Weekly Investment Update

06 July 2016

S&P cuts EU rating after Brexit - pg. 2

Famous Brands gets tomato paste plant - pg. 3

Market moves

Performace: 28/06/2016 to 04/07/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	4.74
Ind/Financials TR ZAR	4.52
Ind/Industrials TR ZAR	4.14
Financials&Indl 30 TR ZAR	3.48
Ind/Basic Materials TR ZAR	8.49
Gold Mining TR ZAR	8.50
SA Listed Property TR ZAR	6.43
Beassa ALBI TR ZAR	2.87
Commodities	
Oil Price Brent Crude PR	6.23
LBMA Platinum AM PR USD	6.46
Gold London AM Fixing PR USD	1.82

The week ahead

Domestic

7 Foreign exchange reserves

12 Manufacturing production

International

7 EA: ECB monetary policy meeting

13 China: Balance of trade

Macro

ZA

South Africa posted a higher-than-expected trade surplus of R18.7bn in May from a downwardly revised deficit of R0.12bn in the previous month. Exports rose 14%, as sales in precious metals and stones surged, while imports fell by 6.6% due to lower purchases of animal and vegetable products.

UK

The Markit/CIPS UK Construction PMI dropped to 46 in June 2016 from 51.2 in May and below market expectations of 50.5. The reading points to the first contraction in construction activity since the beginning of 2013 and the sharpest since June 2009.

US

The final Markit Manufacturing PMI for the United States came in at 51.3 in June 2016, slightly below a preliminary reading of 51.4, but above 50.7 in May. Production increased and new business grew the most since March while payroll numbers expanded moderately and stocks of purchases fell further.

Markets*

Best performer

For the week was Royal Bafokeng Platinum with a return of 25%. Kumba Iron Ore was second with a 22% return for the week.

Worst performer

CAPCO was the worst performer for a second consecutive week with a loss of 10%. Followed by Trustco Group Holdings with an 8% drop for the same period.

Sectors

The best performing sector was industrial metals, which includes companies like Arcmittal, with a return of 22.3% for this sector for the week. The automobiles-and-parts sector represented by Metair was the worst performing sector for the week with a 4.2% loss.

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

PSG Wealth

Macro note

S&P cuts EU rating after Brexit

S&P Global Ratings is the first major ratings agency to cut the European Union's (EU) rating. S&P cut the EU's long-term credit rating to 'AA' from 'AA+'. Moody's maintained its 'AAA' rating last week.

The ratings agency did, however, raise its outlook on the EU to "stable" from "negative" after the UK voted to leave the bloc.

"The stable outlook reflects our opinion that the rounded average GDP-weighted rating on the EU's budgetary contributors will stabilise at current levels of 'AA' for the next two years under most possible scenarios, including a UK departure from the EU. This is the case even if the ratings on the two net contributing sovereigns with negative outlooks were both lowered [France (AA/Negative/A-1+) and Finland (AA+/Negative/A-1+)]," S&P stated.

The UK voted to leave the European Union last week, plunging global markets into turmoil.

S&P said the UK's exit from the EU would complicate budgetary and policy priorities among the remaining 27 members, which could weaken the bloc's fiscal stability. The rating agency said its stable outlook reflected its view that no other member states would leave the EU.

S&P rating on EU

	From	To
Issuer Credit Rating	AA+/Negative/A-1+	AA/Stable/A-1+
Senior Unsecured	AA+	AA
Short-Term Debt	A-1+	A-1+

Source: S&P Global Ratings 30 June 2016

Bottom line

South Africa is not the only country struggling to improve its economic growth. Borrowing more means saving less, and saving less will mean investing less. No economy can continue to grow without additional investments in its production factors (capital and labour) and will eventually end up with a higher risk premium.

Building personal wealth depends on exactly the same principles. Spending less and saving more will increase one's investment base, and investors with a large investment base will be able to maintain a lower risk profile. They are less dependent on high risk/high return investments and more comfortable with the lower returns from current markets.

PSG Wealth

Market note

Famous Brands gets tomato paste plant

Famous Brands, home to restaurants such as Steers, Wimpy and Mugg&Bean, is improving their manufacturing capability through the acquisition of a tomato paste manufacturing plant.

In a statement issued on Monday the company said it bought the manufacturing plant, Cape Concentrate, situated in the Coega precinct in the Eastern Cape for an undisclosed amount. This acquisition follows a purchase of a chips factory, Lamberts Bay Foods, as part of the group's drive to secure its supply chain by owning makers of key ingredients.

Former CEO and current group strategic advisor on M&A, Kevin Hedderwick says the deal will enhance Famous Brands' ability to manufacture licensed products for its franchise network as well as provide security for a significant menu item and manufacturing ingredient.

