Weekly Investment Update

10 August 2016

PSG Wealth

BoE cuts bank rate to record low - pg. 2

Nedbank financials show improvements on credit loss ratios - pg. 3

Market moves

Performace: 02/08/2016 to 08/08/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	-1.02
Ind/Financials TR ZAR	-0.27
Ind/Industrials TR ZAR	-0.20
Financials&Indl 30 TR ZAR	-1.93
Ind/Basic Materials TR ZAR	1.57
Gold Mining TR ZAR	-1.66
SA Listed Property TR ZAR	-2.05
Beassa ALBI TR ZAR	1.02
Commodities	
Oil Price Brent Crude PR	7.71
LBMA Platinum AM PR USD	-0.61
Gold London AM Fixing PR USD	-1.40

The week ahead

Domestic

11 Gold production

16 Retail sales

International

12 EA: GDP growth rate

15 Japan: GDP growth rate

Macro

ZA

Foreign exchange reserves in South Africa came in at USD 46,15 million in July from USD 46,36 million in June. The small decline was mainly due to foreign payments made on behalf of the government, foreign exchange swaps conducted for liquidity management purposes and currency valuations.

Germany

German industrial orders unexpectedly fell 0.4% MoM in June. This followed a 0.1% rise in May and missing market consensus of a 0.6% gain. Foreign orders dropped 1.2%, with those from the euro area declining 8.5%, while domestic demand increased by 0.7%.

China

China reported a USD 52.31 billion trade surplus in July, compared to a USD 41.87 billion surplus a year earlier. It was the largest trade surplus since January as exports fell 4.4% YoY, while imports shrank by 12.5%.

Markets*

Best performer

For the week was Pallinghurst Resources with a return of 14%. Afrimat was second with a 10% return for the week.

Worst performer

Trustco Group Holdings was the worst performer for the week with a loss of 12%. Followed by Niveus Investments with a 9% drop for the same period.

Sectors

The best performing sector for the week was industrial metals, with a return of 5% for the week. The sector representing mobile telecommunication companies like MTN was the worst performing sector for the week with a 6.4% loss.

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

Macro note

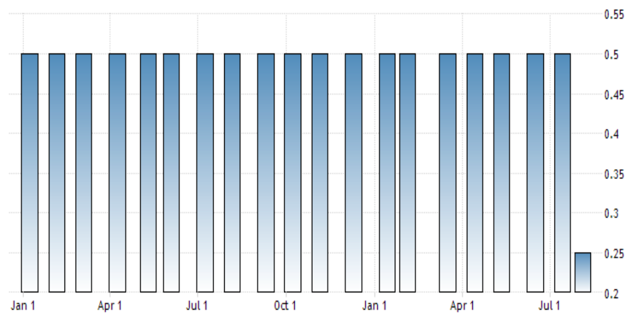
BoE cuts bank rate to record low

The Bank of England (BoE) launched a huge new stimulus package in order to mitigate the damage the Brexit vote would have on the UK economy. The package includes: a 25 basis point cut in the bank rate to 0.25%; a new Term Funding Scheme to reinforce the pass-through of the cut in the bank rate; the purchase of up to £10 billion of UK corporate bonds; and an expansion of the asset purchase scheme for UK government bonds of £60 billion to £435 billion.

The cut to the bank rate from 0.5% to 0.25% is the first rate cut by the BoE in seven years. According to the Monetary Policy Committee the cut was approved to provide additional support to growth and to achieve a sustainable return of inflation to the target.

The cut to the bank rate will lower borrowing costs for households and businesses. However, as interest rates are close to zero, it is likely to be difficult for some banks and building societies to reduce deposit rates much further, which in turn might limit their ability to cut their lending rates. In order to mitigate this, the MPC will launch a Term Funding Scheme (TFS) that will provide funding for banks at interest rates close to the bank rate. This new monetary policy action should help reinforce the transmission of the reduced bank rate to the real economy so households and firms could benefit from the MPC's decision.

