Monthly Insights

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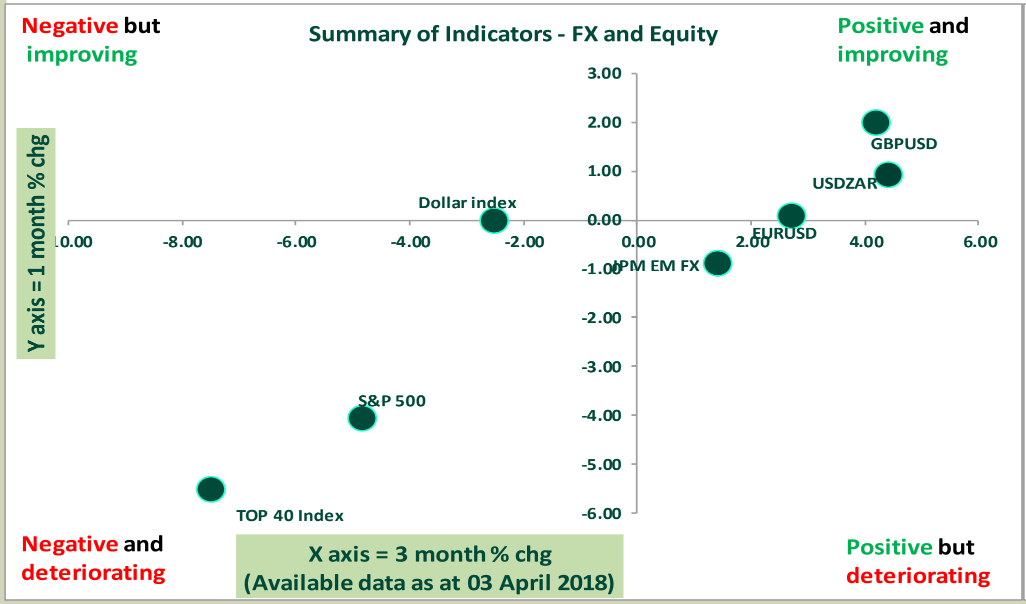
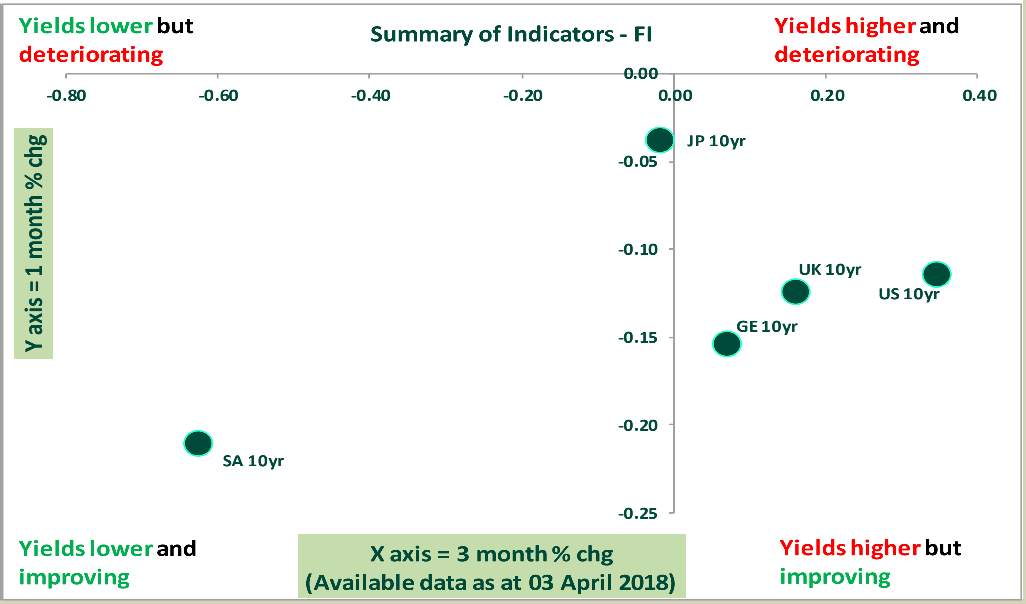
EXECUTIVE SUMMARY

2Q18 presents some temporary inflationary risks

Contents

- The economy ended 2017 in better shape than most expected. Stats SA revised the GDP figures for past three years upwards. It now shows that real GDP grew by a seasonally adjusted annualised 3.1% q-o-q in 4Q17, compared with growth of 2.3% and 2.9% in 3Q17 and 2Q17 respectively and a contraction of 0.5% in 1Q17. This acceleration helped push GDP growth for 2017 as a whole to 1.3% from an upwardly revised 0.6% in 2016. The recent revisions to the GDP figures have bumped up our forecast for 2018 and 2019 to 1.8% (previously 1.6%) and 1.9% (previously 1.8%) respectively. Our forecast for 2020 remains unchanged at 2.4%.
- March was an eventful month, with Moody's leaving SA's sovereign credit rating unchanged at Baa3 and raising the outlook to stable from negative. Furthermore, the SARB reduced the repo rate by 25bps as the risks of a weaker rand has receded following the Moody's credit rating review (as the threat of a WGBI exclusion has diminished). The local bond market rallied sharply over the past month, with the nominal bond curve flattening by almost 30bps.
- Similarly, the rand remained strong in March, supported by expectations of a 'stay of execution' by Moody's and a stable socio-political backdrop. The SARB decision to reduce the interest rate in March may slow down the pace of the appreciation in the rand in the near-term (due to lower real yields). Marginal rand weakness is envisaged through the course of the year. However, should the rand surprise to the upside, this will likely pose some downside risks to the inflation profile, particularly that of the SARB's. We still believe that the current real interest rate is still supportive of persistent foreign capital inflows, which could see the rand being supported further in coming months, although this is not our base case.
- The SARB's key focus at the moment seems to be bringing down inflation expectations to 4.5%. Nedbank CIB Markets Research forecasts a further 25bps reduction in the repo rate this year, however, we see this cut coming through in July or September 2018 rather than in May, as the SARB reflects on various data releases (inflation expectations being key) and the trajectory of the rand exchange rate in the interim.





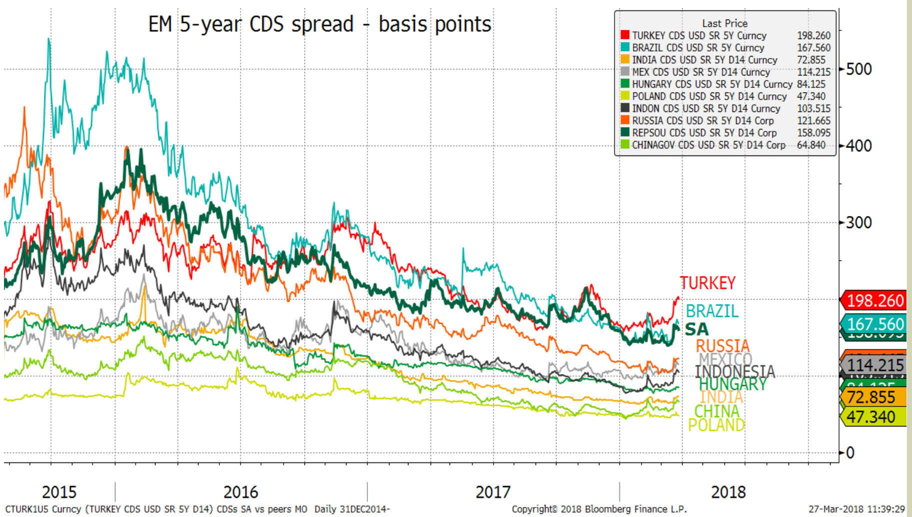
Source: Nedbank, Bloomberg

FOCUS OF THE MONTH: MOODY'S MAINTAINS SA'S CREDIT RATING, RAISES OUTLOOK

Fiscal consolidation, better growth, positive political and institutional backdrop helps avert a downgrade

