SYGNALS

OCTOBER 2015

KEY INDICATORS

		1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS	3 YEARS	5 YEARS
J203T	FTSE/JSE All Share Index	7.6%	4.8%	0.4%	11.6%	12.1%	16.6%	15.5%
J200T	FTSE/JSE Top 40 Index	7.9%	5.3%	1.8%	12.3%	12.4%	17.0%	15.7%
J210T	FTSE/JSE Resources 20 Index	5.6%	-4.8%	-22.2%	-25.6%	-15.8%	-9.7%	-5.5%
J211T	FTSE/JSE Industrials 25 index	8.5%	8.7%	7.8%	22.8%	20.8%	27.8%	26.6%
J212T	FTSE/JSE Financials 15 Index	7.3%	0.7%	-3.4%	15.6%	19.5%	23.2%	20.9%
J403T	FTSE/JSE SWIX Index	7.3%	2.9%	-1.6%	10.7%	13.5%	17.6%	16.8%
J303T	FTSE/JSE CAPI Index	7.6%	4.8%	0.4%	11.7%	12.2%	16.7%	15.7%
J253T	SA Listed Property Index	2.1%	3.1%	1.7%	20.2%	19.8%	19.4%	19.0%
ALBI	BEASSA All Bond Index	1.3%	1.4%	1.5%	4.9%	6.9%	6.0%	7.7%
STeFI	STeFI Index	0.5%	1.6%	3.2%	6.4%	6.1%	5.8%	5.7%
	MSCI World Index in SA Rands	7.7%	5.9%	13.3%	27.4%	23.2%	30.3%	25.1%
	Rand/US Dollar Exchange Rate	-0.2%	9.1%	17.0%	25.2%	17.1%	16.8%	14.6%
	Rand/Euro Exchange Rate	-1.6%	9.3%	16.0%	10.1%	5.6%	10.6%	9.4%
	Headline CPI	0.0%	1.0%	2.7%	4.6%	5.3%	5.5%	5.5%
	PPI	0.3%	0.5%	2.5%	3.6%	5.2%	5.7%	6.3%

"In determining whether it will be appropriate to raise rates at its next meeting, the committee will assess progress, both realised and expected, toward its objectives of maximum employment and 2% inflation."

US Federal Reserve statement, October 2015

finsolnet

SYGNIA
THE SUM OF ALL THINGS

MARKET OVERVIEW

The fourth quarter started with strong, positive momentum on mounting speculation that the US Federal Reserve is unlikely to hike interest rates this year due to the impact of global economic weakness on the US. Markets soared as China cut interest rates and the ECB hinted at further quantitative easing, despite China having posted its softest GDP growth since the financial crisis, Japan facing the possibility of another recession and the eurozone flirting with deflation once again. On the political front, a number of national elections, including those in Portugal, Poland and Spain, upset the political status quo with anti-austerity, nationalist parties gaining ground.

The US economic data was a mixed bag. Job creation figures disappointed despite unemployment falling to a seven-year low of 5.1% in September. The ISM manufacturing index dropped to 50.2 in September, its lowest since 2013, as a strong US dollar crimped exports and punished multi-national companies. The consumer price index fell for the second month in a row on the back of lower gasoline prices. Over the past 12 months the main CPI has stayed level, while the core index is up 1.9%.

The US Fed seemed split on when to increase interest rates, with two governors publicly contradicting the chair, Janet Yellen, who has repeatedly said she expects the first increase in interest rates before the end of 2015. The US Fed formally left interest rates unchanged at its October meeting, but left the door open for an increase at its last meeting of 2015 in December. It also noted that economic activity has been expanding at a 'moderate' pace.

The eurozone has borne China's slowdown better than expected, with the Markit's manufacturing PMI remaining at an expansionary 52 in September. However, unemployment has remained stubbornly high at 10.8% and consumer prices fell by 0.1% year-on-year in September on the back of lower energy prices. S&P's has warned that the eurozone will need at least another three years and €2.4 trillion of quantitative easing to revive its economy.

China's third quarter GDP growth came in at 6.9%, clouding its prospects for reaching the official targeted growth rate of about 7% for the year. The deceleration has been faster than expected. The official manufacturing PMI came in at 49.8, the same level as August, which is a three-year low. Trade figures, industrial production, fixed asset investment and retail sales all came in below expectations. On a positive note, China's home prices rose in September in more than half of the 70 major cities for the first time in 17 months, as home-purchase restrictions were loosened and earlier interest rate cuts took effect.

