

US rates have long reach  
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Foschini Group acquisition  
drives growth - pg. 3

### Market moves

Performance: 24/05/2016 to 30/05/2016	Return (Cumulative)
<b>Local Markets</b>	
All Share TR ZAR	3.51
Ind/Financials TR ZAR	3.04
Ind/Industrials TR ZAR	8.22
Financials&Indl 30 TR ZAR	4.07
Ind/Basic Materials TR ZAR	3.02
Gold Mining TR ZAR	-7.23
SA Listed Property TR ZAR	0.16
Beassa ALBI TR ZAR	-0.23
<b>Commodities</b>	
Oil Price Brent Crude PR	2.92
LBMA Platinum AM PR USD	-2.36
Gold London AM Fixing PR USD	-2.33

### The week ahead

#### Domestic

**3** Standard Bank PMI

**7** Foreign exchange reserves

#### International

**2** EA: ECB Interest rate decision

**3** US: Nonfarm payrolls

### Macro

#### ZA

Private sector credit in South Africa increased by 7.06% YoY in April, down from a downwardly revised 8.84% growth in March, central bank data showed. It was the weakest increase since December 2013 and below market expectations of an 8.9% rise.

#### US

The US economy expanded by an annualised 0.8% during the first three months of 2016. Better than the 0.5% increase initially estimated. Consumption continued to boost growth, spending on home building increased more than expected and the drag from net trade and inventories was smaller.

#### EU

Consumer prices in the Eurozone are expected to fall 0.1% YoY in May, following a 0.2% drop in April and in line with market expectations. Consumer prices failed to grow for the fourth straight month, preliminary figures showed. The inflation has been running well below the ECB's target of just under 2% for the past three years.

### Markets

#### Best performer

For the week was Balwin Properties with a return of 13%. Followed by Tencor and Ascendis Health both with a 12% return for the week.

#### Worst performer

PPC was the worst performer for the week with a loss of 23%. Followed by Mpac with an 18% drop for the same period.

### Sectors

The best performing sector was media, which includes companies like Naspers, with a return of 7.5% for this sector for the week. Industrial metals with companies like Kumba Iron Ore, was the worst performing sector for the week with a 9.1% loss.

## Macro note

### US rates have long reach

The economic playing field changed fundamentally when the USA announced on Friday that its GDP growth rate increased by 0.8% for the first quarter of this year. In the past two quarters the GDP of the US stabilised on 2% YoY.

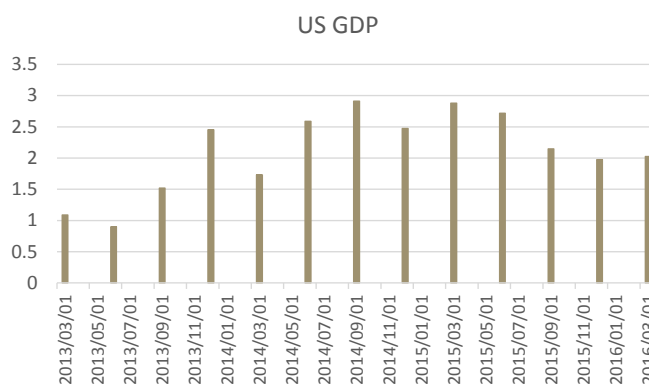
Moving into the summer months could set the stage for further improvements to their economic growth.

The hurdles the US needs to cross before their interest rates can start to normalise are:

1. Unemployment: This has been climbing steadily in the past few months.
2. Deflation: It might be averted, but their inflation is still too low, working against the necessity of inflation rate hikes.
3. Sustainable economic growth: Also too slow and working against hiking interest rates. The question remains – will the rate at which economic growth and inflation rises increase?

Commodity prices have declined for the past year, which combined with a strong dollar led to negative PPI figures. Currently it seems as if commodity prices have stabilised on this low level, while the consumer price index (CPI) recorded 1.1% and the producer price index (PPI) a negative 0.1%.

Given the steady growth in the US economy, the PSG Wealth investment division believes that the Federal Reserve will hike interest rates twice this year – once in June/July and another in November.



Source: PSG Wealth investment division; I-Net Bridge

## Bottom line

Normalisation of their interest rates is not just good news for the world as a whole, but especially for Europe, China and Japan. Although the normalisation of long-term interest rates in the US could be painful, it's still positive for South Africa. Huge inflows will at first be visible in short-term instruments in developed and emerging markets. After which more inflows will be witnessed in long-term emerging market instruments. Investors need to be aware that higher US interest rates could lead to:

1. A weaker rand with high volatility until inflows increase in emerging market long-term instruments.
2. Inflows could spill over to local equities that have been bought in USD terms.
3. Better prospects for commodity companies.

Guard against the following:

- Underweight commodity equities for too long
- Underweight long-term instruments for too long
- Overweight physical gold

## Market note

### Foschini Group acquisition drives growth

With a retail sector beset with slow consumer demand and higher interest rates, fashion retailer The Foschini Group posted an impressive year-end profit.