- There was some good news on the ratings front. Moody's Investor Services kept SA's foreign and local currency rating one notch above junk at Baa3, but changed its outlook from negative to stable. The decision was motivated by:
- The positive changes in the country's political leadership, which appears to have 'halted the gradual erosion of the strength of SA' institutions', particularly at National Treasury, SARS, key SOEs and Mineral Resources.
- The tough measures adopted to restore fiscal discipline in this year's budget. Moody's felt that the combination of tax increases and expenditure cuts should help stabilise government's debt at around 55% of GDP.
- Signs of a cyclical recovery in economic growth, supported by improvements in business and consumer confidence which, if sustained, could result in higher levels of fixed investment, which is ultimately essential for faster and sustainable economic growth and job creation.
- Moody's felt reassured by government's recognition of the need to support and reinforce confidence with steady progress on structural reforms in mining, energy, SOEs and competition.
- The agency also stressed that 'significant' uncertainties remain, noting that the new administration's ability to implement structural reforms is still to be 'fully tested'. They highlighted that the government's policy agenda is 'broad and challenging', containing diverse and conflicting priorities, which not only creates policy uncertainty, but inflames tensions within the ruling ANC and broader society. To illustrate this point they singled out the renegotiation of the mining charter and the plan to accelerate land reform through expropriation without compensation. Disconcertingly, Moody's noted that how government handles these two initiatives will 'provide important insights into how it plans to balance nearer-term economic objectives (to sustain confidence and promote investment) against longer-term social and economic objectives (to address unemployment, inequality and poverty)'.
- Analysts at Standard and Poor's rating agency have indicated that while significant improvements have been made on the fiscal front, it is going to take sharp increases in nominal GDP growth to push per capita GDP levels higher – this is what is needed for a ratings upgrade to take place in our opinion. Along with this, policymakers will likely need to introduce structural reforms to boost competitiveness and to raise potential growth and ultimately reduce the country's debt burden.
- **While a ratings upgrade may be a long way out, we do believe that the downgrade risks have subsided – in fact, we could see the next move higher over the long run, rather than lower. This is premised on a better fiscal outlook, improved economic momentum and a more stable institutional framework. We have already seen SA's CDS spread narrow relative to the likes of Russia, Brazil and Turkey, representing this view.**

Moody's		S&P		Fitch		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1		A+	A-1	A+	F1	Upper medium grade
A2		A		A		
A3	P-2	A-	A-2	A-	F2	
Baa1		BBB+		BBB+		Lower medium grade
Baa2	P-3	BBB	A-3	BBB	F3	
Baa3 (stable) FC+LC		BBB-		BBB-		
Ba1		**BB+ (stable) LC**	B	**BB+ (stable) FC+LC**	B	Non-investment grade speculative
Ba2		**BB (stable) FC**		BB		
Ba3		BB-		BB-		
B1		B+		B+		Highly speculative
B2		B		B		
B3		B-		B-		



Source: Nedbank, Bloomberg, Ratings agencies

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ECONOMIC INSIGHTS – DOMESTIC

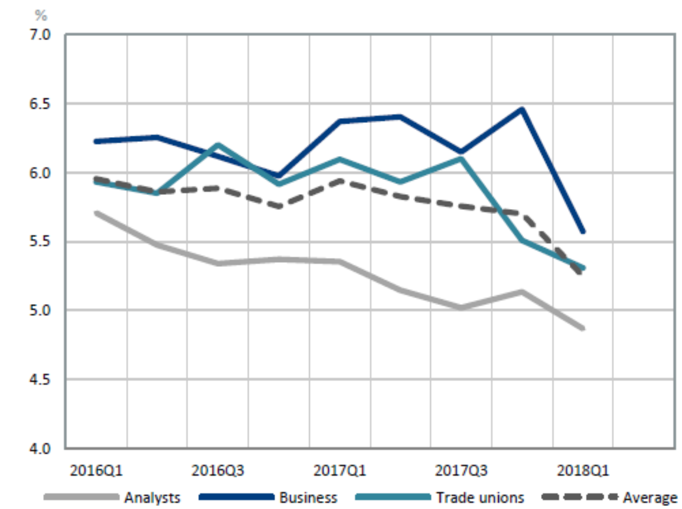
Modest growth still remains the most likely path for the foreseeable future, in our view

- **The economy ended 2017 in better shape than most expected. Stats SA revised the GDP figures for past three years upwards. It now shows that real GDP grew by a seasonally adjusted annualised 3.1% q-o-q in 4Q17, compared with growth of 2.3% and 2.9% in 3Q17 and 2Q17 respectively** and a contraction of 0.5% in 1Q17. This acceleration helped push GDP growth for 2017 as a whole to 1.3% from an upwardly revised 0.6% in 2016. Much of this was the result of the strong rebound in agriculture throughout 2017, brought about by good summer rains, which helped produce a record field crop, much higher horticultural production and a recovery in animal farming. Excluding agriculture, the underlying pace of economic activity remained relatively weak, expanding by a modest 0.9%. Moderate growth was recorded in mining, finance, transport and communications as well as personal services over 2017 as a whole. While manufacturing and domestic trade (particularly retail sales) picked up significant pace towards year-end, it was insufficient to compensate for the weakness in previous quarters. Consequently, value added by manufacturing and domestic trade declined by 0.2% and 0.6% respectively in 2017. Construction activity remained depressed throughout the year, contracting by 0.3% in 2017.
- The gross domestic expenditure figures suggest that the recovery in economic activity and domestic spending throughout last year was almost exclusively driven by a strong rebound in household consumption expenditure (up 2.2% in 2017). Yet the surge in consumer spending was only visible in value added by the broader domestic trade, accommodation and catering sector in the final quarter. For 2017 as a whole, this category fell by 0.6%. Apart from the contribution by households, domestic spending was also supported by higher inventory holdings (up R7.5 billion) and a modest recovery in fixed investment (up 0.4%) towards the end of last year. In contrast, growth in government consumption expenditure slowed to 0.6%, while country’s net export position deteriorated sharply as imports outpaced exports. The latter also appears at odds with the growth recorded in value added by agriculture and mining throughout last year and manufacturing towards the end of 2017.
- There is not enough data available to draw any meaningful conclusions on the economy’s performance in early 2018. In January 2018, production and sales in most major industries expanded further, but at a slower pace than was the case towards the end of last year. However, trading conditions in the markets for wholesale trade, new vehicles and buildings deteriorated in January and February.
- **Economic growth is still forecast to improve, but downside risks have increased somewhat in recent weeks.** On the upside, the new political leadership continues to make good progress in its drive to root out corruption, restore fiscal discipline and reform SOEs, sufficiently so to avoid the dreaded credit rating downgrade by Moody’s and to ensure South Africa’s place in Citi’s World Government Index, thereby removing the cloud of large-scale forced government bond sales that have hovered over the value of the rand since late 2015. On the downside, we believe that the government’s approach to land reform has taken a dangerous turn, compromising a Constitution revered the world over, threatening private property rights and fuelling social tensions. To make matters worse, rather than leading the drive for accelerated land reform through considered policies based on international best practice, the Ramaphosa administration appears to have been pushed into this populist corner by the more reckless factions within their own party and the radical left opposition. Social tensions and expectations may intensify and escalate as the rhetoric of politicians tend to become more populist and divisive in the run up to general elections in South Africa. Some jitters and concerns are therefore expected to return later this year. In our opinion, the big test is whether government will implement the structural reforms needed to accelerate growth. We think that progress will be relatively slow ahead of the elections and therefore still expect only moderately faster growth over the next three years. **However, the recent revisions to the GDP figures have bumped up our forecast for 2018 and 2019 to 1.8% (previously 1.6%) and 1.9% (previously 1.8%) respectively. Our forecast for 2020 remains unchanged at 2.4%.**
- The Reserve Bank’s revised its growth forecast for 2018 higher to 1.7% (previously 1.4%), but lower for 2019 to 1.5% (previously 1.6%) and forecasted growth of 2% in 2020.

