

TECHMENTALS MONTHLY CHART PACK



March 2017

*We re-launch our monthly **TechMentals** chart pack which consists of our favourite charts – ones that we monitor closely. We include a combination of technical and fundamental charts across a wide range of asset classes and countries.*

Over the month (February 2017) global financial conditions have improved supporting risks assets in general. Global dollar liquidity conditions remain favourable. Our velocity of money indicator is in positive territory for the first time since 2015.

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GLOBAL VELOCITY OF MONEY (VOM) INDICATOR AND 'REAL-TIME' MONEY MULTIPLIER

VoM INDICATOR IS IN POSITIVE TERRITORY FOR THE FIRST TIME SINCE 2015.

Contents

Velocity of money indicators

Growth Metrics

Global Dollar liquidity indicators

Equities vs Bonds

FX

Corporate credit

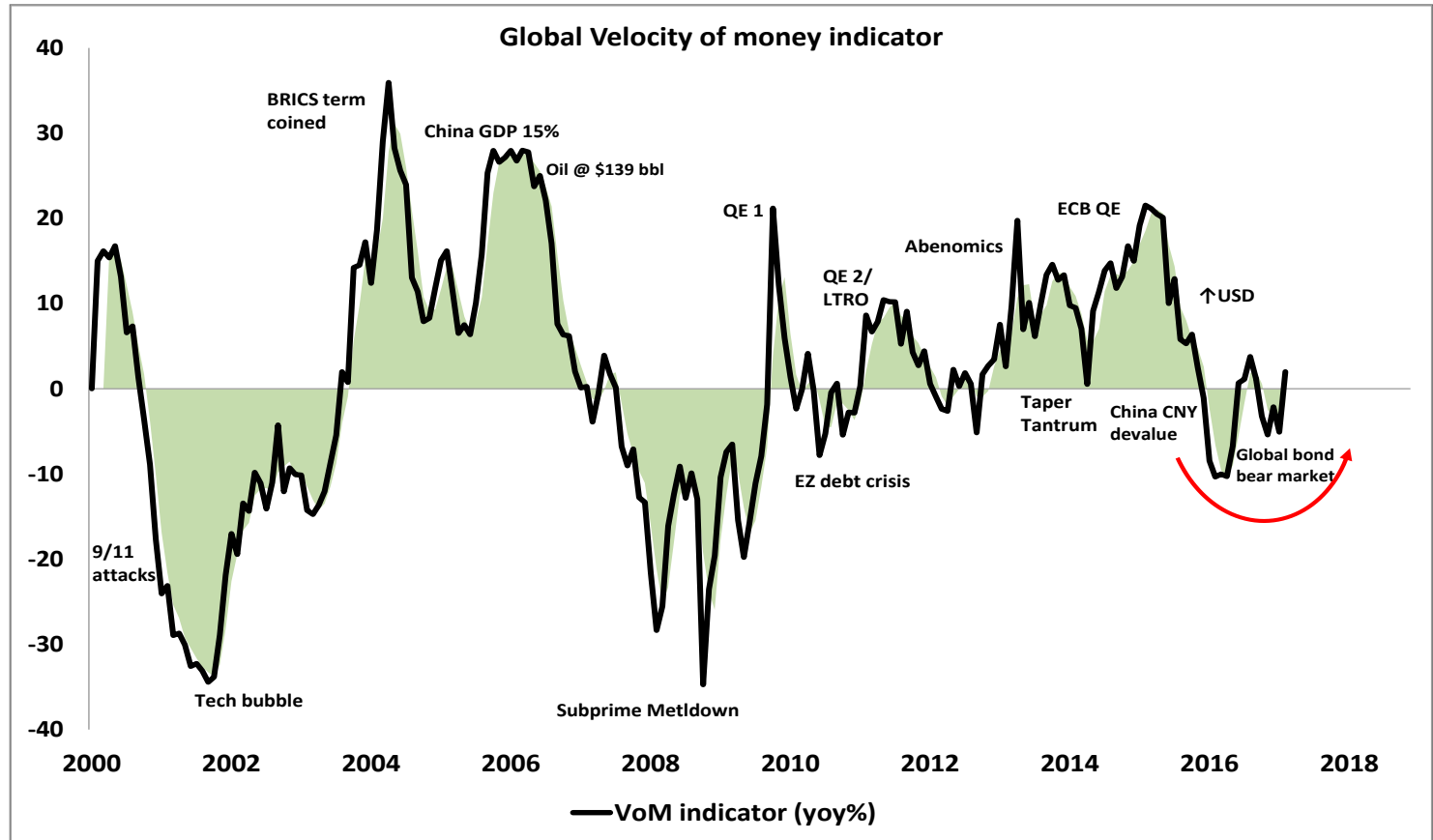
Financial Conditions

Global Uncertainty

South Africa TechMentals

Multi-Asset Class Scanner

Tactical & Strategic views



- Our **Velocity of Money Indicator** is a proprietary indicator that we monitor closely. It is a modernized version of Irving Fisher's work on the **Quantity Theory of Money**, $MV=PQ$. It is a composite indicator that uses a number of variables such as changes in money multipliers, changes in yield curves, corporate spreads and others. It is a useful indicator to understand the 'animal spirits' of the global economy and is also a leading indicator when compared to PMIs, stock prices and business cycle indicators.

CITI ECONOMIC SURPRISE INDICES (WITH 3M MA)

The growth environment remains intact according to the Citi Economic Surprise indices.

