Weekly Investment Update

13 July 2016

PSG Wealth

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Market moves

Performace: 05/07/2016 to 11/07/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	-0.54
Ind/Financials TR ZAR	-0.30
Ind/Industrials TR ZAR	-0.61
Financials&Indl 30 TR ZAR	-1.28
Ind/Basic Materials TR ZAR	1.65
Gold Mining TR ZAR	7.57
SA Listed Property TR ZAR	0.11
Beassa ALBI TR ZAR	0.78
Commodities	
Oil Price Brent Crude PR	-7.68
LBMA Platinum AM PR USD	3.60
Gold London AM Fixing PR USD	0.70

The week ahead

Domestic

13 Retail sales

14 Mining production

International

14 UK: BoE Interest rate decision

15 China: GDP growth rate

Macro

China

The Chinese inflation rate is at a five-month low. Consumer prices went up 1.9% YoY in June, slowing from a 2% rise in May. Although inflation was slightly above market expectations of 1.8%, it remained well below government's 3% target for 2016.

UK

Their 10-year bond yield hit a new low this week. Yields dropped 3 basis points to 0.71% on Monday morning, touching a fresh record low, as concerns about Britain's economic resilience led investors to look for safe-haven assets such as gilts. Meanwhile, markets expect that the Bank of England will ease monetary policy this week

Japan

Producer prices decreased by 4.2% YoY in June, the same pace as in the previous two months and matching market forecasts. Export price index dropped by 4.4% from a year earlier while import price index was down by 12.9%.

Markets*

Best performer

For the week was Pan African Resources with a return of 12%. Harmony Gold was second with a 9% return for the week.

Worst performer

Brait SE, a holding company for amongst others Virgin Active, was the worst performer for the week with a loss of 13%. Followed by Tradehold with a 10% drop for the same period.

Sectors

The best performing sector for the second consecutive week was industrial metals, which includes companies like ArcelorMittal, with a return of 5.6% for this sector for the week. The sector representing food and drug retailers like Clicks was the worst performing sector for the week with a 4.2% loss.

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

Macro note

Risk-on trade boosts the rand

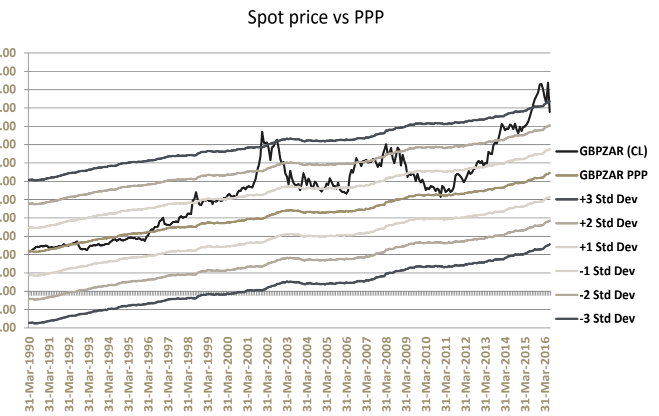
The effects after Brexit might not have been positive for most in the UK or Europe, but for once it benefitted our South African currency.

Exchange rates show that since the hammering the rand took in late 2015, 'risk-on' trade firmly came back into focus, especially during March and April this year. First when the US Federal Reserve did not normalise their interest rates as quickly as previously expected, and then again when Britons voted to exit the European Union (EU) in June.

The rand gained 17.4% against a weak pound in the first six months of 2016, after declining by 22% in 2015. During the same period the rand strengthened by 5.7% against the US dollar, after weakening by 25.4% in 2015. The rand rose modestly against the euro in 2016, gaining only 3.1%, after losing 17.2% in 2015.

Although the gains made in 2016 is impressive, it still does not mean that economic conditions in the country are improving. The local currency remains volatile due to global investor sentiment which impacts capital in and out flows in the country.

Purchasing Power Parity between ZAR and GBP



Source: S&P Global Ratings 30 June 2016

Bottom line

South African investors are spoiled with very attractive returns on their offshore investments, mostly due to the continuous weakening of the rand against currencies such as the dollar, pound and euro. Any asset, even a currency, can reach an extreme oversold or overbought position, and it does not take much to reverse this.

Compared to the fair value of about R13/GBP1 (as reflected in the Purchasing Power Parity of the two currencies), the rand weakened to very low levels at the end of 2015 – mainly due to a series of sovereign economic blunders. The reality, however, is that it is not a one-way bet that South-Africa will always be the diciest asset in an economic equation. The large sell-off in the GBP after the Brexit vote is only one example.

Greed is one of the biggest risks in investments, and investors should always guard against overexposure to any asset. The PSG Wealth Solutions are well-diversified, with an offshore exposure that is appropriate for its risk profile. Any additional offshore exposure should only be considered with special care.

Market note

Omnia results impacted by environment, but positive about future

A depressed mining sector has taken Omnia's full-year earnings down with it. The diversified chemical services provider reported revenue flat at R16.8 billion, while headline earnings per share (HEPS) slumped 29% to R10.33 in the year to March. Rod Humphris, MD of Omnia, told Business Day TV the impact of oversupply in the mining sector on their results was compounded by the agricultural sector which also experienced a tough year.

"There's been the worst drought in recorded history, 403mm of rain for the country as an average, which is about one-third down on the normal average rainfall. Nevertheless, I believe our agricultural team did very well, they managed to hold their sales volume."

In their annual results Omnia stated, however, they are positive about their domestic and international agriculture divisions. "(These divisions) are poised for a good performance with record high agriculture produce prices and the prospect of the drought receding, favouring a normal planting season this coming year."

The group also believes that gains made in establishing new fertilizer markets in the course of last year are likely to drive volume growth. "The international mining sector has gone through very difficult times since late 2014, but the prices for commodities appear to be stabilising for the moment and showing modest signs of recovery. Going forward, with the prospect of a better balance between demand and supply for most commodities, the price recovery in the near term is more likely and the business is well placed to respond to the improvement in market conditions."

Further the group adds that its balance sheet is very strong with a positive cash position. This has positioned the company to investigate a number of investment opportunities, of which a certain number are at an advanced stage of investigation and analysis.

Omnia financial features

Revenue remained flat at
R16.8bn

Profit after tax of
R702m
down 25%

Operating profit down 19% to
R1 189m

Headline earnings per share down 29% to
1 033 cents

Profit before tax of
R1 012m
down 24%

A-CREDIT RATING
affirmed by Global Credit Rating in July 2015 at A- (long-term) and A1- (short-term), with a positive ratings outlook

UNGEARED BALANCE SHEET
at year-end compares favourably with the 12% gearing recorded at FY2015

Cash generated from operations increased to
R2.3bn
up R1.3 billion year-on-year

Source: Omnia March 2016 year end presentation

PSG Wealth

Previous publications

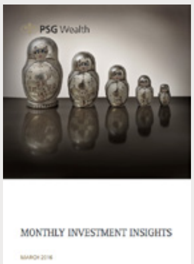
Daily

Published on a daily basis

Weekly

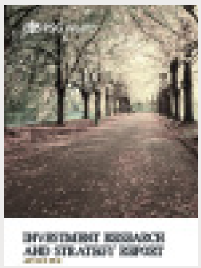
6 July
29 June
22 June
15 June
8 June
1 June
25 May
18 May
11 May
4 May
26 April
20 April
12 April
5 April
23 March
16 March
9 March
1 March
23 Feb
11 Dec
20 Nov
16 Nov

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