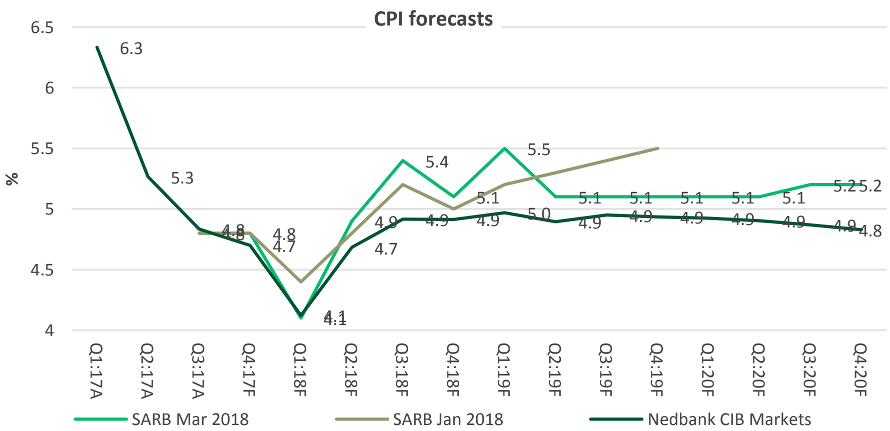
Key local developments

bps Δ -1m		JIBAR 3m	-24.20		
SA 10yr	-21.00	SA 5y CDS	5.37	3X6 FRA	-11.00

Figure 2: CPI inflation expectations: 2018



Source: BER



Source: SARB, Nedbank CIB Markets Research

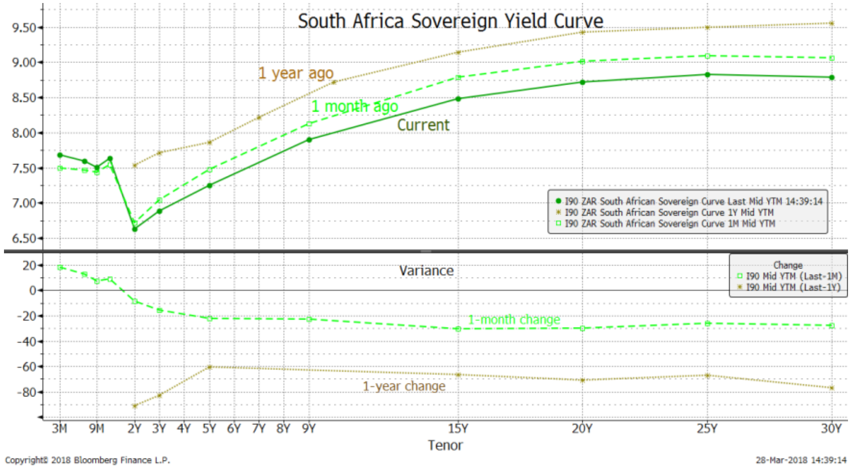
March 2018 SARB MPC: Inflation expectations are key

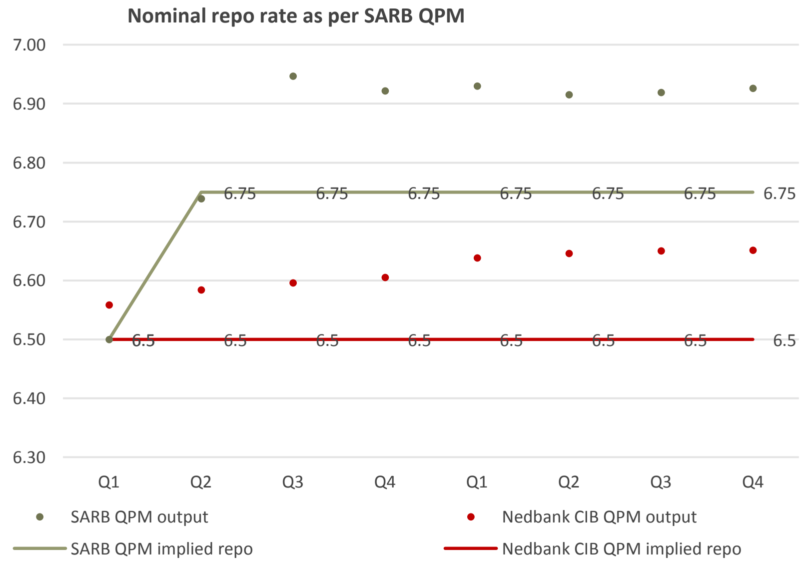
- **The SARB reduced the repo rate by 25bps to 6.5%, taking prime to 10%. This was in line with the consensus view as well as with our own expectations.** Four MPC members voted in favour of the cut and three members voted for unchanged interest rates. The inflation profile was raised out to 1Q19 (taking into account the effect of a VAT hike); inflation forecasts were then reduced sharply thereafter (Chart 1). The SARB now sees headline inflation averaging 4.9% in 2018 (unchanged), while it is expected to average 5.2% in 2019 (previous 5.4%). **The SARB indicated that the risks to the inflation outlook are now balanced, compared to the upside risks highlighted in January 2018. The SARB's QPM model now generates an endogenous interest rate path, showing one interest rate hike of 25bps (vs two hikes previously) over the next two years.**
- Compared with the January statement, we read today's MPC statement as more dovish than before, but we expect that it may have disappointed the market somewhat. The MPC chose to look through the VAT hike in their interest rate decision. Further supportive of the decision to reduce interest rates now was a downward revision to the growth forecast in 2019, a negative output gap, sharply lower inflation expectations (5.2% and 5.3% in 2018 and 2018 vs 5.7% and 5.9% previously), and the removal of previous upside risks to the outlook. Nonetheless, the GDP growth profile has improved, the output gap has narrowed and seen meeting potential growth by 2020. Risks to the growth outlook are assessed to be to the upside, as a result of improved business and consumer confidence, as well as better fixed investment.
- It is clear that the MPC would prefer that surveyed inflation expectations be anchored closer to the 4.5% level over the medium-term. As such, given that the next BER surveyed inflation expectations report is only due for release in July 2018, the SARB may be reluctant to make any decision on the repo rate in May without knowing which way inflation expectations have moved.
- It is worth noting that the SARB sees the risks to the inflation forecasts as balanced. Secondly, we note that the SARB has adjusted its neutral real rate for 2019 marginally lower, from 2.2% to 2.1%. This may be indicative of a SARB that is less concerned about the external environment. On a standalone basis, we read the recent move as slightly negative for the rand in the near-term (given lower real yields).
- **Overall, the stronger rand and the receding upside risks from a weaker rand warranted a cut, in our opinion. As pointed out, the SARB's QPM model still signals one hike by the end of 2019. We believe that the QPM repo rate forecast may well adjust lower again in coming months.** However, key from this meeting is that the MPC has signalled that it can cut rates irrespective of what the QPM model signals.