Global stock markets soared after China cut interest rates by 0.25% for the sixth time in less than a year, as well as dropping the reserve requirement ratio for banks by 0.5%. In addition, the People's Bank of China reassured investors that the country will be able to keep its economic growth at around 6% to 7% per annum over the next three to five years.

At the same time the ECB, which kept interest rates level, hinted at more monetary stimulus measures and a possible deposit rate cut in December.

The monetary easing came at a time when the IMF lowered its 2015 global growth forecast to 3.1% from a 3.3% estimate in July.

On a positive note, by month-end flash, manufacturing PMIs for October indicated that developed markets are starting to shake off the effects of China's weak growth, with both the US and Japan showing expansion and the eurozone remaining stable. Oil prices rose temporarily above US$50 a barrel after Russia launched air strikes in Syria and after the number of active US drilling rigs slumped to a five-year low. However, the momentum was dampened by Saudi Arabia lowering oil prices to Asia and the US, in line with the price cuts announced last month by its peers in the Middle East, as well as by weaker growth in China.

We believe that the odds of the US Fed increasing interest rates by year-end remain evenly weighted. Although the impact of the slowdown in China on global growth cannot be underestimated and has not yet stabilised, short-term economic data from the US remains supportive of a marginal hike. However, a GDP growth figure of below 7% for 2015 from China would bring another bout of volatility, punishing commodity producers such as South Africa. The risks to the rand remain high as credit rating agency Fitch contemplates downgrading South Africa's sovereign debt by year-end. On the upside the recent relaxation of monetary policies in China and the ECB are unlikely to be the last and will aid equity markets into 2016.

360 DEGREES ROUND THE WORLD

POLAND: Poland replaced its centre-right Civic Platform party government after eight years in power with the nationalist and euro-sceptic Law and Justice party which promised higher welfare spending, a focus on traditional Catholic values, including a ban on abortion and in-vitro fertilisation, a tough stance on migrants and more assertive relations with Russia and Germany. The Civic Platform was punished in the polls by an embarrassing release of taped conversations between politicians offering candid views about policy, often different from those presented in public. Poland has been a relative economic success in Europe, with the economy growing by nearly a quarter from 2008, while Europe's overall economy was stagnant, and with unemployment at 9.7% in September. However, the average wage stands at just US$750 a month.

UK: The Bank of England warned that weakness in emerging market economies could dampen growth in the UK as it announced its decision to keep interest rates on hold. Both the manufacturing and services sectors stagnated in September, with the Markit's composite PMI data suggesting that economic growth slowed to 0.5% in the third quarter, while year-on-year inflation turned negative in September (-0.1%), the second time this year.

NORWAY: Prime Minister Erna Solberg's government revealed plans to access its US$850 billion wealth fund to pay for tax cuts and additional spending needed to avoid a recession in Western Europe's biggest crude oil producer. The sovereign wealth fund has been built over the past two decades as a nest egg for future generations and has never before been touched.

AUSTRIA: Austria plans to build a fence at its main crossing with Slovenia in a bid to calm the chaos at its border and slow the stream of migrants headed to an increasingly frustrated Germany.

PORTUGAL: Portuguese Prime Minister Pedro Passos Coelho's Portugal Ahead coalition returned to power in the national elections despite supporting years of austerity. President Aníbal Cavaco Silva's decision to ask Coelho to form a new minority government, following an inconclusive election in which Portugal Ahead won 39% of the vote, has prompted criticism of the conservative president abusing his office to ensure that Portugal sticks to an EU-mandated path of fiscal austerity.

ARGENTINA: Argentinians went to the polls ahead of the end of current President Cristina Kirchner's second term in office in December. She is not eligible to run for a third term. Kirchner's policies, including wasteful government spending, currency controls and import barriers, have stalled the economy and spurred 25% inflation. The results tied between two candidates, Daniel Scioli of the ruling Peronist Victory Front coalition and Mauricio Macri of the Cambiemos coalition. The next round will be held in November. Victory by Scioli would give the Peronist movement its longest uninterrupted period of rule since it was founded by General Juan Domingo Perón in the 1940s. Both candidates are expected to scale back Kirchner's intervention in the economy.

