On Thursday, 12 January, clothing retailers, Truworths and Woolworths released a trading update for the 26-week period ending 25 December 2016.

Truworths indicated that, excluding retail sales recorded by the Office group, retail sales, cash and credit sales were flat compared to the 15% growth in retail sales in the comparative period. Comparable sales declined by 3%, while product inflation averaged 15.5%. The PSG Wealth research team estimates that comparable sales volumes declined by 18.5%. Non-comparable sales, which includes the Office group, were up 21%. The market reacted favourably to their sales update and their share price rose by 1.6% on the day.

Its peer, Woolworths also released its 26-week trading update which stated that sales were up 6.7%. Woolworths Clothing and General Merchandise (GM) sales increased by 3.5% (1.2% comparable) with inflation of 7.3%. Estimated comparable clothing and GM sales declined by 6.1%. Woolworths Food sales increased by 9.5% (5.6% comparable) with inflation of 9.2%. Estimated comparable food sales declined by 3.6%. In AUD terms, David Jones sales were up 4%, while Country Road sales were down 0.9%. Woolworths share price ended 1.2% higher.

On Monday, 16 January, Massmart released their sales updated for the 52-week period. Massmart's sales were up 7.7% (5.4% comparable) with inflation of 6.7%. The estimated comparable sales volumes of Massmart was however down 1.3% in this period. The share price of Massmart closed 3.7% higher after its 52-week sales update.

### Sales updates from three retailers

**TRUWORTHS**

Sales for 26-weeks up

**21%**

**W**  
WOOLWORTHS  
THE DIFFERENCE

Sales for 26-weeks up

**6.7%**

**Massmart**

Sales for 52-weeks up

**7.7%**

\*All percentages represent non-comparable sales

Source: Trade updates from Truworths, Woolworths and Massmart

## Previous publications

### Daily

18 January 2017



### Weekly



11 Jan	14 Sep	15 Jun	30 Mar
14 Dec	07 Sep	08 Jun	23 Mar
07 Dec	31 Aug	01 Jun	16 Mar
30 Nov	17 Aug	25 May	09 Mar
16 Nov	10 Aug	18 May	01 Mar
09 Nov	02 Aug	11 May	23 Feb
02 Nov	27 Jul	04 May	11 Dec
26 Oct	13 Jul	26 Apr	20 Nov
12 Oct	06 Jul	20 Apr	16 Nov
05 Oct	29 Jun	12 Apr	
28 Sep	22 Jun	05 Apr	

### Monthly



Nov 2016	Dec 2015
Oct 2016	Nov 2015
Sep 2016	Oct 2015
Aug 2016	Sep 2015
Jul 2016	Aug 2015
Jun 2016	Jul 2015
May 2016	Jun 2015
Apr 2016	May 2015
Mar 2016	
Feb 2016	

### Quarterly



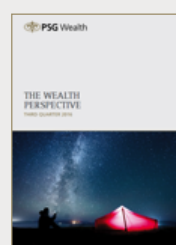
Spring 2016
Winter 2016
Autumn 2016
Summer 2015
Spring 2015

### Special Reports



- Fed hike inevitable?
- S&P 2 Dec review
- US election
- Market PE's
- Domestic local government elections
- Brexit vote
- Cash vs Long-term instruments
- S&P June 2016 rating decision explained
- Fed Dec 2015 interest rate hike
- Impact of political moves on investments
- FoF fees small compared to actual gains
- SARB hikes rates
- Weak PMI support foreign diversification

### Wealth Perspective



Dec 2016
Sep 2016
Jul 2016
Apr 2016
Jan 2016
Oct 2015
Jul 2015

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