INTEREST RATE INSIGHTS

Key local developments

bps Δ -1m		JIBAR 3m	-24.20		
SA 10yr	-21.00	SA 5y CDS	5.37	3X6 FRA	-11.00





- **The local bond market rallied sharply over the past month, with the nominal bond curve flattening by almost 30bps**. There were a few reasons for this rally: foreign investors continue to buy SA bonds (despite the recent risk-off sentiment); Moody's kept SA's credit rating unchanged at Baa3, and raised the outlook to 'stable' from 'negative' which was a key surprise to the market; National Treasury announced a large R900m/week reduction in the weekly bond auction amount, to reduce total weekly bond issuance to R3.3 billion/week from R4.2 billion previously – the reduced supply was due to lower bond yields and large non-competitive auctions (averaging R30 billion a year) which necessitated the cut. This also provides an indication that National Treasury remains confident that fiscal targets are likely to be met in 2018/19 and growth is expected to recover sharply along with revenue collection.
- We replicated the SARB's Taylor Rule (which drives the nominal repo rate) that the SARB uses in their QPM. According to the SARB's latest forecast, from its March 2018 MPC meeting, the QPM signalled one hike of 25bps by the end of 2019. This was down from the two hikes projected at the January meeting**. Going forward, we do believe that inflation will likely rise marginally in 2Q18 – like we reported last month, the VAT hike combined with the fuel levy hike in April 2018 will be the key inflationary drivers, in our view . However, we still believe that the bias to the SARB's inflation forecast is to the downside.** Nonetheless, working with the SARB's assumptions, we show the QPM output (for the repo rate) alongside, relative to our estimates using Nedbank CIB Markets Research inflation estimates. Like last month, our estimated QPM profile has not changed, with a flat profile of the repo rate until the end of 2019.
- We still believe that the current real interest rate is still supportive of persistent foreign capital inflows, which would likely see the rand being supported further in coming months, after some temporary weakness after the recent rate cut. While we have used a USDZAR forecast which sees the currency weaken to R13.00 by year-end, the currency could surprise to the upside, which means that the bias even for our inflation profile may be lower. Furthermore, inflation expectations have dropped sharply recently, and if we continue to see inflation materialise below 5%, inflation expectations may well come in lower in the next report (due by July 2018).
- **The SARB's key focus at the moment seems to be bringing down inflation expectations to 4.5% -** should we see continued strides on the expectations front, we could see further easing from the SARB. Nedbank CIB Markets Research forecasts a further 25bps reduction in the repo rate this year, however, some patience is needed. **We see a bigger probability of the cut coming through in July or September 2018 rather than in May, because the SARB has stressed that further policy decisions will be highly data-dependent** (we take this to imply both actual inflation and inflation expectations data, combined with the trajectory of the rand). Hence we think the SARB will wait to scrutinise the surveyed inflation expectations data, before deciding on a cut in July. We note that our expectations for one more cut from the SARB this year differs from the Nedbank Group house view forecast, which expects no more cuts from the SARB this year (these forecasts are presented at the end of this report). There is little consensus in the broader market regarding the trajectory of the repo rate, which will likely take a while to merge as the market starts to understand the fairly new approach to monetary policy decisions with the introduction of the QPM.

Source: Bloomberg, SARB, Nedbank CIB Markets Research

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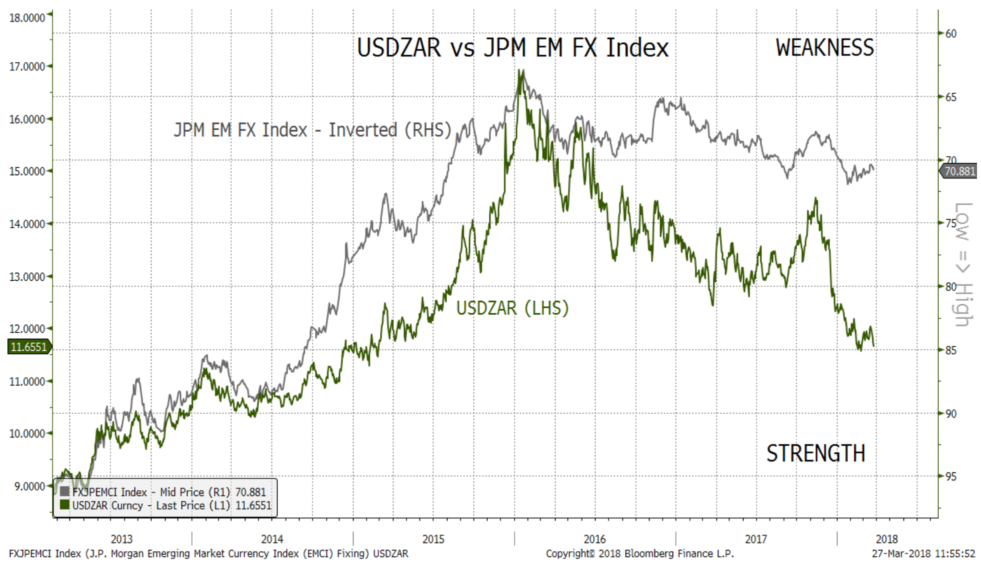
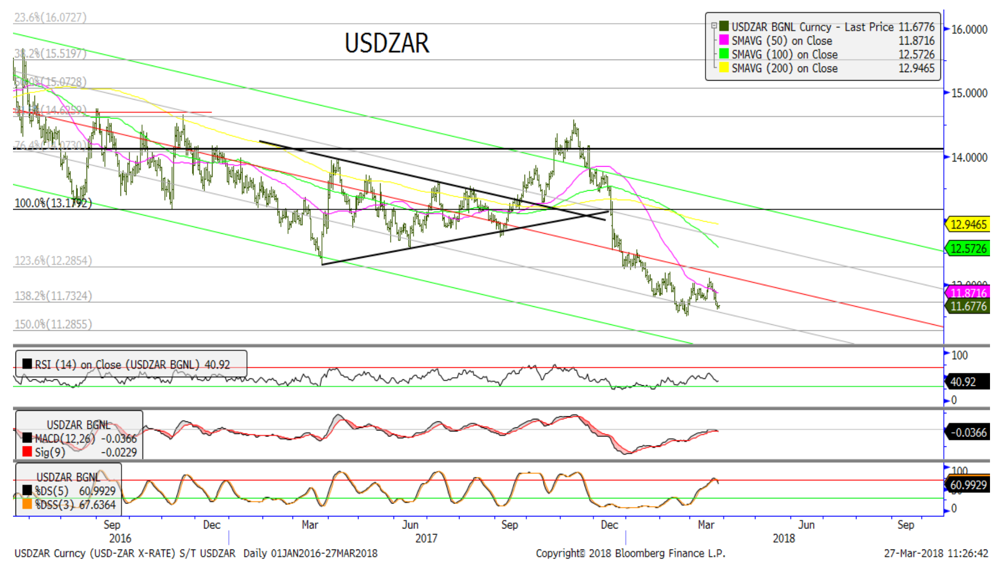
CURRENCY INSIGHTS