Defying the gloomy economic backdrop, this group grew its turnover by 31.2% to R21.1 billion for the year ending March 2016. This was mainly due to the contribution from its UK subsidiary, Phase Eight. Excluding Phase-Eight, the groups' turnover rose by 11.6%.

The mid-cap company's cash sales rose 18.4% (including Phase eight it rose 59.8%), which now makes up 48.3% of its turnover.

Their credit sales was slightly lower in the second half,

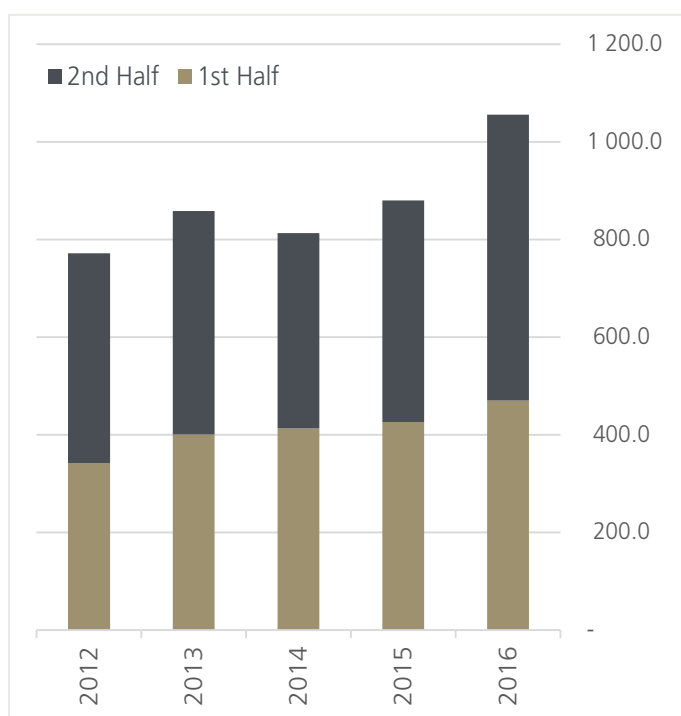
but full year growth was still 'pleasing' at 5.9%, up from 4.3% in the previous year.

According to their annual report, headline earnings per share (HEPS) from continuing operations, the main profit measure, rose 17.6% to 1,055.8c in line with its recent trading guidance.

Over this period The Foschini Group opened 209 stores in South Africa and the rest of Africa, while 27 stores were closed.

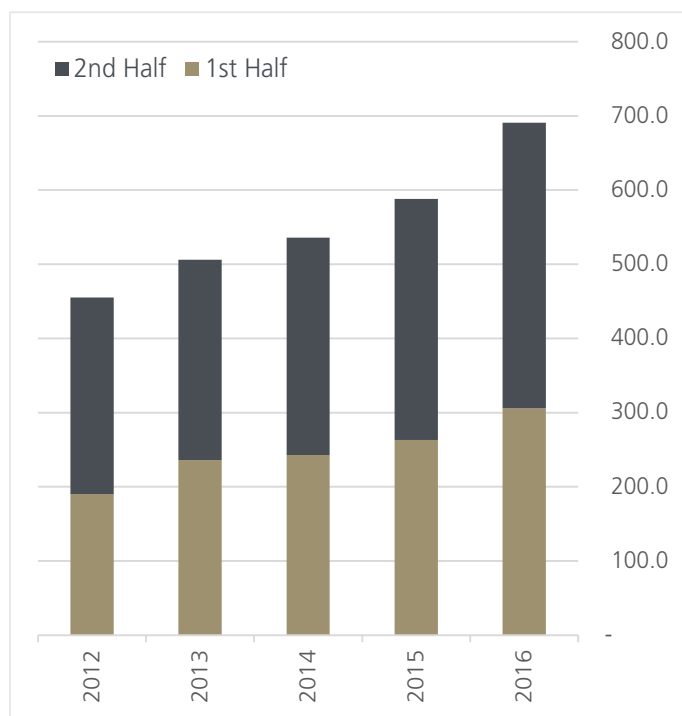
The final dividend increased by 18.5% to 385c per share.

### Headline earnings per share



Source: PSG Wealth investment division

### Dividend per share declared



Source: PSG Wealth investment division

## Previous publications

### Daily



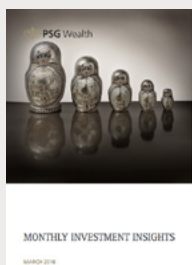
Published on a daily basis

### Weekly



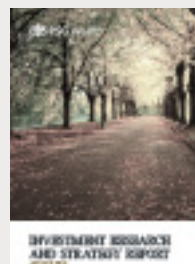
25 May	16 March
18 May	9 March
11 May	1 March
4 May	23 Feb
26 April	11 Dec
20 April	20 Nov
12 April	16 Nov
5 April	
23 March	

### Monthly



May 2016	July 2015
April 2016	June 2015
March 2016	May 2015
Feb 2016	
Dec 2015	
Nov 2015	
Oct 2015	
Sept 2015	
Aug 2015	

### Quarterly



Autumn 2016
Summer 2015
Spring 2015

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