

Moody's confirms SA's sovereign rating at Baa2  
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Old Mutual business units experience growth in Q1 2016  
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## Market moves

Performance: 03/05/2016 to 09/05/2016	Return (Cumulative)
<b>Local Markets</b>	
All Share TR ZAR	-8.53
Ind/Financials TR ZAR	-10.03
Ind/Industrials TR ZAR	-9.81
Financials&Indl 30 TR ZAR	-6.77
Ind/Basic Materials TR ZAR	-14.34
Gold Mining TR ZAR	-7.25
SA Listed Property TR ZAR	-8.57
Beassa ALBI TR ZAR	-6.52
<b>Commodities</b>	
Oil Price Brent Crude PR	-4.80
LBMA Platinum AM PR USD	0.94
Gold London AM Fixing PR USD	0.26

## The week ahead

### Domestic

**12** Mining Production

**12** Gold Production

### International

**11** US: 10-Year Note Auction

**12** EA: Industrial Production

## Macro

### ZA

The unemployment rate in South Africa increased to 26.7% in the three months to March, from 24.5% in the previous quarter and above market expectations of 25.3%. It was the highest reading since September 2005.

### China

Imports to China dropped by 10.9% YoY to \$127.20 billion in April, while markets expected a 5.0% decline. It is the 18th straight month of contraction, as a result of declining commodity prices and weak demand. From January to April 2016, imports dropped by 12.8%.

### Germany

Factory orders in Germany rose 1.9% MoM in March, following a downwardly revised 0.8% drop in February and beating market consensus. It is the fastest growth since June 2015, driven by strong foreign orders (+4.3%).

## Markets

### Best performer

For the week was AngloGold Ashanti with an 8% return. Followed by Pan African Resources and Schroder European Real Estate Investment Trust, both with a 7% return for the week.

### Worst performer

Exxaro Mining was the worst performer with a loss of 14% for the week. Followed by Anglo American with a 13% drop for the same period.

## Sectors

The best performing sector was beverages, which includes companies like SAB, with a return of 4% for this sector for the week. This return was mainly due to a weaker rand. Industrial metals, with companies like ArcelorMittal, was the worst performing sector for the week with a 12.2% loss.

## Macro note

### Moody's confirms SA's sovereign rating at Baa2

Over the weekend Moody's Investors Service confirmed the negative outlook to South Africa's Baa2 long-term government bond and issuer ratings.

"Although the negative outlook on the credit rating was left unchanged, the country is likely approaching a turning point after several years of falling growth; that the 2016/17 budget and medium term fiscal plan will likely stabilise and eventually reduce the general government debt metrics; and that recent political developments, while disruptive, testify to the underlying strength of South Africa's institutions," Moody's said in a statement.

The negative outlook spoke to the implementation

risks associated with the structural and legislative reforms that the government, business, and labour recently agreed to restore confidence and encourage private sector investment, upon which Moody's expectations for growth and fiscal consolidation in coming years - and hence the Baa2 rating - relied. The decision by Moody's to leave South Africa's sovereign credit rating unchanged is a surprise given that the rating is currently one notch above both Fitch (stable outlook) and S&P (negative outlook). Importantly, Moody's made no changes to South Africa's local or foreign currency country ceilings, which remain at A1 for local currency debt and deposits, A2 for foreign currency debt and Baa2 for foreign currency bank deposits.

Baa explained – A credit rating used by Moody's credit agency for long-term bonds and some other investments. It is subdivided (in descending order) into Baa1, Baa2, and Baa3. A Baa rating is equivalent to the BBB rating range used by Fitch and S&P. A Baa rating represents a relatively low-risk bond or investment; banks are allowed to invest in Baa rated bonds. However, Baa is toward the bottom of investment-grade bond ratings, being only one grade above 'junk' bond ratings. Risk-averse investors must therefore exercise caution in Baa investments, especially if the rating was recently downgraded.

Source: Farlex Financial Dictionary

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## Bottom line

The most important message from Moody's is that there is hope for an economic recovery and sovereign stability. This should help to improve business-, consumer- and investor confidence. Higher confidence levels could convince other ratings agencies to follow suit. The outlook for South Africa's credit rating will, however depend on government's success in enhancing medium term growth and in arresting the deterioration in the government's balance sheet. Moody's also indicated

that they would likely downgrade South Africa's rating if economic growth were to fail to revive, if government's debt position failed to improve, or if investor confidence were to decline by such an extent that external financing was insufficient to fund the current account deficit on an extended basis. Now investors need to stick to their guns (financial goals and plans) to cash in on this lifeline Moody's offered.

## Market note

### Old Mutual business units experience growth in Q1 2016

Old Mutual's share price dropped with 3.73% and closed 6.09% lower in London last week, underperforming its listed peers in the UK life sector by almost 3%. (FTSE Life Insurance Index -2.92%). The group recently announced that it would separate into four business units namely, Old Mutual Wealth, Old Mutual Emerging Markets, Old Mutual Asset management and Nedbank.

Sens updates on the financial and operating results of three of these business units, showed increases in net client cash flows for the first quarter of the year.

Net client cash flows for Old Mutual Asset Management (OMAM) was strong for the first quarter of 2016 at \$2.4bn. However, earnings fell by 10% as the company started the year from a lower asset base due to volatile market conditions and net client outflows during the course of 2015.

Peter Bain, CEO of OMAM, said their results demonstrate the strength and diversity of their multi-boutique franchise. "As our affiliates generated solid organic NCCF (net client cash flow) growth of \$2.4bn in a period marked by extreme volatility and challenging macroeconomic trends."

This latest update did not provide any further information on the 'managed separation' between OM and Old Mutual Emerging Markets. More clarity will be provided during the course of the year.

In a separate update, figures indicated that Nedbank, the majority-owned South African banking subsidiary of Old Mutual plc, showed modest growth in both its lending and non-lending activities. Management forecasts that earnings growth is expected to be below the medium term target of CPI + GDP + 5% this year and below the approximate growth of 9% seen in 2015.

Nedbank's corporate book, which makes up the majority of its lending assets, has a solid pipeline for growth, specifically in the renewable energy space. However, corporate defaults in these portfolios tend to be large and erratic. During 2015 Nedbank strengthened its provisioning due to the additional risks faced in the commodity sector, which they believe will offset some of the increases in the credit loss ratio in 2016.

In the latest update Old Mutual Wealth also showed good net client cash flows of GBP1.8bn. Paul Feeney, CEO of Old Mutual Wealth, said: "We have achieved strong net client cash flows notwithstanding the volatile market conditions. We have also seen strong pensions sales in Q1 2016 as we continue to benefit from the introduction of pension freedoms in the UK last year."

## Previous publications

### Daily



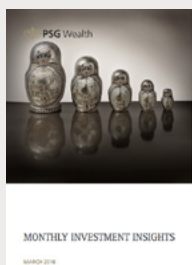
Published on a daily basis

### Weekly



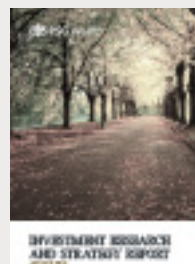
4 May	23 Feb
26 April	11 Dec
20 April	20 Nov
12 April	16 Nov
5 April	
23 March	
16 March	
9 March	
1 March	

### Monthly



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

### Quarterly



Autumn 2016
Summer 2015
Spring 2015

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