CHINA: At a time when the global steel industry is struggling with huge exports from China, the country's steel industry is losing money and may cut production by up to 20%. After decades of expansion, the industry has been thrown into upheaval as local demand contracted for the first time in a generation amid slowing economic growth and a property downturn. The slowdown has pummelled steel and iron ore prices and prompted Chinese mills to seek increased overseas sales, boosting trade tensions. The country accounts for half of the world's steel production.

JAPAN: Despite speculation that Japan is facing the possibility of falling into a recession for the second time in as many years, the Bank of Japan did not increase its quantitative easing programme as expected. On a positive note, Markit's flash manufacturing PMI for October rose to 52.5, its highest level since March 2014, as new domestic and export orders increased.

AUSTRALIA: Australia's central bank retained its record low interest rate for the fifth straight meeting as policymakers concluded it appropriate amid moderation of growth in China, its key trading partner. The bank lowered the rates by 0.25% in February and May.

ZAMBIA: Zambia's overuse of the world's biggest man-made reservoir to generate electricity has depleted its water levels to just 29% of capacity in October from 70% a year ago. Lake Kariba, on Zambia's border with Zimbabwe, generates hydropower for both countries. The overuse has compelled both countries to cut electricity generation with tragic consequences. Zambia's energy shortage has led to suspensions in copper mining and has contributed to this year's 47% depreciation of the kwacha against the US dollar, making it the world's worst-performing currency.

DEMOCRATIC REPUBLIC OF CONGO: More than 92% of voters in Congo-Brazzaville's controversial referendum approved constitutional changes to allow President Denis Sassou Nguesso to run for a third term in office in the June 2016 presidential elections. Under the current constitution, he was unable to seek re-election because he is over the age of 70 and has already served two terms. The 71-year-old former military commander has ruled the DRC for all but five years since 1979.

SOUTH AFRICA

Despite a soaring stock market, October brought weak economic data, chaos at South African universities and a partial reversal of the controversial travel requirements which saw the number of tourists to South Africa decrease from all the leading overseas countries, except France, with the number of tourists from China falling by 28.4% in the year to June 2015.

The business confidence index fell to its lowest in 22 years in September, reflecting growing concerns about domestic and global economic growth. The SACCI business confidence index slid to 81.6 from 84.3 in August, reaching its weakest level since July 1993. The trade balance deficit widened nine-fold to R9.9 billion from R1.1 billion in July on lower global demand. The Barclays manufacturing PMI was little changed at 49 last month from 48.9 in August.

South Africa's official unemployment rate increased to 25.5% in the third quarter from 25% in the second quarter.

On the inflation front, producer price inflation rose to 3.6% year-on-year in September as food prices ticked higher, while consumer price inflation stayed stable at 5.3%.

The Medium Term Budget Policy Statement brought few surprises. National Treasury lowered its projected budget deficit to 3.8% of GDP in 2015 on the back of spending cuts and cost controls. The budget deficit is expected to decline to 3.3% in 2016/17 and 3.2% in 2017/18. On the negative side, growth forecasts have been cut to 1.5% for 2015 and 1.7% for 2016. Minister of Finance, Nhlanhla Nene emphasised that stabilising the ratio of gross debt to GDP, which is expected to stand at

49% over the next three years, was the government's central fiscal objective. Government debt is a major risk to the country's finances and a major concern to credit rating agencies.

Non-tax revenue was boosted to R28.9 billion with R25.4 billion derived from the sale of the government's stake in Vodacom. This will be used to fund Eskom and South Africa's R2 billion capital contribution to the New Development Bank.

On the expenditure front Treasury has maintained its expenditure ceiling and has not imposed any further cuts. About R9 billion has been shifted to priority programmes including road upgrades and maintenance, provincial public transport and the roll-out of broadband infrastructure and digital migration.

The three main risks to the fiscal outlook are weak economic growth, the public sector wage bill and financial support for state-owned companies and other entities beyond what is currently budgeted for. An example of the last came soon enough with President Jacob Zuma's announcement of no increases in university fees for 2016 expected to add R3 billion to the expense line.

Inflation is expected to equal 4.8% this year, rising to 6.2% next year before falling back to 5.9% in 2017.

The rating agency Fitch has raised concerns over South Africa's high debt, increasing budget deficits and low growth, supporting expectations that a downgrade is imminent. Fitch is the only one of the three major rating agencies that has a negative outlook on its rating.

