Weekly Investment Update

7 September 2016

PSG Wealth

Inflation may return to target band earlier than expected - pg. 2

Offshore listed property knocking on JSE's door - pg. 3

Market moves

Performace: 27/08/2016 to 02/09/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	0.06
Ind/Financials TR ZAR	-0.93
Ind/Industrials TR ZAR	0.89
Financials&Indl 30 TR ZAR	1.45
Ind/Basic Materials TR ZAR	-2.50
Gold Mining TR ZAR	-6.52
SA Listed Property TR ZAR	-2.97
Beassa ALBI TR ZAR	0.23
Commodities	
Oil Price Brent Crude PR	-6.19
LBMA Platinum AM PR USD	-3.51
Gold London AM Fixing PR USD	-1.01

The week ahead

Domestic

08 Sep — Mining production

13 Sep — Current account

International

08 Sep — Japan: GDP growth rate

12 Sep — UK: Consumer inflation expectations

Macro

ZA

The seasonally adjusted Barclays PMI for South Africa stood at 46.3 in August, falling from 52.5 in the previous month. It is the lowest reading since January, driven by a steep fall in the new sales orders and a second straight monthly decline in business activity.

UK

The Markit/CIPS UK Services PMI rose to 52.9 in August from 47.4 in July, beating market expectations of 50. Output and new business recovered, job creation resumed and input prices rose the most since November of 2013. In addition, expectations improved from July's 89-month low.

China

The Caixin China Services PMI rose to 52.1 in August from 51.7 in July as business expectations rose the most in six months, employment stabilised and new orders grew at a slower pace. At the same time, firms saw a marginal rate of cost inflation that was the slowest since January 2015.

Markets*

Best performer

Raubex returned 12%, and Implats was second with an 8% return for the week.

Worst performer

MR Price was the worst performer for the week with a loss of 26%. Followed by metals company, Assore with a 13% drop for the same period.

Sectors

The best performing sector for the week was media, with a return of 3.6%. The sector representing general retailers companies like MR Price was the worst performing sector for the week with a 7.9% loss.

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

Macro note

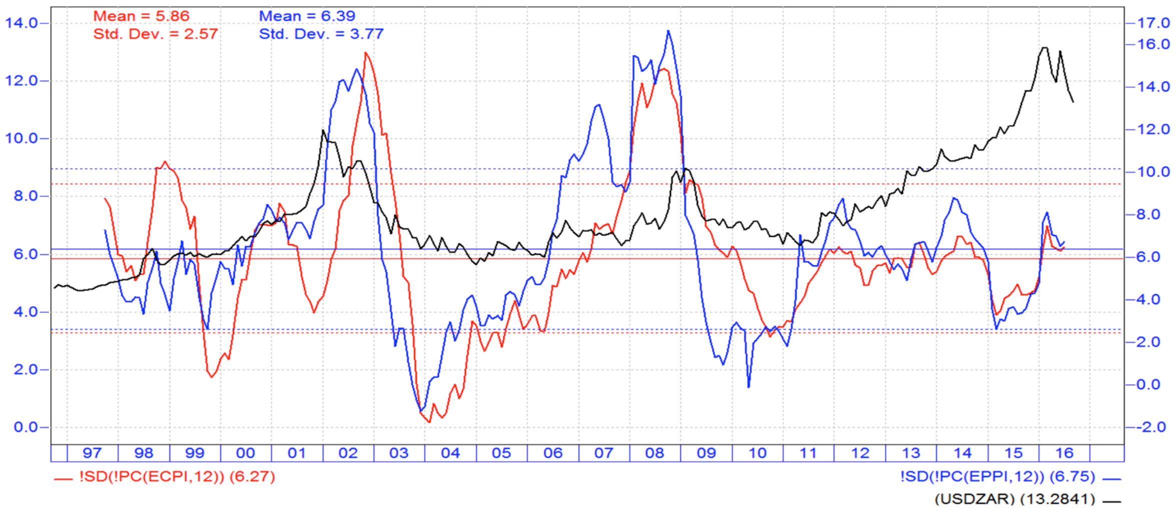
Inflation may return to target band earlier than expected

The drop in fuel price in early September 2016 and the improved inflation outlook due to the rand strengthening since the beginning of 2016 could help steady interest rates.