Local crosses

% Δ - 1m (Colour = base trend)					
USDZAR	-0.94%	EURZAR	-0.86%	GBPZAR	1.04%

- The rand ended marginally weaker in March, hurt initially by a spike in risk aversion, triggered by growing concerns of a potential trade war between the US and China, but later helped by Moody's confirmed SA's investment grade ratings and as fears of global trade wars faded somewhat on reports of renewed talks between the US and China.
- The local unit depreciated by a marginal 0.2% against the trade-weighted basket of currencies over March, containing its gain for the year to date to 2.5%. Most the depreciation was against a stronger euro, yen and pound. The rand ended the month slightly firmer against a weaker US dollar.
- From a technical perspective, we believe that the rand remains well-anchored below the long-term average of R12.06/$. Given the fundamental vulnerabilities outlined above and below, the rand could trend between the +1 and -1 standard deviation levels of R11.30/$ and R12.50/$ over the medium-term (downward-sloping grey lines on chart below). While we have projected a weakening exchange rate in our inflation forecast, as mentioned previously, any upside surprises in the rand would favourably impact our inflation profile. This could take the form of continued foreign capital inflows which could see the rand move to below R11.00//$ over the medium- to long-term.
- The rand outlook remains relatively favourable in our opinion, although the local unit is forecast to depreciate at a mild pace. We believe that the bulk of the good news on South Africa has been priced into the value of the rand. From here on the rand will probably be driven largely by changes in global risk appetites. So far, risk appetites have held up reasonably well, buoyed by expectations for stronger global growth and continued recovery in key emerging markets. However, risk aversion flared up early in February and again in early March and could easily return, especially if China's growth disappoints and global commodity prices relapse, geopolitical tensions rise suddenly and uncontrollably, or if US interest rates rise faster than currently anticipated. Local political tensions and policy impasses could also hurt the rand.
- The rand has diverged from the EM FX trend, with ZAR appreciation from the lows in 2016 to date at 31% currently, vs 14% for the EM FX index. This outperformance can be seen in the chart below.





Source: Bloomberg, Nedbank

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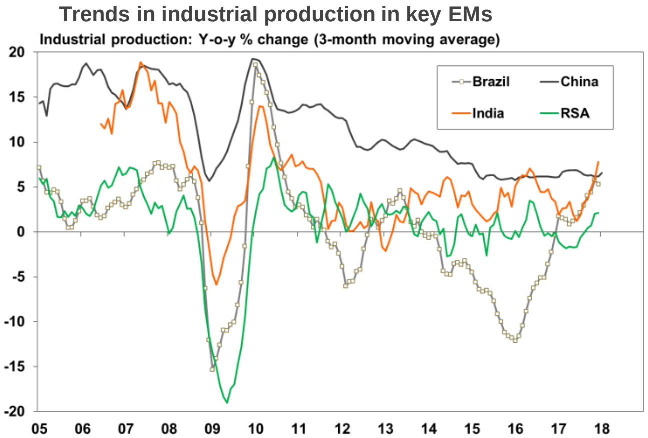
Fears of trade wars, overvalued markets and concerns over tech stocks dominated the headlines in March

Economic, fiscal and monetary indicators Available data as at 02 Apr 2018	Retail sales y/y %		Consumer confidence		GDP growth q/q ann.		PMI		Man. Prod. y/y %		Budget bal. (% of GDP)		Central bank rate %	
	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.	LAST	PREV.
US	4	3.9	127.7	130	2.9	3.2	59.3	60.8	0.95	-0.2	-3.4	-3.4	1.75	1.5
UK	1.5	1.5	-7	-10	0.4	0.5	55.2	55.3	1.6	0	-2.12	-2.39	0.5	0.5
Eurozone	2.3	2.1	0.1	0.1	0.6	0.7	56.6	58.6	2.7	5.3	-0.95	-1.22	0	0
Japan	1.6	1.5	44.3	44.7	1.6	2.4	53.1	54.1	1.4	2.5	-4.98	-5.67	-0.1	-0.1
China	9.4	10.2	122.3	122.6	6.8	6.8	51.5	50.3	6.2	6.1	-9.18	-12.1	4.35	4.35
Brazil	3.2	4	92	87.4	0.1	0.2	53.4	53.2	5.7	4.5	-8.49	-9.01	6.5	6.75
Russia	1.8	2.8	68.3	71.3	0.9	2.2	50.6	50.2	1.5	2.9	-2.14	-2.46	7.5	7.75
India	4740	4806	47.8	46.1	7.2	6.5	51	52.1	7.5	7.1	-3.97	-3.66	6	6
South Africa	3.1	5.1	-8	-8.6	3.1	2.3	50.8	49.9	2.5	1.8	-4.38	-4.21	6.5	6.75

- Most economic statistics confirmed that the global upswing remains in place, but a softer trend emerged in some advanced countries in early 2018.
- Economic news out of the US was positive. Retail sales picked up some pace in February, growing at a rate of 4% y-o-y. Consumer confidence rebounded strongly, more jobs were created than most expected, the unemployment rate was unchanged at a 17-year low of 4.1%, wages continued to increase at a rate of close to 5% y-o-y and inflation only edged up marginally to 2.2%. Industrial production accelerated, up just over 4% y-o-y in February, boosted by sharply higher output in mining and utilities, which was further amplified by steady growth in manufacturing. Most forward-looking purchasing managers' indices (PMIs) suggest that underlying trading conditions and business confidence strengthened even further in March.
- The UK also fared better in early 2018, in our opinion. Industrial output growth accelerated in January, while manufacturing conditions and business confidence held up reasonably well in February. Activity in the services sector improved significantly in February, with companies reporting strong growth in new business and continued job creation.