The IMF downgraded South Africa's economic growth forecast to 1.4% in 2015 and 1.3% for 2016, lower than the forecasts of National Treasury, the Reserve Bank and the World Bank. The Reserve Bank sees the economy growing 1.5% this year and 1.6% next year, while the World Bank forecasts 1.5% and 1.7%, growth, respectively.

The MTN share price fell sharply as a consequence of a US$5.2 billion fine imposed by the Nigerian regulator. The fine relates to the timing of the disconnection of 5.1 million MTN Nigeria subscribers who were disconnected in August and September 2015. MTN needs to have its licence renewed next year in Nigeria. Any conflict with regulators could become a major problem.

On a slightly different scale, Sygnia Limited debuted on the main board of the JSE on 14 October at R13.56 a share, a premium of 61% its pre-listing issue price of R8.40. This valued the group at R1.86 billion on a price-earnings ratio of around 23.5 times.

ODDS AND ENDS

CORPORATE UPDATES

…GLENCORE

Glencore's share price staged a valiant recovery after a plunge driven by concerns about the company's ability to pay back debt on the back of the sharp fall in commodity prices. Glencore went on an aggressive communications blitz offensive, reassuring investors that it has adequate liquidity. Glencore is seen as a bit of a proxy for the commodities sector because of its size, diversity and the tradability of its shares.

Among a number of cost cutting measures and asset sales, Glencore announced the closure of its Eland platinum mine in South Africa, citing falling platinum prices and rising energy and labour costs.

…SABMiller

Anheuser-Busch InBev has agreed to buy SABMiller for about £68 billion, raising its bid after several rejections to eventually clinch a deal that will bring one out of every three beers sold worldwide under a single company. Anheuser-Busch InBev will pay a 50% premium on SABMiller's closing value on 14th September, the day before speculation of a deal surfaced.

A tie-up between the two beer companies will combine household brands such as Budweiser, Corona and Stella Artois with Pilsner Urquell, Grolsch and Peroni, and give the combined company a major presence in the US, China, Europe, Africa and Latin America. Because of the global reach of AB InBev and SABMiller, they will have to seek anti-trust clearance from jurisdictions around the world. AB InBev said it would establish a secondary listing on the JSE.

GREED OVER REASON?

Bill Gross, the co-founder and former CIO of PIMCO, is suing the company for US$200 million for breach of contract, alleging that other directors forced him out in order to split his share of the bonus pool. Gross left PIMCO in September 2014. His bonus amounted to US$16 million in the first two quarters of 2014, with US$80 million more expected later in the year.

TRANS-PACIFIC PARTNERSHIP

The Trans-Pacific Partnership is the biggest trade agreement in history, reducing tariffs and other forms of protectionism in a dozen countries making up about 40% of the global economy. The deal came after five years of negotiations between the US, Canada, Japan, Australia, Brunei, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. The US estimates that it will eliminate 18 000 tariffs on US-manufactured goods, while critics argue it will kill US manufacturing jobs, reduce environmental standards and raise drug prices. The deal must still be ratified by lawmakers.

DISCLOSURE

The information and opinions contained in this document are of a general nature and are not intended to address the circumstances of a particular individual or entity. Sygnia does not act as advisor or in a fiduciary capacity towards the recipient(s).

Whilst reasonable care was taken in ensuring that the information contained in this document is accurate, Sygnia does not warrant its accuracy, correctness or completeness and accepts no liability in respect of any damages and/or loss suffered as a result of reliance on the information in this document. Sygnia does not undertake to update, modify or amend the information on a frequent basis or to advise any person if any information provided in this document is found to be inaccurate or subsequently becomes inaccurate.

No one should act on the information contained in this document without having obtained appropriate and professional investment, legal, tax and such other relevant advice as may be required in each instance.

The figures and values are calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Limited ('JSE') in accordance with standard criteria. Figures and values quoted are the proprietary information of FTSE and the JSE. All copyright subsisting in the Figures and values vests in FTSE and the JSE jointly. The data was obtained from I-Net Bridge.

SYGNIA ASSET MANAGEMENT (PTY) LTD Registration No. 2003/009329/07
CAPE TOWN 7th Floor The Foundry Cardiff Street Green Point 8001 T +21 446 4940 F +21 446 4950
JOHANNESBURG Unit 40 6th Floor Katherine & West Building West Street Sandton 2196 T +10 595 0550 F 0862 065 173
www.sygnia.co.za | info@sygnia.co.za | Sygnia Asset Management is a licensed Financial Services Provider (FSP 873)