"We also plan to expand the customer base for this product beyond our own internal customers, capitalising on the shortage of tomato paste which exists in the South African market."

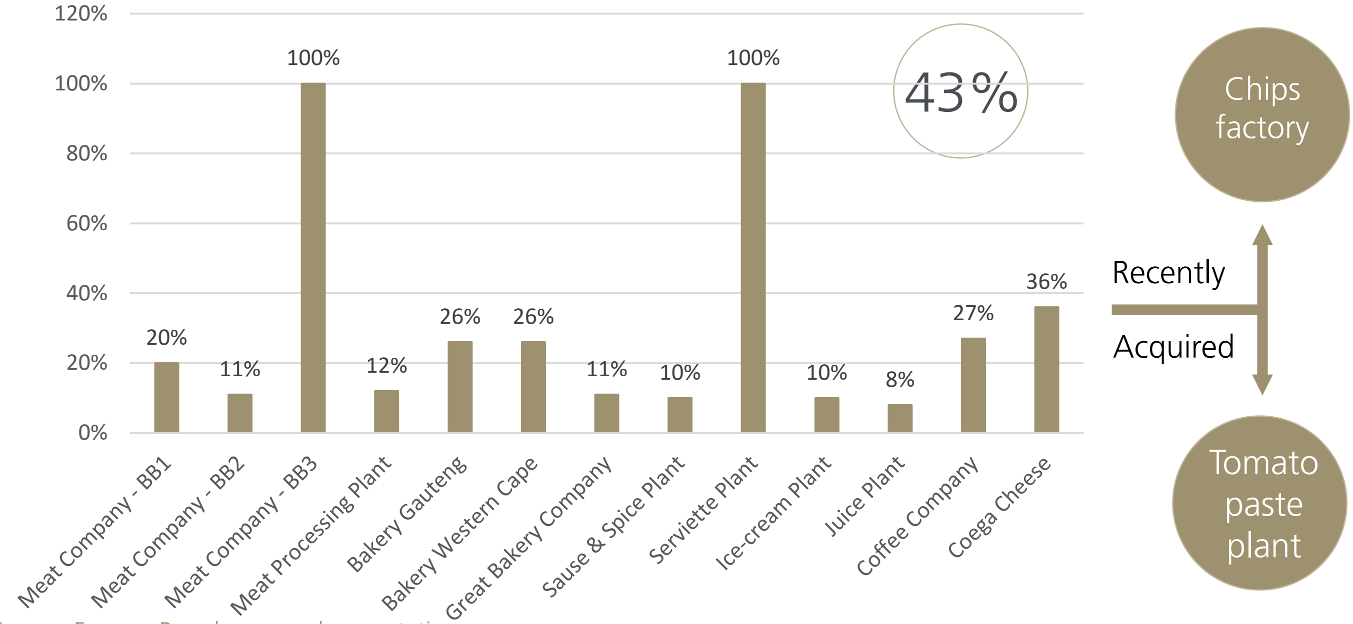
Hedderwick notes "the local industry is unable to supply growing demand for the product, and some 30-35 000 tons of tomato paste are imported by South Africa annually to meet the shortfall".

The group intends supporting local farmers by modelling its latest acquisition on the Coega Cheese Company, which became a "very successful empowerment venture" called Famous Brands Fine Cheese Company (FBFCC).

"In 2013 we established FBFCC as a green-field venture, in which we co-opted local farmers to supply milk for the production of mozzarella, cheese slices and cream cheese for the group," Hedderwick said.

Famous Brands reported record revenue in the year to February, noting that income gained 31% to R4.3 billion, which was partially thanks to the integration of new businesses in the logistics and manufacturing operations. Operating profit rose 18% to R792 million, and it invested R202 million, some of which went into expanding its supply chain.

Manufacturing revenue growth



Source: Famous Brands year end presentation

Previous publications

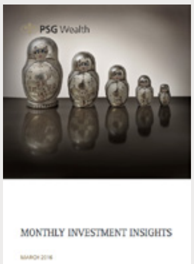
Daily

Published on a daily basis

Weekly

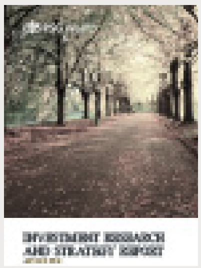
29 June
22 June
15 June
8 June
1 June
25 May
18 May
11 May
4 May
26 April
20 April
12 April
5 April
23 March
16 March
9 March
1 March
23 Feb
11 Dec
20 Nov
16 Nov

Monthly



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

Quarterly



Autumn 2016
Summer 2015
Spring 2015