Market commentators believe the rand's rally up to early August could be an important factor in inflation returning to the 3% to 6% target band earlier than the South African Reserve Bank (SARB) expects. The SARB expects inflation, which has been outside the band since January, to return to within the target only in late 2017. A stronger rand, coupled with a lower oil price if sustained, means the inflation outlook was likely to improve faster than the SARB assumed in its July Monetary Policy Committee statement. The SARB expected inflation to average 6.6% in 2016 and 6% in 2017. This is a moderate improvement from earlier estimates of 6.7% and 6.2%. On 24 August 2016 data showed that annual headline consumer inflation declines to 6.0% in July from 6.3% in June.

Analysts expect that inflation could return to the 3% to 6% target range by the first quarter of 2017. Graph one shows that inflation tends to be cyclical due to the weakness of the rand. One can see that consumer and producer inflation spiked in 2002 and 2008 – mainly due to imported inflation. However, the negative effect of the weak rand on inflation since 2012 was neutralised by the severe drop in commodity prices. Despite the cyclical nature of the consumer price index (CPI) and producer price index (PPI) figures, the 10 and 20 year average mean has stayed consequent at around 6%.

Graph 1: CPI and PPI levels over the past 20 years



Source: PSG Wealth Investment Division

Bottom line

Interest rate and inflation rate numbers are some of the most fundamental macro-economic indicators which impact the outlook for economic growth, future interest rates, and in turn, markets. These macro variables have become increasingly important factors in the portfolio construction process, as monetary policy has dominated the macro environment in recent times. Accurate assessment of the direction of these factors are critical, and therefore the value that professional managers can add in this regard has certainly increased.

Market note

Offshore listed property knocking on JSE's door

The appetite of South African investors for hard currency earnings will be satisfied even further with two more offshore property companies planning to list on our local bourse. They include the Polish-focused company Echo Polska Properties (EPP) and Hammerson, which owns shopping malls and retail parks mainly in the United Kingdom (UK) and the rest of Western Europe.

EPP and Hammeson join another Eastern Europe-focused company, the Global Trade Centre (GTC) Group, which listed on the JSE on 18 August 2016. The GTC Group owns a €1.3 billion property portfolio of shopping malls and office properties in Poland and other South-East European countries.

EPP, which is 49.9% held by sector heavyweight Redefine Properties, is planning to list in September. The secondary listing of EPP on the JSE's main board will coincide with its primary listing on the Luxembourg Stock Exchange. With this listing, EPP wants to provide shareholders with access to Poland through its €1.2 billion portfolio of mainly retail properties.

The inward listings of GTC and EPP will give investors greater exposure to Central and Eastern Europe (CEE). These have lately been the regions of choice for offshore diversification among our locally listed property companies.

Hammerson, a British retail property group, will join its UK-focused counters Capco and Intu in the blue-chip listed property stocks on the JSE. Once listed, Hammerson would be the largest property stock on the JSE with a market cap of R77 billion, at the time of writing this article.

A decade ago South Africa's listed property sector had no offshore exposure. At the end of June 2016 offshore exposure in the locally listed property sector stood at just under 50%.

Number of properties across Europe

Echo Polska Properties (EPP)
10 retail buildings
8 office buildings

GTC Group
Bulgaria – 2
Croatia – 3
Czech Republic – 5
Hungary – 6
Poland – 28
Romania – 9
Serbia – 7
Slovakia – 1

Hammerson
UK – 32
Ireland – 1
France – 12
Netherlands – 1
Belgium – 1
Germany – 2
Czech Republic – 1
Switzerland – 1
Italy – 1
Spain – 3
Portugal – 1
Sweden – 1

Source: PSG Wealth Investment Division based on data from the latest financial results of EPP, GTC and Hammerson.

PSG Wealth

Previous publications

Daily

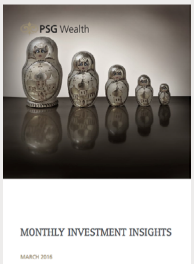
Published on
a daily basis

07 Sep 2016

Weekly

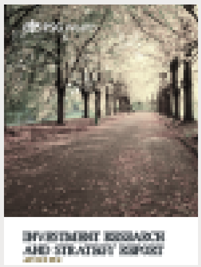
31 Aug
17 Aug
10 Aug
02 Aug
27 Jul
13 Jul
06 Jul
29 Jun
22 Jun
15 Jun
08 Jun
01 Jun
25 May
18 May
11 May
04 May
26 Apr
20 Apr
12 Apr
05 Apr
30 Mar
23 Mar
16 Mar
09 Mar
01 Mar
23 Feb
11 Dec
20 Nov
16 Nov

Monthly



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

Quarterly



Winter 2016
Autumn 2016
Summer 2015
Spring 2015