PSG Wealth

Weekly Investment Update

16 March 2016

Market moves

Performance: 08/03/2016 to 14/03/2016	Return*
Local Markets	
All Share TR ZAR	-0.26
Ind/Financials TR ZAR	-1.44
Ind/Industrials TR ZAR	0.23
Financials&Indl 30 TR ZAR	0.90
Ind/Basic Materials TR ZAR	-4.42
Gold Mining TR ZAR	-2.72
SA Listed Property TR ZAR	1.45
Beassa ALBI TR ZAR	1.05
Commodities	
Oil Price Brent Crude PR	-1.57
LBMA Platinum AM PR USD	-1.16
Gold London AM Fixing PR USD	0.81

The week ahead

Domestic

17 Interest Rate decision

21 Human Rights day

International

16 US Inflation Rate

17 UK BOE QE

Macro

ZA

The current account deficit widened to 5, 1% of GDP in the fourth quarter from a revised 4, 3 % (4, 1 % previously), this was higher than our forecast for a 4, 5 % deficit. The deterioration in the deficit was the result of a wider trade account deficit (R57 billion in the fourth quarter versus R22 billion in the third) and a larger shortfall on the services, income and current transfer account.

Eurozone

The ECB lowered its benchmark refinancing rate by 5bps to a fresh record low of 0.0% and increased the asset purchase program by €20 billion to €80 billion a month on March 10th. Policymakers said interest rates are expected to remain at present or lower levels for an extended period of time and cut growth and inflation forecasts.

China

Their inflation rate at 20-month high after consumer prices in China unexpectedly rose 2.3% YoY in February, following a 1.8% rise in January and above market consensus. It is the highest figure since July 2014, as politically sensitive food prices surged 7.3% over the Lunar New Year holiday.

Markets

Sasol

The group delivered a disappointing set of results for the interim period ending December 2015 as crude and chemical prices continued to slide due to the ongoing oil-supply glut and global economic uncertainty. Revenue fell by 15% to R84.5bn mainly due to the substantially lower oil and commodity chemical prices which were realised 47% and 23% lower, respectively.

Old Mutual

Reported an adjusted operating profit of £1.7bn, which was 4% ahead of its 2014 figures, although it was 11% higher in constant currency terms. Adjusted NAV per share fell by 15% to 178.9p, reflecting an unfavourable currency impact of 30.6p and lower local currency share prices of both Nedbank and Old Mutual Asset Management.

Best and worst performer

The best performer for last week was Kumba Iron Ore gaining 14%. According to the 62% Import Fine Ore index, which reports in USD, iron ore prices climbed by 16.33% last week.

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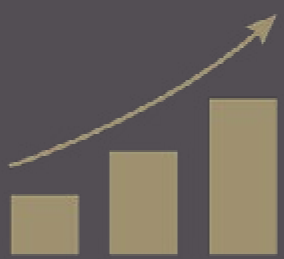
Macro note

Deficit highlights growth problems, Moody's decision looms

South Africa's economic woes were laid bare when data released last week showed the current account deficit had widened sharply in the fourth quarter of last year. The rand dived on the news, and if it continues to fall, it will add to the challenges faced by the Reserve Bank's monetary policy committee this week. A weak rand is of concern to the central bank as it stokes inflation, forcing the Bank to raise interest rates despite slowing economic growth. A deficit on the current account means SA is importing more than it exports and paying more in dividends than it receives, which puts the country at the mercy of foreign investors to finance the shortfall. The data bring SA's challenges to the fore, something which will be discussed in detail this week by the treasury and Moody's. They are in South Africa this week to assess the economy and decide whether to alter South Africa's BAA2 rating.

The PSG Research & Investment division believes the immediate impact of a sovereign downgrade would be limited to a knee-jerk in the sentiment about our economy which could further depreciate the rand. It's however important to remember that downgrades do not happen overnight. Markets discount the results well in advance of the actual downgrade. Essentially a downgrade would mean a higher required risk premium (difference in interest rates of countries) reflected in higher interest rates of the downgraded country. We are already experiencing such higher rates due to both higher inflation and the risk of a downgrade.



Q4 Current Account Deficit 5.1%/GDP

2015 narrowed to 4.4%/GDP = R174bn
2014 deficit at 5.4%/GDP = R207bn

Bottom line

A sovereign downgrade could mean lower investment returns. However, PSG Wealth implemented various measures to protect clients against the adverse effect of a downgrade. These include:

- We have constructed multi-manager portfolios that are managed by the best managers available in South Africa.
- The portfolios are well diversified in terms of different asset classes to deliver above average risk adjusted returns.
- The portfolios are well diversified in terms of different countries and regions to protect against a major depreciation in the value of the rand.
- The portfolios are designed around appropriate investment horizons to protect the immediate need for income and to prevent a permanent loss of capital.

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Market note

Nedbank share drops after announcement

Although the share price of Nedbank was one of the worst performers on the FTSE/JSE All Share Index (ALSI) last week, the bank delivered a strong set of results for the full year ending December 2015. For the year under review Nedbank benefitted from the full period inclusion of Ecobank's associate income and good growth in non-interest revenue (NIR). Loans and advances were up 11% from 2014 with stronger growth in the corporate book. Net interest income only grew by 4% to R23.9bn as the net interest margin contracted to 3.3% (2014: 3.52%). The lower margin was due to faster growth in wholesale assets, an increase in the HQLA requirements for Basel III and an adverse change in the funding mix with growth in wholesale funding at higher costs.

The 9% drop in Nedbank's share price for last week followed the announcement by its parent company, Old Mutual that the 54% controlling stake that Old Mutual holds in Nedbank would be reduced to a minority stake by the end of 2018.

Old Mutual Chief Executive Officer Bruce Hemphill also announced that Old Mutual would be split into four businesses: Old Mutual Emerging Markets, Old Mutual Asset Management, Old Mutual Wealth and then Nedbank. He said the split was the culmination of a strategic review started in November when he took over Old Mutual.

"Old Mutual currently envisages reducing its shareholding in Nedbank primarily by way of a distribution of Nedbank shares to the shareholders of Old Mutual in an orderly manner and at an appropriate time in the managed separation," Hemphill told Fin24.com. "It does not intend to sell any part of its shareholding in Nedbank to a new strategic investor." Splitting their business operations could provide each new business unit with new growth opportunities and ensure efficiencies within each unit is managed more effectively – all which could lead to higher valuations.

Although Nedbank is facing turbulent market- and regulatory conditions in the year ahead, its share is still trading at a historic P/E of 8.6 times and 1.2 times its NAV. The share price also offers an historic dividend yield of 5.8%.

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Previous publications

Daily

Published on a daily basis

Weekly

9 March
1 March
23 Feb
11 Dec
20 Nov
16 Nov

Monthly

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

Quarterly

Summer 2015
Spring 2015

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