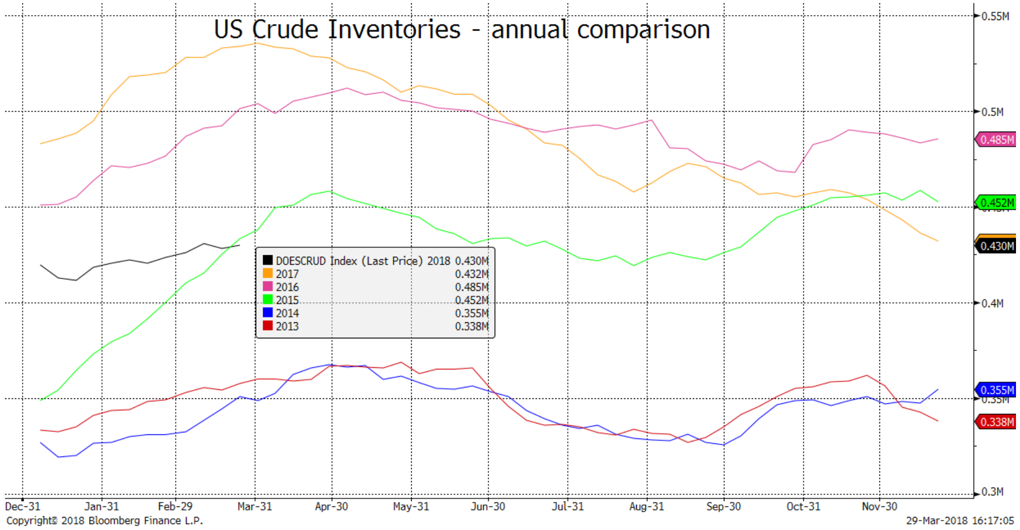
- Retail sales grew at a steady, albeit unimpressive, pace in both January and February. In the three months to January, the unemployment rate eased to a 42-year low of 4.3% and nominal wage growth picked up slightly, but real wages declined for the 11th consecutive month. Consumer inflation was also moderated to a seven-month low of 2.7% in February, while core inflation eased to 2.4%. In the Eurozone, softer conditions prevailed in the early part of the year. Industrial output growth eased off slightly in January, while underlying trading conditions deteriorated further in February and March. Most PMIs still remained above the key 50 threshold that signals expansion, but slower growth was recorded in factory output, new export orders and job creation. Price pressures also eased, with consumer inflation moderating to 1.1% and core inflation steady at 1% in February. In contrast, retail sales growth picked up moderate pace in January, with consumers still relatively upbeat about future prospects and the unemployment rate unchanged at a nine-month low of 8.6%. A weaker trend was also visible in Japan. Slower growth was recorded in retail sales and industrial output in January. Underlying conditions in manufacturing and services deteriorated systematically over the three months to March, with softer growth in output, new orders and employment tempering confidence somewhat. Higher transport costs and food prices pushed headline inflation to a 35-month high of 1.5% and core inflation to 1% in February.
- Economic activity in key emerging markets picked up pace in early 2018. China's economy remained relatively robust, with both industrial production and retail sales growing at a faster pace in January and February than were the case towards the end of last year. The recoveries in Russia and Brazil gathered momentum, still primarily driven by the gains in the global commodity markets, but increasingly supported by faster growth in domestic demand due to easing price pressures, lower interest rates and faster job creation. India also held up well as growth in industrial production accelerated, trading conditions stabilised and the financial environment improved further.

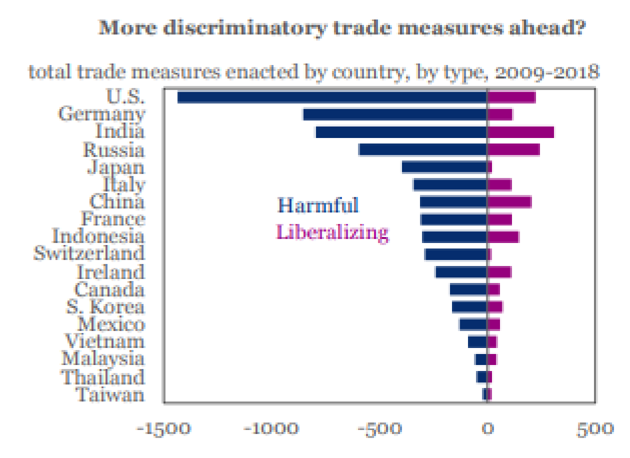
Source: Bloomberg, Datastream, Nedbank

GLOBAL INSIGHTS

Key global developments

bps Δ -1m		Germ. 10yr	-15.40			% Δ -1m		SA white maize	5.51%
US 10yr	-11.40	UK 10yr	-12.40	UK 3m LIBOR	12.71	Brent	5.67%	Dow Jones	-3.64%
JPM EMBI	12.96	JN 3m LIBOR	3.64	JN 10yr	-3.80	Gold	1.10%	S&P 500	-4.06%
% Δ - 1m (Colour = base trend)		USDJPY	0.36%	USDCNY	-0.96%	Eurostoxx 50	0.14%	NIKKEI 225	0.52%
GBPUSD	2.01%	USDAUD	0.81%	JPM EM FX	-0.88%	DAX	0.14%	MSCI World	-2.45%
EURUSD	0.08%	USDCHF	1.76%	DXY	-0.02%	FTSE 100	-0.95%	MSCI EM	-1.07%





Source: IIF, Global Trade Alert

- Global markets were weaker and more volatile in March, hurt by growing fears of a trade war between the US and the rest of the world, particularly China. These concerns were triggered by US President Donald Trump's decision to slap a 25% import tariff on steel, 10% on aluminium and 25% tariffs on targeted Chinese technology and communications goods (as yet unspecified) of up to $60 billion over alleged abuses of US intellectual property. President Trump wants to slash the US deficit with China by $100 billion and indicated that the US is considering other actions such as restrictions on Chinese investments in US technology companies. In response, China threated to lodge a complaint at the World Trade Organisation (WTO) and countered with plans to impose tariffs of up to 25% on US imports to tune of about $3 billion, including US port, recycled aluminium, steel pipes as well as fruit and wine products. Since then the US has offered temporary exemptions on the steel and aluminium tariffs to the EU and six other countries, namely Argentina, Australia, Brazil, Canada, South Korea and Mexico, which is still under the NAFTA umbrella. Towards month-end the markets bounced on reports that both the US and China were willing to renegotiate tariffs and trade imbalances.
- The oil price remained elevated since the start of the year, currently testing the $70/bbl. level for the third time this year. While we previously reported a volatile and falling oil price in February, there has been a marked shift in March, with the price up by more than 9.5% this month. We believe that the reasons for this centre around a weak dollar and uncertainty over global trade conditions and what this may mean for commodity prices. The US is contemplating raising import tariffs on metals and there are growing fears that this could spark a global trade war. Secondly, the deadline for the US decision of whether to maintain the Iranian nuclear deal or not is on 12 May 2018 – after the sacking of Secretary of State Rex Tillerson (who supported the deal), the fate of the deal now hangs in the balance (as Trump was against the deal). Lastly, the oil price has been fluctuating as a result of the weekly US crude inventories – inventories have risen this year, but is still below levels seen in the last two years. Lately there have been indications that OPEC and Russia are contemplating extending the production cuts and the Saudi crown prince has indicated that OPEC and Russia could consider a 10 to 20 year oil alliance, according to Reuters and Bloomberg. This will likely be supportive of the oil price over the medium-term and could surpass the $70/bbl. mark which we had previously cautioned as a support level.

