

Unchanged interest rates
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Market moves

Performance: 18/05/2016 to 24/05/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	1.03
Ind/Financials TR ZAR	3.45
Ind/Industrials TR ZAR	0.50
Financials&Indl 30 TR ZAR	2.27
Ind/Basic Materials TR ZAR	-3.29
Gold Mining TR ZAR	-9.48
SA Listed Property TR ZAR	2.26
Beassa ALBI TR ZAR	-0.15
Commodities	
Oil Price Brent Crude PR	-1.36
LBMA Platinum AM PR USD	-4.10
Gold London AM Fixing PR USD	-2.16

The week ahead

Domestic

26 ^{PPI}

30 ^{Private sector credit}

International

26 ^{China: Industrial production}

27 ^{Japan: Inflation rate}

Macro

ZA

The SARB kept its benchmark repo rate on hold at 7%, in line with expectations. Policymakers said there is some room to pause the tightening cycle as previous hikes improved the inflation expectations, while the growth outlook worsened.

US

The number of Americans filing for unemployment benefits decreased by 16 000 to 278 000 in the week ending 14 May. It is the 63rd consecutive week that initial claims are below 300 000, the level associated with a healthy jobs market.

EU

Eurozone current account surplus came in at €32.3bn in March compared to an upwardly revised €11.2bn surplus the previous month. The surpluses in balances of goods and services widened while the one in primary income narrowed slightly.

Markets

Best performer

For the week was Lonmin with a return of 18%. Followed by Pallinghurst Resources with a 10% return for the week.

Worst performer

Sibanye Gold was the worst performer for the week with a loss of 10%. Followed by PPC with a 9% drop for the same period.

Sectors

The best performing sector was support services, which includes companies like Metrofile, with a return of 8.7% for this sector for the week. Fixed line telecommunications, with only Telkom listed on the JSE, was the worst performing sector for the week with a 4.7% loss.

Macro note

Unchanged interest rates equally important

In the run-up to an interest rate decision, market commentators are usually divided in their opinions of whether a hike is necessary or not.

Some argue against an interest rate hike because 'our economic growth is too weak and we cannot afford it'. Raising the question of whether it is the Reserve Bank's responsibility to improve the country's economic growth? The answer is no. The institution with the primary responsibility to manage our inflation rate according to current inflation targets of between 4% and 6% is the Reserve Bank.

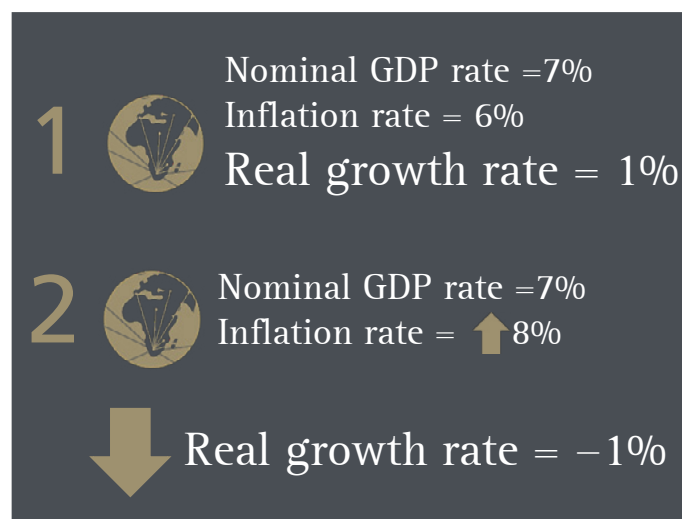
In a rising interest rate cycle, we sometimes forget why a low inflation rate is important.

Put simply - A country's economic growth rate is expressed as a real growth rate. This means that a country with a nominal growth rate of say 7% and an inflation rate of 6% will grow roughly at 1% real. However, if the inflation rate was at 5%, then the real growth rate would have been a very attractive 2% real. However, if this country grows with the same nominal rate of 7% in the next year, and inflation rises from 6% to 8%, then the real growth rate would be a dismal -1% - a solid recession.

The argument that higher interest rates will have no effect on high import prices is not completely

true. A higher interest rate should dampen the domestic demand for expensive commodities in the long run. The lower demand will lead to lower imports, a better trade balance, less outflows and more money available internally to boost nominal economic growth.

The decision by the monetary policy committee (MPC) to raise interest rates or not, should be based on their view of what is happening with our inflation rate. If inflation has the potential to accelerate to more than the potential nominal growth rate of the country, then the MPC should take action to prevent this. These actions could include, amongst others, to attempt to manage inflation expectations and/or to raise interest rates.



Source: PSG Wealth investment division

Bottom line

If we believe the MPC is acting wisely, then the message of keeping interest rates unchanged should be that they do not see inflation accelerating to such an

extent. This will allow active managers to reposition their portfolios in order to derive the maximum benefit from the current interest rate cycle for their clients.

Market note

Richemont faces tough market

Swiss luxury goods group Richemont, whose jewellery brands include Cartier and IWC Schaffhausen timepieces, has reported its results for the fiscal year ended 31 March, which showed that operating profits decreased by 23%. Richemont announced that the decrease was mainly due to a non-recurring property disposal gain of €234 million in the prior year and current year restructuring and write-down charges of €97 million.

The company recorded mixed results, which showed that sales increased by 6% to €11.076 billion compared to €10.410 billion over the same period ended March 2015. At constant exchange rates, sales decreased by 1%.

In the annual results Richemont chairman Johann Rupert stated all regions in which they operate reported a decline in sales.

“April sales declined by 18% and 15% on a reported and constant rates basis. At constant exchange rates, only the Middle East and Africa posted growth.”

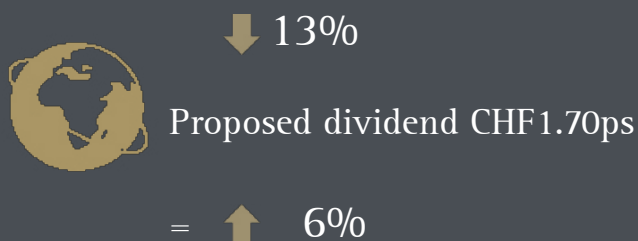
The Swiss company also reported full-year earnings that missed analysts’ estimates.

Net profit for the year increased by 67% to €2.227 billion, primarily due to a non-cash post tax gain of €639 million relating to the merger of NET-A-PORTER and YOOX Groups.

“In the near term, we are doubtful that any meaningful improvement in the trading environment is to be expected. We are notably addressing the challenges faced by the watch industry,” said Rupert.

Richemont financial highlights for year ended 31 March 2016

Adjusted operating profits



*Source: Richemont company announcement 20 May 2016

**Sales reported in constant exchange rates

Previous publications

Daily



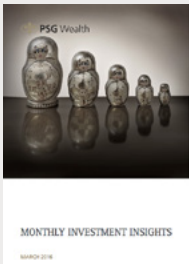
Published on a daily basis

Weekly



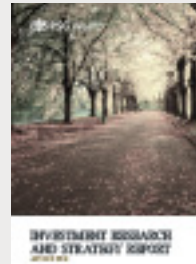
18 May	9 March
11 May	1 March
4 May	23 Feb
26 April	11 Dec
20 April	20 Nov
12 April	16 Nov
5 April	
23 March	
16 March	

Monthly



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

Quarterly



Autumn 2016
Summer 2015
Spring 2015

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