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Macro-Economic INSIGHT

Shedding light on macro-economic developments

Week 1 & 2 January 2016

HIGHLIGHTS

Macro-economic indicators			Agri-economic indicators (Q3)		Commodities R/ton (13/01/16)		
Q3 GDP (Rmil)	↑	3 046 807	Value of Agric (Rmil)	208 252.4	White maize	↑	R4 830
GDP Growth(Q3)	↑	0.7%	AgriGDPgrowth (Q3)	-12.6%	Yellow maize	↑	R3 790
R/$	↓	R16.65	Share of AgriGDP	2.2%	Wheat	↑	R4 982
Crude oil	↓	$25.99	Net Farm Income (Rmil)	65 952.4	Sunflower	↑	R7 201
Interest (Repo / Prime)	↑	6.25% / 9.75%	Total Agri-debt (Rmil)	116 575.6	Soybean	↑	R7 170
Inflation (CPI / PPI)	↑	5.2%/ 4.3%	DAFF Agric. Public budget 2015/16 (Rmil)	6 383.0			

. The US economy expanding with a buoyant jobs market, even though some areas remain flat.
. The EU started the year on a tricky path, with downside risks to its economic prospects.
. Japan's economy continues to struggle but government determined to boost sluggish growth.
. Emerging market economies still under pressure from volatile stock markets and capital outflows.
. African countries forecasted to have mixed growth in 2016 due to drought and high public debt.
. Global oil price fell to just below $31/barrel on the back of the sustained global surplus.
. The rand weakened to new lows in January, posing upside risk to the inflation outlook.
. The local bond market was hit hard as investors fled to purchase safer assets abroad.
. Domestic outlook remains on the downside, with tax increases in the pipeline.
. Agricultural commodity prices increased due to the drought and food shortage issues in the country.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Developed Economies

The **US** economy is still gaining speed even in the face of global fears. There is a global debate whether the Fed will hike interest rates even further this year as economic indicators strengthen. For all of 2015, the economy added 2.65 million jobs, which was the second best year of jobs gains since 1999. Wages also gained momentum, putting more money into consumer's pockets. A boost in consumer spending was one of the last indicators to turn the corner in the US recovery.

US economy gaining speed.

In the **EU** growth is recovering slowly even with the benefits of a weak euro, rock-bottom interest rates and very low energy prices. The banking system seems to be in better shape than it was at the height of the crisis. However, there are still countries that remain fragile such as Greece, Cyprus and Portugal. The weakness in GDP growth has also made it hard to cover debt. Nonperforming loans in Italy reached systemic levels hindering the recovery. Politics have also played a role in influencing the economic environment, the recent refugee crisis threatened economic integration, which later encouraged countries such as Germany, Sweden and Denmark to reimpose border controls.

EU recovery fragile as weaknesses in the banking sector persist.

Japan's economy was affected by the stock market turbulence in the year's first week of trading. This has cast doubt on the recovery of the country, especially since private economist slashed the government's forecast of GDP growth in the fiscal year beginning in April estimated to reach 1.7% in real terms — up sharply from around 1% estimated for the 2015 fiscal year. There are also various downside risks to the economy and the government must be ready to take appropriate steps.

Japan GDP forecast for 2016 may be too optimistic.

Emerging Market Economies

Brazil's economy may be plunging into a recession after being declared to be in a technical recession in recent months, with GDP contracting for three consecutive quarters. The outlook for 2016 is slightly worse as Brazil's economy is expected to contract by about 3% if the government administration fails to reduce the budget deficit and control inflation.

Brazil economic growth expected to contract.

India's economy remained strong in the midst of the global slowdown and impact from the Chinese stock market crash. India is expected to remain amongst the fastest growing economies in 2016. With China's growth targets in doubt, India may be the only economy in the world to expand more than 7% this year. The government plans to transform the country into a more pro-business economy by boosting manufacturing and allowing for more free trade.

India may surpass China as economic powerhouse.

China's renewed turbulence in the stock market highlights some of the challenges that the government will face in 2016. Investors have lost confidence in the Chinese economy due to uncertainty in the markets. After more than two decades of tremendous growth China now faces some serious problems, thus policy reform will likely be targeted as a priority in an effort to drive the economy to sustainable levels of growth.

African Economies

Southern Africa: The Zimbabwean economy is expected to rebound in 2016 after sparking fears of a recession last year. The World Bank's Global Economic Prospects forecasts that annual GDP growth will almost triple to 2.8%. Namibian farmers are in need of government's drought relief aid. The agricultural sector is under severe pressure at the start of the crop planting season due to erratic rains which resulted in more imports and higher food prices.