Source: Bloomberg, Nedbank

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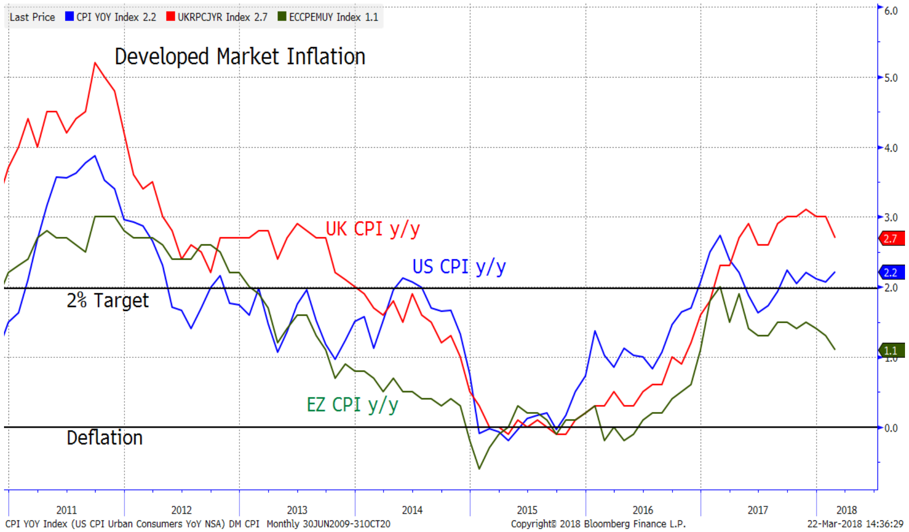
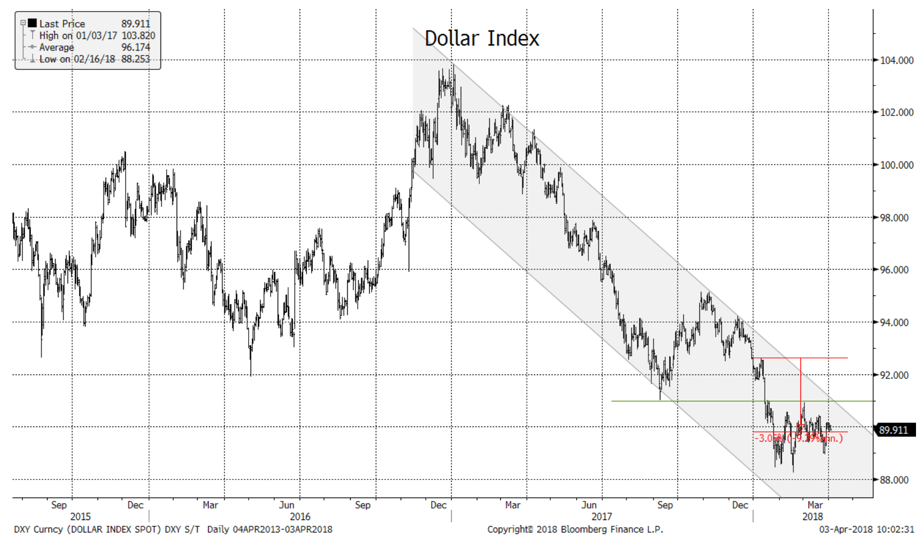
GLOBAL INSIGHTS

Key global developments

bps Δ -1m		Germ. 10yr	-15.40			% Δ -1m		SA white maize	5.51%
US 10yr	-11.40	UK 10yr	-12.40	UK 3m LIBOR	12.71	Brent	5.67%	Dow Jones	-3.64%
JPM EMBI	12.96	JN 3m LIBOR	3.64	JN 10yr	-3.80	Gold	1.10%	S&P 500	-4.06%
% Δ - 1m (Colour = base trend)		USDJPY	0.36%	USDCNY	-0.96%	Eurostoxx 50	0.14%	NIKKEI 225	0.52%
GBPUSD	2.01%	USDAUD	0.81%	JPM EM FX	-0.88%	DAX	0.14%	MSCI World	-2.45%
EURUSD	0.08%	USDCHF	1.76%	DXY	-0.02%	FTSE 100	-0.95%	MSCI EM	-1.07%

- There were no inflation surprises in March. In the US and Japan inflation edged up slightly, while in the UK and Eurozone price pressures moderated somewhat. Key central banks also stayed the course. The US Fed's FOMC, meeting for the first time under the new Chair Jerome Powell, raised its target range for the federal funds rate by 25bps to1.5% - 1.75%. This move was widely anticipated. The Fed also upped its growth forecast for 2018 and 2019 to 2.7% and 2.4% respectively (previously 2.5% and 2.1%). It also noted that job gains have been strong and that the unemployment rate has remained low in recent months. The Fed reduced its forecast for the unemployment rate in 2018 and 2019 marginally (to 3.8% and 3.6% respectively from 3.9% in both years previously), but left its inflation forecast unchanged at 1.9% for 2018 and 2% for 2019. The median forecast for interest rates was left unchanged for 2018, but pointed to an extra increase in 2019 and more tightening in 2020. Despite a fairly hawkish Fed, the markets seemed less-convinced, with the dollar weakening afterwards. However, the concern over the start of a possible trade war, given sharp import tariff hikes by the US, seemed to overshadow the Feb interest rate hike, with the dollar remaining downbeat in March (and for the YTD as well).
- The ECB left its interest rate unchanged, but turned slightly hawkish as it left out its pledge to raise QE if economic conditions warrants it. The ECB has admitted that the bond-buying programme will need to end soon and markets are projecting an end to the QE programme before year-end. Hence we are likely to see the programme being halved further in September 2018. Growth remains upbeat, and well above potential and this has seen significant slack in the economy removed. However, this has not translated into meaningful price pressures, which have kept the ECB dovish for so long. Despite the recent tapering, inflation is only expected to rise to 1.7% by 2020, implying that the ECB's inflation target is unlikely to be met.
- The BoE voted by seven to two to keep its bank rate unchanged at 0.5%, but indicated tighter monetary policy in the months ahead to return inflation sustainably to its 2% target. Finally, the BoJ also left its monetary policy stance unchanged, remaining upbeat about growth and inflation prospects. The PBOC unexpectedly raised its reverse repo rate (the rate at which the Chinese central bank provides liquidity to banks participating in reverse repo operations) by 5 basis points 2.55%. Most analysts view the move as a reaction to Fed's December 2017 rate hike, rather than any serious attempt to tighten monetary policy. Thus far this year a total of 18 out of the 90 most watched central banks have cut interest rates on improved inflation outlooks, while 17 have raised interest rates.





