Weekly Investment Update

31 August 2016

PSG Wealth

Fed Chairs hawkish comments on potential rate hike for 2016 - pg. 2

Recent credit regulations put pressure on retailers - pg. 3

Market moves

Performace: 23/08/2016 to 29/08/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	1,45
Ind/Financials TR ZAR	-2,71
Ind/Industrials TR ZAR	-1,98
Financials&Indl 30 TR ZAR	1,49
Ind/Basic Materials TR ZAR	4,01
Gold Mining TR ZAR	-1,59
SA Listed Property TR ZAR	-3,00
Beassa ALBI TR ZAR	-3,13
Commodities	
Oil Price Brent Crude PR	0,20
LBMA Platinum AM PR USD	-2,26
Gold London AM Fixing PR USD	-0,70

The week ahead

Domestic

31 Aug M3 money supply

01 Sept Barclays manufacturing PMI

International

01 Sept US: Nonfarm productivity

02 Sept EA: PPI

Macro

ZA

Producer prices for final manufactured products in South Africa rose 7.4% YoY in July, following a 6.8% gain in June and above market expectations of a 6.9% increase. Producer inflation accelerated for the second straight month, reaching the highest since February.

Germany

The import price index in Germany fell 3.8% YoY in July, following a 4.6% decline in June while markets expected a 4.0% drop. Excluding crude oil and mineral oil products, import prices declined by 2.4% from a year earlier.

Japan

The seasonally adjusted jobless rate in Japan stood at 3.0% in July, down from 3.1% in June. It was the lowest jobless rate since May 1995, while markets expected 3.1%. The jobs-to-applicants ratio came in at 1.37 in July, unchanged from the previous month and slightly below consensus.

Markets*

Best performer

For the week Niveus Investments returned 25%. Rhodes Food Group was second with a 12% return for the week.

Worst performer

Trustco was the worst performer for the week with a loss of 12%. Followed by Pick n Pay Stores with a 10% drop for the same period.

Sectors

The best performing sector for the week was beverages, with a return of 6.5%. The banking sector was the worst performing with a 6.7% loss.

*Disclaimer: Total weekly returns based on closing values from Monday to Monday.

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Macro note

Fed Chair more hawkish, but still no clear indication of a rate hike for 2016

Markets were mainly flat last week as investors waited for clues from US Federal Reserve (Fed) Chair Janet Yellen's much anticipated speech on Friday. Yellen addressed a gathering of global central bankers in Jackson Hole, Wyoming.

Previous comments made by Yellen raised investors' expectations that at least one more US interest rate hike is on the cards for 2016. Dot plot data from the Fed suggests that the majority of Federal Open Market Committee (FOMC) members are in favour of at least one more 0.25% interest rate hike before the end of 2016.

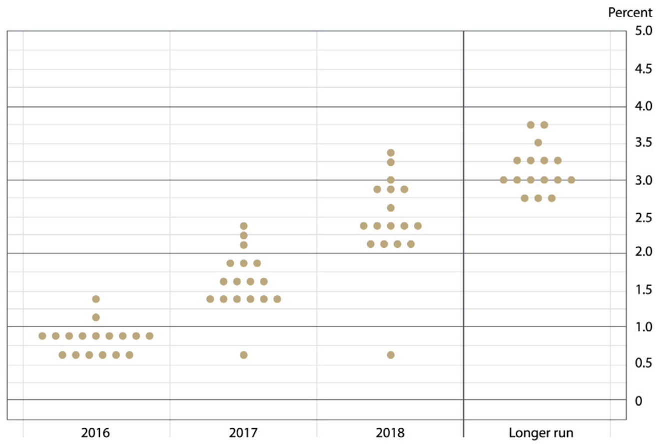
As mentioned by the Fed time and time again, this will be dependent on economic data, and exactly when the Fed will do this remains uncertain. When the Fed raised interest rates by a quarter of a percentage point in December 2015, the first hike in seven years, it said they would carefully monitor actual and expected progress toward the 2% inflation goal in deciding for further rate adjustments. At that stage inflation peaked at 1.4%.

Yellen confirmed in her speech on Friday that the likelihood of interest rates being raised in the short term has increased: "In light of the continued solid performance of the labour market and our outlook for economic activity and inflation, I believe the case for an increase in the federal funds rate has strengthened in recent months". However, she also stated: "Looking ahead, the FOMC expects moderate growth in real Gross Domestic Product (GDP), additional strengthening in the labour market, and inflation rising to 2% over the next few years".