Drought likely to depress growth in the agricultural industry.

East Africa: In Uganda the concerns about the exchange rate have put gloom into election year. The central bank has attempted to restore stability in the economy. However, interest rates remain extremely high at about or above 23%. Kenya will only accelerate slightly in 2016 due to a large fiscal deficit and rising public debt, a weak shilling and tight monetary policy that will present challenges for the economy.

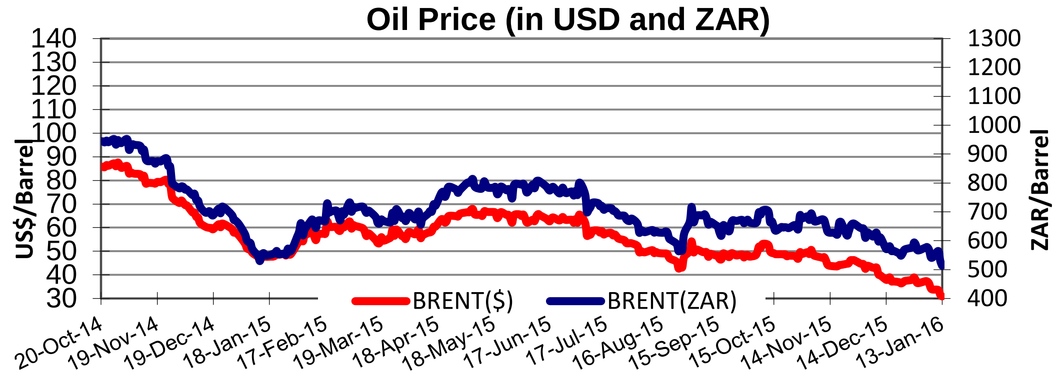
African countries forecasted to grow marginally in 2016.

West Africa: The Nigerian government seeks to stimulate the economy, making it more competitive by focusing on infrastructural development, delivering inclusive growth, and prioritizing the welfare of all its citizens. The IMF announced it is broadly satisfied with the bailout programme with Ghana. However, the economic outlook remains difficult with risks tilted to the downside.

COMMODITIES: *Brent crude oil*

Global Brent crude oil price declined further in the fist month of the new year due to concerns about slow economic growth in China and worsening global surplus. The oil price is expected to lower the prices of diesel and petrol in the next coming months if challenges persist. The OPEC members are expected to have an urgent meeting to review its production strategy and try to limit the supply. Markets suggest that the price is likely to drop in future as storage tanks reach their limit. Oil is trading around $30.86/barrel.

Brent Crude oil prices drop to $30 a barrel.

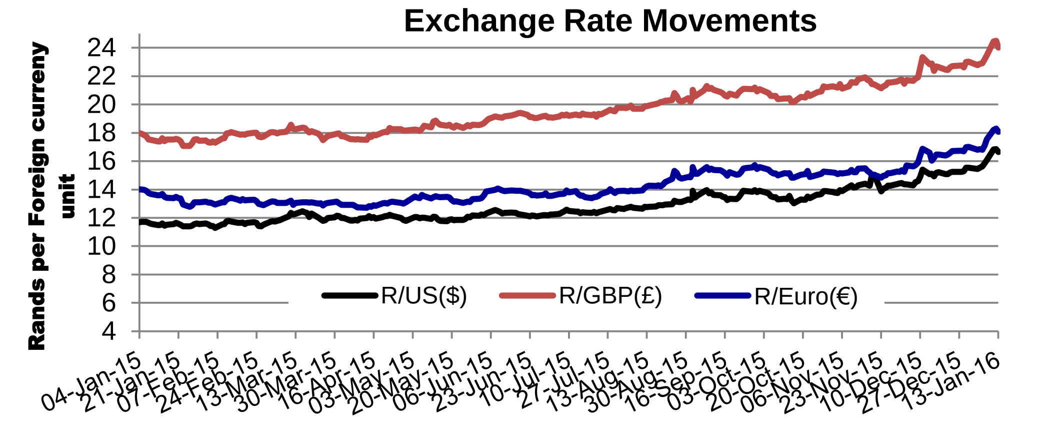


Source: Land Bank Information Bank

DOMESTIC MARKET: Exchange rate

The Rand continues to depreciate against US dollar and pound as a result of negative sentiments in global economic markets. The weakness of the rand is likely to put pressure on the SARB to consider hiking interest rates at the monetary policy meeting later this month. The markets also pointed the depreciation of the rand at the reshuffling of the finance minister at the end of last year. The rand is trading around R16.7/$, R24.0/£ and R18.1/€.

Rand fluctuates to lowest level in over three years.



