

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

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

### Market moves

Performance: 27/08/2016 to 02/09/2016	Return (Cumulative)
<b>Local Markets</b>	
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
<b>Commodities</b>	
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

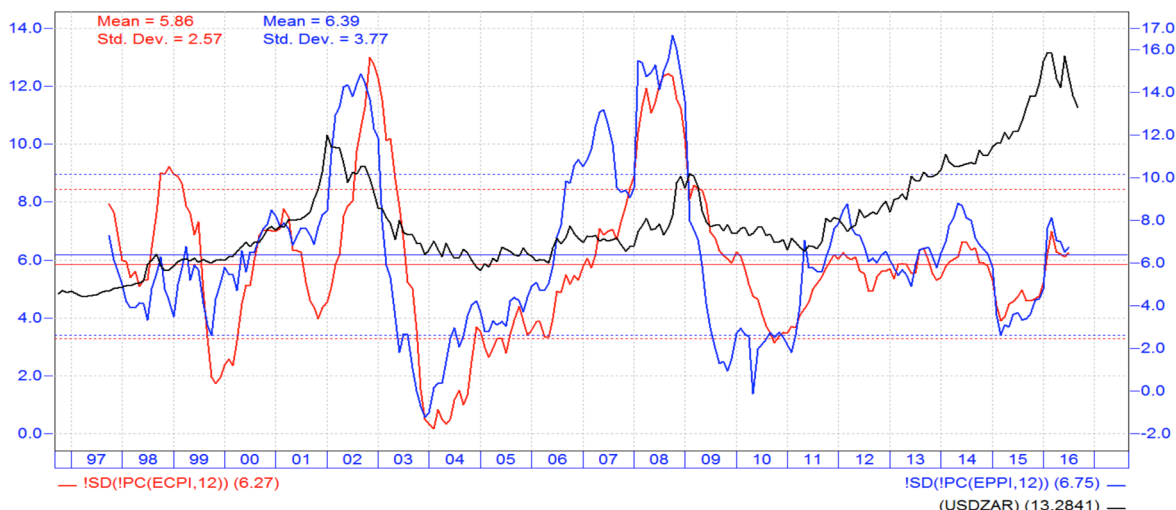
The drop in fuel price in early September 2016 and the improved inflation outlook due to the rand strengthening since the beginning of 2016 could help steady interest rates.

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 Hammerson 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  
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.

## Previous publications

### Daily

Published on a daily basis

07 Sep 2016



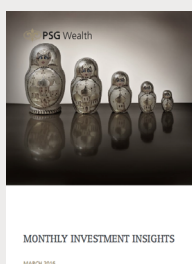
### Weekly

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



### Monthly

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



### Quarterly

Winter 2016
Autumn 2016
Summer 2015
Spring 2015



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