Recent macro data releases confirmed that the US labour market is recovering well, but US GDP growth figures released on 26 August 2016 indicated that the economy grew at a lacklustre 1.1% pace in the second quarter because corporate profits fell away. According to the Commerce Department, pre-tax earnings dropped 1.2%, the fifth decline in the past six quarters. Unless profits turn up again, the economy is unlikely to grow much faster.

On 16 August 2016 the latest inflation rate for the US came in at 0.8%, and all indications are that inflation is currently not in an upward trend. However, if the US dollar strengthens and the price of Brent crude falls, inflation could turn into a downward trend, which will not give the Fed any cause to raise interest rates until inflation reaches another peak – which could then only be next year.

FOMC participants' target level for federal funds rate



Source: US Federal Reserve

Bottom line

Current indications show that chances of an interest rate hike at the next Fed meeting on 21 September are still low. The Fed will more than likely wait to be guided by the next US inflation figures which are set to be announced on 16 September and 18 October, as well as the next US GDP growth figures which is set to be announced on 29 September. A decision to change interest rates will be on the cards at the FOMC's meeting on 2 November 2016.

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Market note

Recent credit regulations put pressure on retailers

Truworths's leap into the United Kingdom (UK) retail sector propelled its full-year earnings into double-digit growth, but the market was unimpressed, sending its share price plummeting 8.2% on the day the group released its 2016 full year results.

For the 52 weeks to end June, Truworths reported a 12.5% increase in group diluted headline earnings per share, compared with a year earlier. However, analysts feel Truworths delivered growth below expectations, which caused the drop in their share price.

Truworths blamed the reduction in new accounts and a drop in the growth of their credit sales on the credit affordability assessment regulations which were introduced by the National Credit Regulator in September 2015.

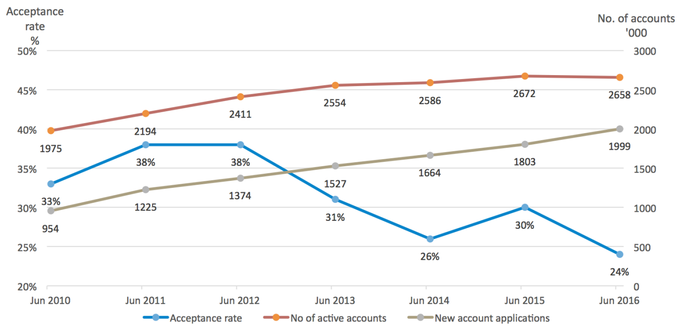
CEO Michael Mark said the group had grappled with a deteriorating domestic credit market and declining consumer confidence. These regulations have resulted in a reduction in the new account acceptance rate from 30% in the prior period to 24% in the current period, resulting in a 0.5% decline in the Group's active account. Mark says this is due to the onerous administrative burden introduced by regulators for consumers to produce documentation. Before these regulations, cash sales (excluding Office) grew by 26% (assisted by the acquisition of Earthchild and Naartjie) and credit sales by 18%. After the introduction of the regulations, cash sales grew by 19% while credit sales grew by 8%.

"The onerous administrative burden for consumers to produce proof of income has resulted in the new account acceptance rate falling, with a loss of approximately R250 million in credit sales during the period," Mark said.

Although new regulations had a significant effect on the group's credit sales, the debtors' book, grew by 11.6% to R5.8 billion in the period under review.

Truworths said it was in the process of implementing various strategies to attempt to mitigate the effect of these regulations.

Impact of the credit environment



Source: Truworths June 2015 presentation, PSG Wealth Investment Division

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Previous publications

Daily

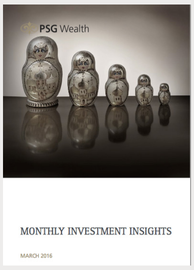
Published on a daily basis

31 Aug

Weekly

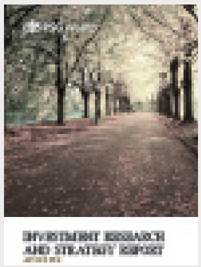
17 Aug
10 Aug
2 Aug
27 July
13 July
6 July
29 June
22 June
15 June
8 June
1 June
25 May
18 May
11 May
4 May
26 April
20 April
12 April
5 April
23 March
16 March
9 March
1 March
23 Feb
11 Dec
20 Nov
16 Nov

Monthly



Aug 2016
July 2016
June 2016
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



Winter 2016
Autumn 2016
Summer 2015
Spring 2015

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