Source: Land Bank Information Bank

Bond Market: The bond market has been weak taking cue from the softer rand. Investors fled the volatile local currency market to other safety nets with favourable yields. The R159 and R204 both changed with 5 basis points whilst R203 and R186 changed with 11 and -3 basis points respectively.

Local bond market weaker on the back of a depreciating rand.

SA Yields & Spreads	15-Jan-16	Week ago	Change bps
3MNT NCD spot	6.65	6.80	-0.15
159	8.30	8.25	0.05
203	9.34	9.23	0.11
204	9.04	8.99	0.05
186	9.91	9.94	-0.03

Source: Land Bank Information Bank

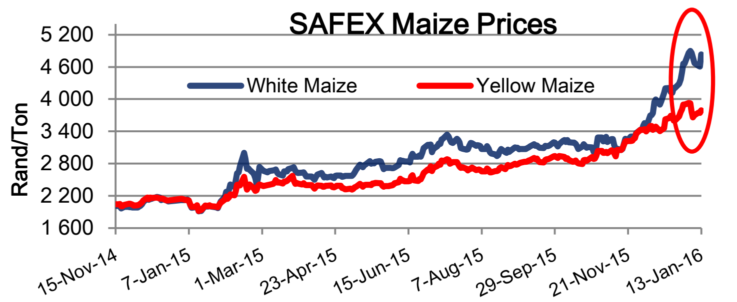
DOMESTIC DEVELOPMENTS

Government finance figures in November showed a sharp decline in government revenue, falling to 3.3%, from 16.2% in October, especially from personal tax and VAT. The slower economic growth might have had an impact on revenue collections. However, there was also a reduction in the growth of government expenditure to well below what was budgeted, which brought some balance and prevented further shortfalls. Furthermore, there are fears that the economy might weaken even more, making it difficult for government to constrain the budget deficit to no more than 3.8% of GDP in the current fiscal year. Investors will be looking forward to the 2016 budget speech to her the fiscal stance of the new Minister of Finance. Substantial tax increases may be in the cards if government wants to succeed in proving to the world that it is committed to fiscal discipline.

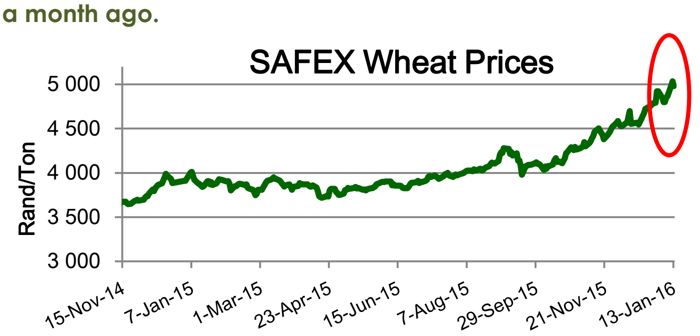
The monthly trade balance showed an improvement of R23.37 billion in November, taking the trade balance to a surplus of R1.77 billion from an upwardly revised deficit of -R21.60 billion (previously reported as -R21.39 billion) in October 2015. The massive decline in October was attributed to seasonal factors such as imports ahead of the festive season. The main driver of the uptick in the trade balance was the steep decline in international crude oil prices which has reduced the value of oil imports by -32.5%. On the other hand, South African exports were more competitive with the weakness of the rand. The value of mineral exports increased marginally over this period, by 2.0%. The rand continues to depreciate which is good news for exporters, however as a net importer, the Trade balance is at a high risk of falling back into a deficit.

Y-o-y manufacturing production rose to -1.0% in November, from -2.1% in October. Even though growth improved, it was still below expectation. It is evident that the slowing growth in China has led to a decline in the demand for manufactured and processed metal exports from South Africa. In contrast, the PMI fell sharply in November to 43.3 from a reading of 48.1 in October. In the wake of the Rand's steep depreciation over the past few months and the lower demand for South African exports, there is a strong likelihood that the manufacturing sector will decline further and consequently pull the rest of the economy into recession.

SAFEX maize prices have been increasing as farmers struggle to meet market demand due to drought. The insufficient maize output will affect the balance of payments in the country due to high level of spending of maize imports. The maize prices are estimated to stay elevated throughout the year and also at the beginning of next year. The white maize price has increased by 23%, while yellow maize increased by 9% from a month ago.



SAFEX wheat prices have increased as there is a fall in the areas planted due to dry weather conditions. Wheat production is expected to be low in South Africa as planting season has passed. The current rainfall is expected to support the growth and development of wheat already planted. The wheat is trading around R4 982/ton, an increase of 6.3% from a month ago.



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