UK interest rate



Source: Trading Economics

Bottom line

The stimulus measures announced by the BoE sent a strong signal that they are prepared to aggressively combat weaker growth and improve sentiment and economic activity. These measures should likely improve economic conditions in the UK amid the new realities it faces post Brexit. It could probably also assist the UK to avoid a technical recession. Worst case scenario - these measures don't work and the UK economy continues to weaken. This will put the BoE under further pressure to act, although monetary policy is clearly approaching its limits.

Country or region specific risks are key reasons why investors should diversify their portfolios. Investors can mitigate these risks effectively by using well diversified portfolios with broad offshore exposure, such as the PSG Wealth Solutions. Risks are further dulled when one considers using investment products over their appropriate investment horizons.

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Market note

Nedbank financials show improvements on credit loss ratios

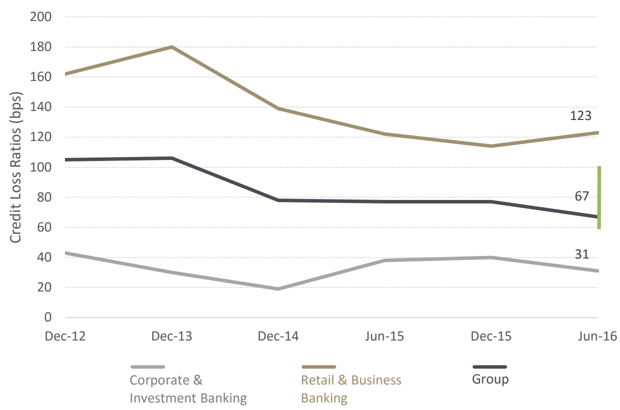
The credit loss ratio (CLR) for Nedbank remains within the through-cycle target range despite tough macro-economic conditions. The lender's improved credit costs were reflected in its results for the first half of 2016, announced last week.

Nedbank also reported a 2% increase in diluted headline earnings per share (HEPS). The earnings were weighed down by losses in the group's African associate, Ecobank Transactional Incorporated (ETI), which has since returned to profitability. Excluding this, the group's managed franchises delivered a strong performance with diluted HEPS up 20%.

Another positive for the lender was their improvement credit costs, reflected in a lower CLR of 0.67% (Jun 15: 0.77%). The corporate book, making up the largest part of Nedbank's lending portfolio, was the main driver of this improvement with some positive momentum highlighted in destressed sectors such as oil and gas, as well as mining. This was compounded by the industry trend of faster growth in corporate advances, which traditionally have lower impairment charges, resulting in a more favourable asset mix from a credit perspective. In retail and business banking the CLR remained unchanged as a better performance in unsecured loans was offset by higher impairments in secured lending. The CLR guidance for the 2016 financial year has also improved from what was communicated in the group's 2015 results. The group now expects its CLR to be in the lower-end of their 'through-the-cycle' target range of 60bps to 100bps.

This was not the case for its peer, Barclays Group Africa, which reported a higher CLR of 1.29% (Jun 15: 0.97%). The deterioration was experienced across the group's clusters with the most significant increase seen in the corporate business, although this makes up a smaller portion of the group's lending base. The company expects its full year CLR to be below that reported in the first six months but remain above its 'through-the-cycle' levels. Notwithstanding the higher credit charges, Barclays still reported a decent set of results with a 7% increase in diluted HEPS on the back of strong pre-provisioning profit growth.

Nedbank credit loss ratios



Source: Nedbank, PSG Wealth Investment Division

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Previous publications

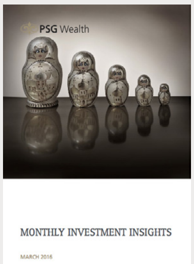
Daily

Published on a daily basis

Weekly

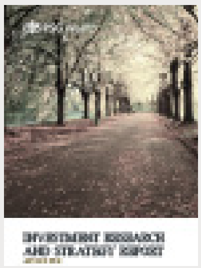
2 Aug	25 May	16 March
27 July	18 May	9 March
13 July	11 May	1 March
6 July	4 May	23 Feb
29 June	26 April	11 Dec
22 June	20 April	20 Nov
15 June	12 April	16 Nov
8 June	5 April	
1 June	23 March	

Monthly



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

Quarterly



Winter 2016
Autumn 2016
Summer 2015
Spring 2015

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