Source: Bloomberg, Nedbank

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NEDBANK GROUP ECONOMIC UNIT FACTS AND FORECASTS

	2017	2018				2018	2019				2019	2020				2020
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
GDP q/q SAAR	1.30	1.00	1.40	1.50	1.50	1.80	1.70	2.30	2.40	2.50	1.90	2.50	2.20	2.40	2.70	2.40
Current account as a % of GDP	-2.50					-2.30					-2.20					-2.30
Gold $/oz. (EOP)	1295.11	1346.91	1360.38	1387.59	1373.72	1373.72	1346.24	1359.70	1386.90	1373.03	1373.03	1345.57	1359.02	1386.20	1372.34	1372.34
Exchange rates (EOP)																
USDZAR	12.410	11.665	12.132	12.375	12.746	12.746	12.873	13.260	13.127	13.389	13.389	13.256	13.454	13.589	13.793	13.793
EURZAR	14.837	14.453	14.956	15.225	15.604	15.604	15.604	15.992	15.800	16.036	16.036	15.719	15.875	16.034	16.193	16.193
GBPZAR	16.714	16.538	17.097	17.526	18.052	18.052	18.142	18.686	18.407	18.775	18.775	18.313	18.588	18.588	18.680	18.680
AUDZAR	9.682	9.150	9.516	9.726	9.988	9.988	10.037	10.318	10.205	10.450	10.450	10.295	10.491	10.575	10.712	10.712
ZARJPY	9.080	8.983	8.638	8.511	8.263	8.263	8.222	7.982	8.103	7.944	7.944	8.065	7.946	7.906	7.828	7.828
GBPUSD	1.347	1.418	1.409	1.416	1.416	1.416	1.409	1.409	1.402	1.402	1.402	1.382	1.382	1.368	1.354	1.354
EURUSD	1.196	1.239	1.233	1.230	1.224	1.224	1.212	1.206	1.204	1.198	1.198	1.186	1.180	1.180	1.174	1.174
USDJPY	112.68	104.79	104.79	105.32	105.32	105.32	105.84	105.84	106.37	106.37	106.37	106.90	106.90	107.44	107.98	107.98
USDCNY	6.508	6.515	6.547	6.560	6.567	6.567	6.573	6.606	6.619	6.626	6.626	6.633	6.666	6.679	6.686	6.686
USDCHF	0.978	0.986	0.989	0.989	0.992	0.992	1.000	1.003	1.003	1.006	1.006	1.014	1.017	1.019	1.022	1.022
USDAUD	1.282	1.275	1.275	1.272	1.276	1.276	1.283	1.285	1.286	1.281	1.281	1.288	1.282	1.285	1.288	1.288
SA Interest rates (EOP)																
3-month JIBAR	7.16	6.88	6.83	6.83	6.83	6.83	6.83	6.83	7.13	7.13	7.13	7.33	7.38	7.38	7.38	7.38
Prime	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.25	10.25	10.25	10.50	10.50	10.50	10.50	10.50
Long bond (10-yr)	8.82	8.15	8.20	8.10	8.25	8.25	8.35	8.33	8.45	8.35	8.35	8.40	8.30	8.30	8.30	8.30
CPI % (EOP)	4.70	4.75	5.03	5.39	5.17	5.17	5.38	5.52	5.53	5.58	5.58	5.46	5.43	5.45	5.51	5.51

EOP = End of period rate

Source: Nedbank Group Economic Unit

While every care is taken to ensure the accuracy of the information and views contained in this document, no responsibility can be assumed for any action based thereon.

Note that the above forecasts represents the Nedbank Group house view – Nedbank CIB Market Research estimates could differ somewhat from these

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SA ECONOMIC CALENDAR

Economic data releases

Date	Time	Indicator	Period	Previous
04/03/2018	11:00	Absa Manufacturing PMI	Mar	50.8
04/03/2018		Naamsa Vehicle Sales YoY	Mar	-3.80%
04/05/2018	09:15	Standard Bank South Africa PMI	Mar	51.4
04/05/2018	11:30	SACCI Business Confidence	Mar	98.9
04/05/2018	13:00	Electricity Consumption YoY	Feb	1.20%
04/05/2018	13:00	Electricity Production YoY	Feb	2.40%
04/09/2018	08:00	Gross Reserves	Mar	$50.05b
04/09/2018	08:00	Net Reserves	Mar	$43.27b
04/10/2018	13:00	Manufacturing Prod NSA YoY	Feb	2.50%
04/10/2018	13:00	Manufacturing Prod SA MoM	Feb	-1.60%
04/11/2018		BER Consumer Confidence	1Q	-8
04/12/2018	11:30	Mining Production YoY	Feb	2.40%
04/12/2018	11:30	Mining Production MoM	Feb	1.00%
04/12/2018	11:30	Gold Production YoY	Feb	-7.70%
04/12/2018	11:30	Platinum Production YoY	Feb	-13.60%
04/18/2018	10:00	CPI YoY	Mar	4.00%
04/18/2018	10:00	CPI MoM	Mar	0.80%
04/18/2018	10:00	CPI Core YoY	Mar	4.10%
04/18/2018	10:00	CPI Core MoM	Mar	1.10%
04/18/2018	13:00	Retail Sales Constant YoY	Feb	3.10%
04/18/2018	13:00	Retail Sales MoM	Feb	-1.60%
04/19/2018	09:00	Bloomberg April South Africa		
04/24/2018	09:00	Leading Indicator	Feb	106.1
04/26/2018	11:30	PPI YoY	Mar	4.20%
04/26/2018	11:30	PPI MoM	Mar	-0.30%
04/30/2018	08:00	Money Supply M3 YoY	Mar	6.89%
04/30/2018	08:00	Private Sector Credit YoY	Mar	5.74%
04/30/2018	14:00	South Africa Budget	Mar	20.2b
04/30/2018	14:00	Trade Balance Rand	Mar	0.4b

Source: Nedbank, Bloomberg

SARB MPC meeting dates – 2018

22 - 24 May 2018
17 - 19 July 2018
18 - 20 September 2018
20 - 22 November 2018

SARB Governor Kganyago typically addresses the market on the third day of the MPC meeting from 15:00 to announce the repo rate decision, which was cut to 6.50% (previously 6.75%) following the March 2018 MPC meeting.

Source: SARB

CALENDAR OF EVENT RISKS

Local and global

The following is a list of planned local and global events, as well as dates of significance. This is a non-exhaustive list, which obviously excludes unscheduled one-off events, or unplanned meetings such as Cabinet changes, court cases, leadership changes, other political developments or any sort of Constitutional changes/reform.

January	February	March
09 Jan – Commission of inquiry into State Capture announced 15-26 Jan – US earnings season 18 Jan - SARB MPC 18-19 Jan – ANC NEC meeting 20-21 Jan – ANC NEC Lekgotla 23-26 Jan – WEF meeting in Davos 25 Jan – ECB meeting 31 Jan – US FOMC meeting	Feb – US Fed Chair semi-annual report to Congress 08 Feb - BOE meeting 08 Feb – SA State of the Nation address (SONA2018) 21 Feb – SA Budget Speech	04 Mar – Italian general election 08 Mar – ECB meeting 18 Mar – Russian presidential election 21 Mar – US FOMC meeting (+ press conference) 22 Mar – BOE meeting 23 Mar – Moody's review of SA credit rating 28 Mar – SARB MPC
April	**May**	**June**
08 Apr – Hungarian parliamentary election 26 Apr – ECB meeting 16-27 Apr – US earnings season*	02 May – US FOMC meeting 10 May – BOE meeting 24 May – SARB MPC 25 May – S&P review of SA credit rating Fitch review of SA credit rating*	13 Jun – US FOMC meeting (+ press conference) 14 Jun – ECB meeting 21 Jun – BOE meeting
July	**August**	**September**
16-27 July – US earnings season* 19 Jul – SARB MPC Jul – US Fed Chair semi-annual report to Congress Jul – State Capture inquiry to conclude*	01 Aug – US FOMC meeting 02 Aug – BOE meeting Aug – Fed's Jackson Hole symposium*	13 Sep – BOE meeting 13 Sep – ECB meeting 20 Sep – SARB MPC 26 Sep – US FOMC meeting (+ press conference) Sep – BRICS Summit (hosted in SA)*
October	**November**	**December**
07 Oct – Brazilian general election 12 Oct – Moody's review of SA credit rating 15-26 Oct – US earnings season* 24 Oct – SA MTBPS Speech* 25 Oct – ECB meeting	01 Nov – BOE meeting 08 Nov – US FOMC meeting 22 Nov – SARB MPC 23 Nov – S&P review of SA credit rating 23 Nov – Fitch review of SA credit rating*	13 Dec – ECB meeting 19 Dec – US FOMC meeting (+ press conference) 20 Dec – BOE meeting

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*Indicative
Source: Various media sources, Bloomberg

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