

The PSG Wealth research and investment team was not surprised when the SARB announced an interest rate hike of 25 basis points today. We expect the SARB to slowly increase interest rates with 25 basis points, rather than 50 basis points, to manage the effect on the domestic economy more carefully.

The increased interest rate does not necessarily mean that the consumer will be placed under more financial pressure, because the absolute values of the current interest rates are still abnormally low. Far below the normal long-term rate. We are of the view that interest rates will continue to normalise (increase to more realistic values), because we are currently experiencing a 30 year low point in these rates.

At PSG Wealth we are never sure what the MPC will decide at each meeting, but we know that we are entering a trend of upward interest rates. For this reason we position our products defensively to react positively to interest rate fluctuations. Our products are weighted lightly on asset classes which could suffer a capital loss due to rate increases. We also focus on the short-side of the yield curve and our products are exposed to floating rate notes which benefits from interest rate hikes.

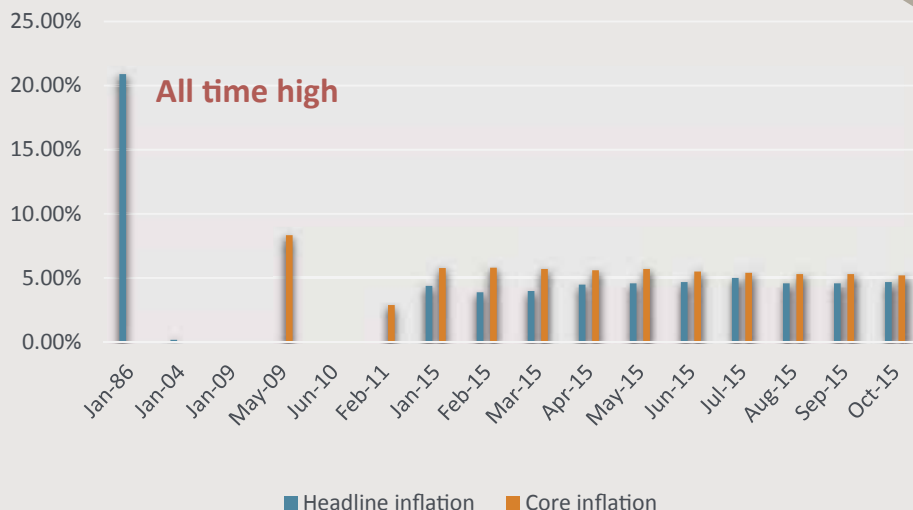
Latest MPC decision:

