Weekly Investment Update

22 June 2016

PSG Wealth

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Market moves

Performace: 14/06/2016 to 20/06/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	1.03
Ind/Financials TR ZAR	1.08
Ind/Industrials TR ZAR	1.80
Financials&Indl 30 TR ZAR	1.20
Ind/Basic Materials TR ZAR	1.14
Gold Mining TR ZAR	-5.44
SA Listed Property TR ZAR	-1.36
Beassa ALBI TR ZAR	0.91
Commodities	
Oil Price Brent Crude PR	-1.24
LBMA Platinum AM PR USD	-3.51
Gold London AM Fixing PR USD	-1.89

The week ahead

Domestic

22 Inflation rate

22 Core inflation rate

International

23 UK: Brexit referendum

27 EA: Loan growth YoY

Macro

ZA

The annual growth in retail sales was recorded as 1.5% in April, compared to 2.9% in March. This was the weakest number recorded since June 2014.

UK & US

The US Federal reserve left its target for the federal funds rate at between 0.25% and 0.5% as expected. Both the Bank of England and the Bank of Japan also kept their policy interest rates steady. The UK inflation rate was also unchanged at 0.3% in May.

Germany

The ZEW Indicator of Economic Sentiment for Germany rose to 19.2 in June 2016 from 6.4 in May, beating market consensus of 4.7. It was the highest reading since August last year, suggesting financial markets have confidence in the resilience of the German economy despite challenging economic conditions.

Markets

Best performer

For the second consecutive week was MTN with a return of 13%. Followed by Aspen Pharmacare Holdings with a 12% return for the week

Worst performer

Trencor was the worst performer for the week with a loss of 10%. Followed by Pallinghurst Resources with a 9% drop for the same period.

Sectors

The best performing sector was pharmaceuticals, which includes companies like Aspen Pharmacare Holdings, with a return of 11.2% for this sector for the week. The food and drug sector with companies like Clicks and PicknPay, was the worst performing sector for the week with a 5.5% loss.

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Macro note

Brexit will hurt economy says UK Treasury

Tomorrow (23 June) the UK will vote on whether to remain part of the EU. The UK Treasury (HMT) published an analysis on the potential economic impact if Brexit is realised. Leaving the EU would mean a new relationship based on one of the following models:

- Membership of the European Economic Area / (EEA), like Norway
- A negotiated bilateral agreement, like those of Switzerland, Turkey or Canada, or
- Membership of the World Trade Organization (WTO) without any specific agreement with the EU.

HMT's analysis found that none of these alternatives support trade and provide influence on the world stage in the same way as continued membership of a reformed EU. All of these also come with serious economic costs for the UK that would affect businesses, jobs, living standards and their public finances for decades to come. If the UK exits the EU and for example seeks a negotiated bilateral agreement, like Canada, the costs to Britain are clear according to Treasury's estimates. UK GDP would be 6.2% lower, families would be £4,300 worse off and their tax receipts would face an annual £36 billion black hole. This is more than a third of the NHS budget and equivalent to 8p on the basic rate of income tax.

It should be noted that HMT is controlled by the current government which wants the UK to remain part of the EU. Their analysis indicates that Brexit would have a negative effect on both the financial services and technology industries.

Bottom line

The world is constantly changing as countries update current alliances, agree to new ones or even withdraw from old alliances. Any estimate of what the possible outcomes of these changes would be will at best be speculative. Its an impossible task to position any investment portfolio to either avoid any negative influence or to benefit from any speculative advantage. The countries which will be the most influenced by the Brexit-outcome will be the UK and those in the EU. However, most other countries, like South Africa, are not directly involved in the Brexit-referendum. Non-EU countries could, however, benefit in some way from whatever the decision will be, but they could also be disadvantaged in some way.

History shows, over and over, that there is no alternative for good planning and diversity. The best method is to focus on what you can control, namely:
1. Get help from a good financial planner
2. Develop a long-term financial plan
3. Invest in well diversified portfolios consisting of good active managers such as the PSG Wealth solutions
4. Do not deviate from your strategy.

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Market note

Current macro environment assisting some locals

Higher exchange rates and international shipping costs are benefitting local companies in the building materials sector. In contrast to a subdued local economy, BMI Strategic Research found that cement demand rose by almost 8% in 2015. Key drivers for this increased demand include unrecorded transactions and investments in low-cost housing. The higher rand exchange rate has also been positive for local companies, acting as a headwind for importers. According to the South African Revenue Services imports fell by 72% in the sixth months to March.

The declining trend witnessed in shipping rates from October 2015 as measured by the Baltic Dry Index, has also started to reverse since February this year. Meaning that since February it has become more expensive to ship dry materials like cement to countries like South Africa.

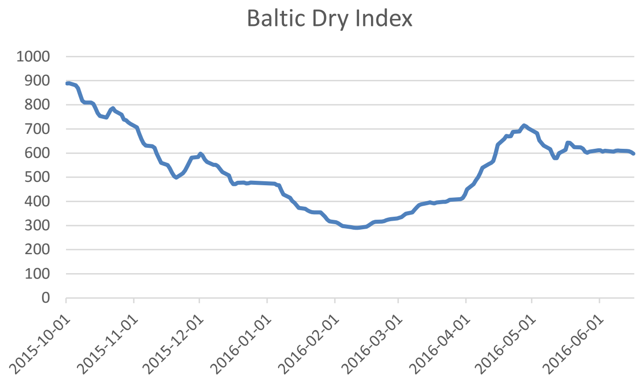
PPC views falling imports as positive for the group going forward. "If you look at our operating margins, we have achieved in one year, what we expected to achieve in three," PPC group CEO, Darryll Castle told investors at their recent year-end financial results presentation. Castle is, however, cognizant of the effects of new competitors on their pricing levels, coupled with a subdued local economy, rising inflation and their recent S&P credit ratings decision. (Read more about PPC's credit rating on the company analysis available on the PSG Wealth trading and investment platform (PSG Online).

Due to lower imports PPC saw stellar double digit growth in the Eastern and Western Cape. Castle added that the lower sales volumes in Gauteng and other inland provinces was a reflection of increased competitor activities in these areas. PPC selling prices showed a downward trend between January and September 2015. Their financial results for the period ending 31 March 2016 shows that their average selling price fell by 4%.

"However, since November we have seen a side-ways movement in pricing, indicating that the pricing environment seems to be stabilising."

Cement volumes and prices are also the main contributors of revenue for companies like CashBuild and Buildit (part of the Spar Group).

Declining trend in shipping rates reversing



Source: PSG Wealth investment division, Bloomberg

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Previous publications

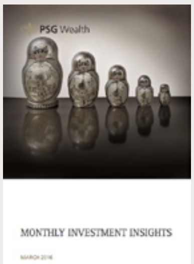
Daily

Published on a daily basis

Weekly

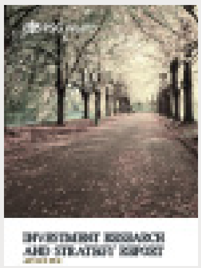
15 June
8 June
1 June
25 May
18 May
11 May
4 May
26 April
20 April
12 April
5 April
23 March
16 March
9 March
1 March
23 Feb
11 Dec
20 Nov
16 Nov

Monthly



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