



WEEKLY

23 FEBRUARY 2016



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## Market moves

Group/Investment	2016/02/13
	2016/02/19 Return (Cumulative)
<b>Local Markets</b>	
FTSE/JSE All Share TR ZAR	3.59
FTSE/JSE Ind/Financials TR ZAR	5.26
FTSE/JSE Ind/Industrials TR ZAR	4.73
FTSE/JSE Financials&Indl 30 TR ZAR	2.82
FTSE/JSE Ind/Basic Materials TR ZAR	5.51
FTSE/JSE Gold Mining TR ZAR	-5.39
FTSE/JSE SA Listed Property TR ZAR	5.01
Beassa ALBI TR ZAR	3.57
<b>International Markets</b>	
S&P 500 TR USD	2.91
MSCI ACWI All Cap NR USD	3.72
EURO STOXX 50 NR USD	2.89
DJ Industrial Average TR USD	2.75
NASDAQ Composite TR USD	3.91
FTSE 100 TR GBP	3.23
Hang Seng HSI TR HKD	5.49
Nikkei 225 Average TR JPY	6.76
Euronext Paris CAC 40 NR EUR	4.41
FSE DAX TR EUR	3.41
<b>Commodities</b>	
Oil Price Brent Crude PR	-1.05
LBMA Platinum AM PR USD	-1.37
Gold London AM Fixing PR USD	-1.45

## The week ahead

### Domestic

**24** Budget Speech

**26** MPC meeting starts

### International

**25** UK GDP Growth Rate

**26** Japan Inflation Rate

## Economy

### South Africa

Consumer price inflation breached the upper end of the inflation target band last week, quickening to 6.2% in January compared with a year ago, from 5.2% year on year in December. Food prices went up sharply and the effects of a weaker rand have taken hold. Core inflation, which excludes food, non-alcoholic beverages, fuel and electricity prices rose to 5.6% from 5.2%.

### Asia

China's new yuan loans in January of 2016 surged to 2,510 CNY billion last week, following a 597.8 CNY billion in December 2015 and well above expectations. It is the largest figure in record, supported by seasonal lending spikes ahead of the Lunar New Year.

### US

Minutes from the Fed's last policy meeting released last Wednesday showed that policymakers considered changing the U.S. central bank's planned interest rate hike path for 2016 on fears that a global slowdown and financial market selloff could hurt the U.S. economy.

## Markets

### MTN

Shares in MTN Group, Africa's biggest cell phone operator, fell sharply at the opening on Friday, following Thursday's profit warning. The shares fell as much as 13% in early trade and were quoted 12% weaker at R135 at 9.24am. MTN said on Thursday that it expects headline earnings per share to fall at least 20% for the year to December, due to a poor performance in Nigeria.

### Anglo American

Was the top performer for the week with a 6.3% move in its share price. This despite Anglo's debt which was downgraded to junk-status. The group also announced it will exit its 69.7% stake in Kumba Iron Ore as part of its restructuring programme.

### SAB

Underperformed in the past week. Its share price dropped 2% because the AB Inbev offer fixed its price at 44 pounds. Total return for the week was down 3.12% due to the exchange rate.

## Inflations' impact on investments

Consumer inflation jumped to 5.2% year on year in December from 4.8% in November, the fastest acceleration in a year, partly because of a significant spike in food inflation.

CEO of one of the largest debt management companies in South Africa, Neil Roets told Moneyweb: "The intensity of the drought has resulted in a sizeable revision to the Reserve Bank's food price outlook. It now expects food inflation to peak at about 11% in the fourth quarter of this year and these price increases could lead to hunger because the poorest of the poor have reached the limit of how much more they can pay for food." Other economist predict that food inflations could reach a much as 15% at the end of 2016.

This, and a much weaker rand assumption, caused the Bank to revise up its headline CPI forecast significantly last month.

It now expects inflation to remain at more than the 6% upper limit of the target band for the next two years, averaging 6.8% this year and 7% next year (compared to 6% and 5.8% forecast previously).

Higher inflation rates generally lead to more aggressive interest rate hikes. We believe that 25bp hikes are currently off the table and its become increasingly likely that the Reserve Bank will hike rates with a minimum of 50bp in future. The aggressive nature expected from future hikes causes more volatility in fixed interest markets.

Higher interest rates have varying impacts on investments products. For example, higher rates are positive for the PSG Wealth Enhanced Interest fund, because the fund holds short-term instruments which could be reset by these rates. The Income FoF could also benefit due to its linked rate instruments. The Income FoF might come under pressure in the short-term, but because it is exposed to fixed instruments it will still offer value over the medium-term.

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## Bottom line

Now is the time to become aware of what the appropriate time horizon for your products are. Benchmarked performance for each product

should be considered in relation to its appropriate investment horizon.

## MTN share price drops 9.42%

Shares in the MTN Group, Africa's biggest cell phone operator, fell by 9.42% for the past week. The sharp fall followed the group's profit warning announced in a trading statement last Thursday. In early trade on Friday morning the share dropped by 18% from R153 the previous day to R124.90.

MTN said on Thursday that it expected headline earnings per share (HEPS) to fall by at least 20% for the year to December, due to a poor performance in Nigeria. However, the drastic fall in the share price was also due to the fact that its HEPS guidance has been reduced to below the consensus view of R13.65 (mean estimate).

One must also take into account that MTN's profit warning of at least 20%, the requirement stipulated by the JSE to disclose, does not account for the fine this group faces in Nigeria. MTN faces a \$3.9 billion fine from Nigerian regulators for missing the deadline to disconnect 5.1-million subscribers who were not registered as required by the law. The group is seeking an out-of-court settlement. Parties are expected to make their decision known during the next court hearing on 18 March in the Federal High Court in Lagos. Nigeria is a very important component of MTN's operations and accounts for 37% of its revenue.

The share might currently seem cheap boasting an attractive historical dividend yield of close to 10%, assisted by its high dividend pay-out ratio. However, the valuation going forward need to take into account the increased geo-political risks inherent in the countries in which it operates and the financial stain that a big fine will place on its balance sheet. MTN is expected to release its final financial statements on 3 March, in which more information about the fine and the state of the company should be discussed.

The share, which forms part of the PSG Wealth SA Equity portfolio (just under 3%), had a disappointing performance in the past six month. Even though recent management changes in the group are positive, the PSG Equity Research division will review its opinion on this share given the significant changes which took place in the last six months.

MTN is also expected to issue a further trading statement "as soon as there is a reasonable degree of certainty" about the likely effect of the Nigerian fine on its earnings.



## Previous publications - 2015

### Daily



Published on a daily basis

### Weekly



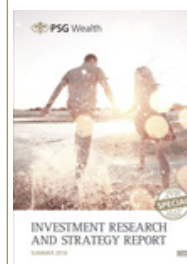
13 Nov  
20 Nov  
07 Dec  
11 Dec  
15 Dec

### Monthly



[May 2015](#)  
[June 2015](#)  
[July 2015](#)  
[Aug 2015](#)  
[Sept 2015](#)  
[Oct 2015](#)  
[Nov 2015](#)

### Quarterly



Spring 2015  
Summer 2015

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