**25
basis
points**

**6.25%
repo
rate**

**9.75%
prime**

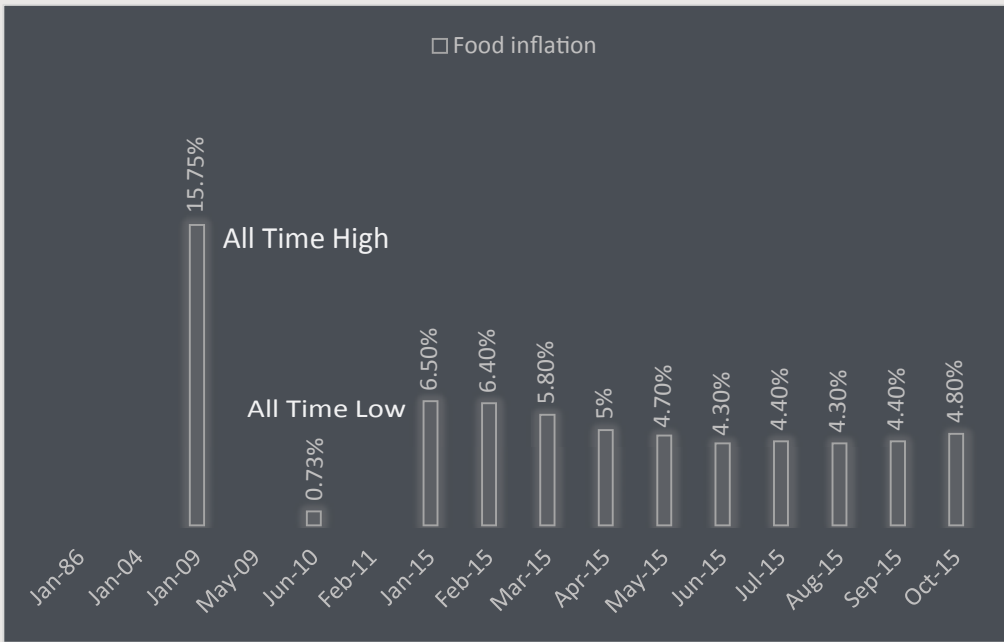
Headline vs Core Inflation



Inflation Rate in South Africa averaged 9.32% from 1968 until 2015, reaching an all time high of 20.90% in January of 1986 and a record low of 0.20% in January of 2004. While the Core Inflation Rate in South Africa averaged 5.12% from 2009 until 2015, reaching an all time high of 8.34% in May of 2009 and a record low of 2.90% in February of 2011

Sources: SARB; Trading Economics; www.global-rates.com

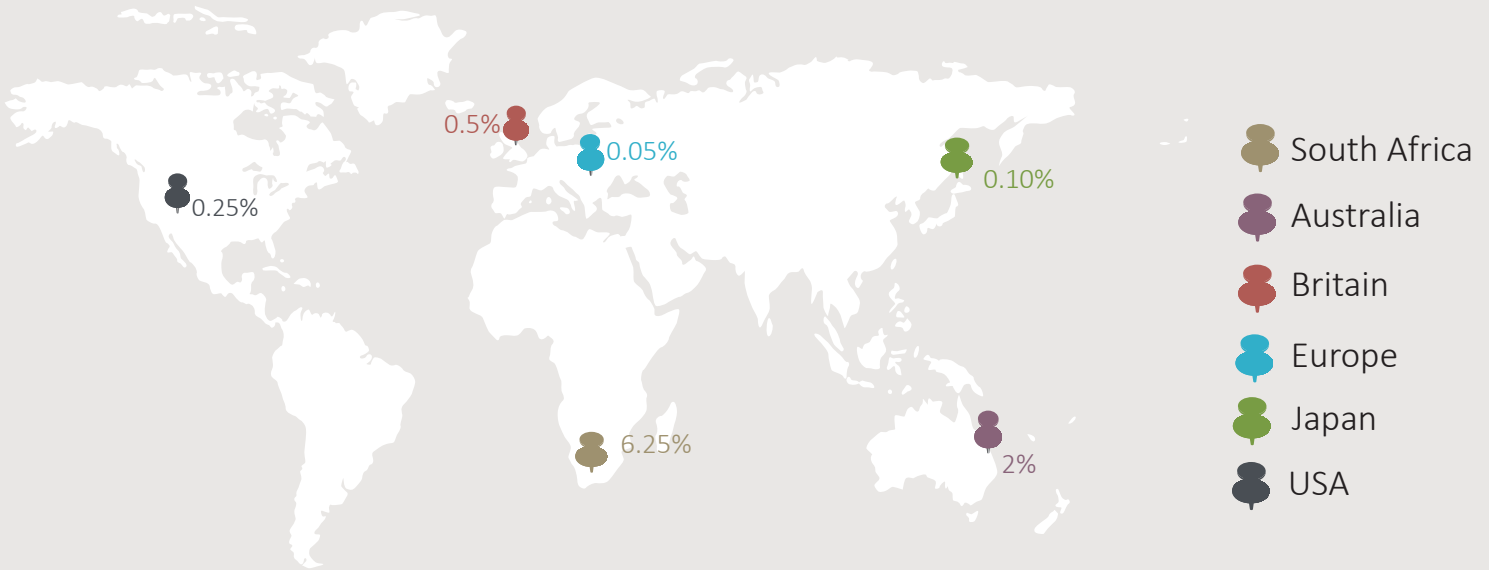
Food Inflation



Food Inflation in South Africa averaged 6.29% from 2009 until 2015, reaching an all time high of 15.75% in January of 2009 and a record low of 0.73% in June of 2010.

Source: Trading Economics

How does our interest rate compare to other countries



Changes to interest rates since 2009