Contents

Velocity of money indicators

Growth Metrics

Global Dollar liquidity indicators

Equities vs Bonds

FX

Corporate credit

Financial Conditions

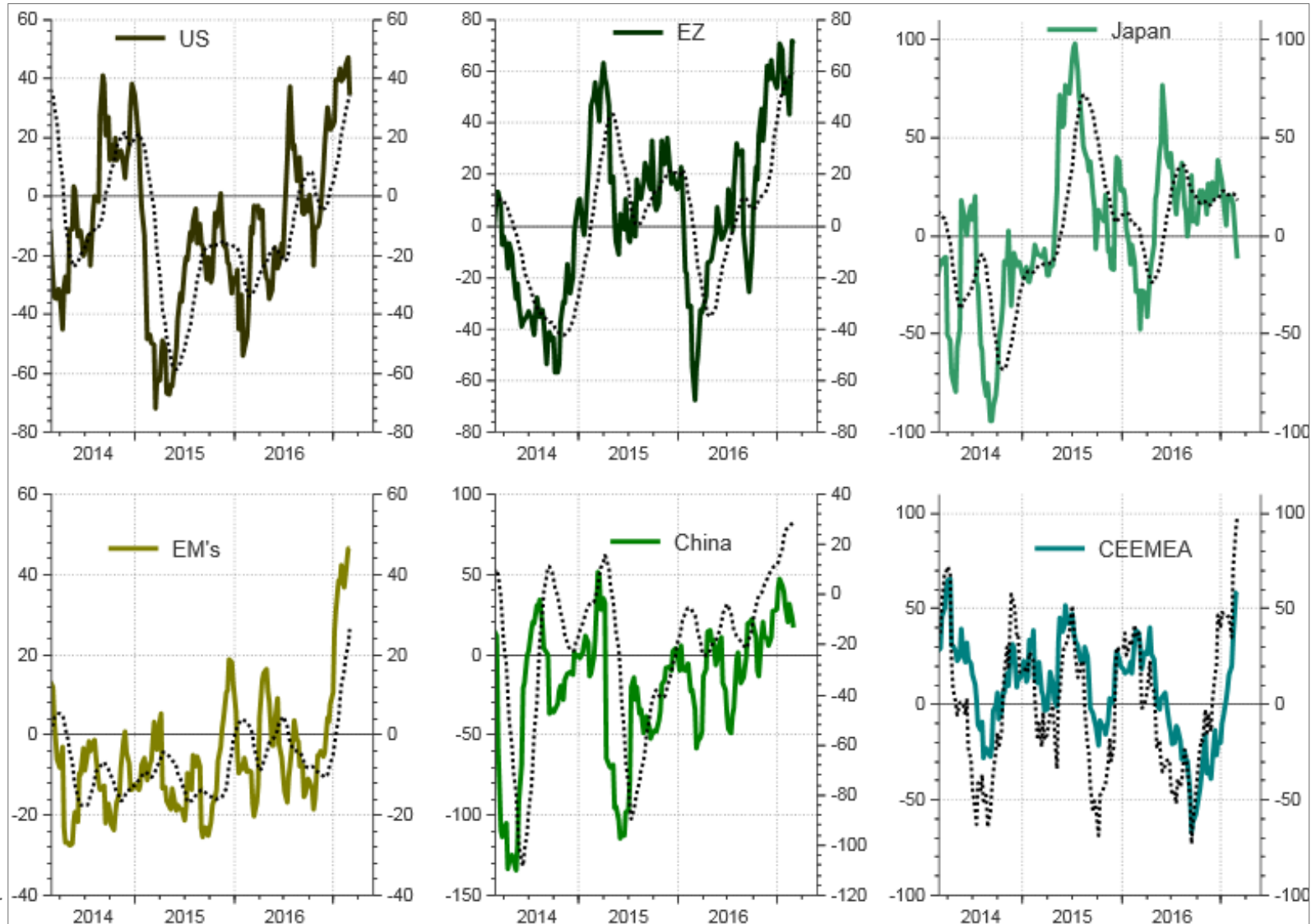
Global Uncertainty

South Africa TechMentals

Multi-Asset Class Scanner

Tactical & Strategic views

The Citi Group Economic Surprise indices track how economic data releases are faring relative to expectations.

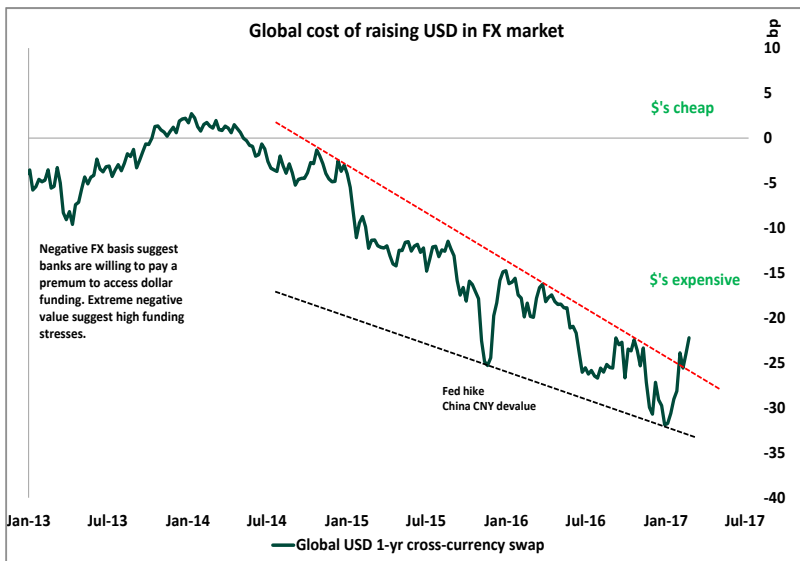
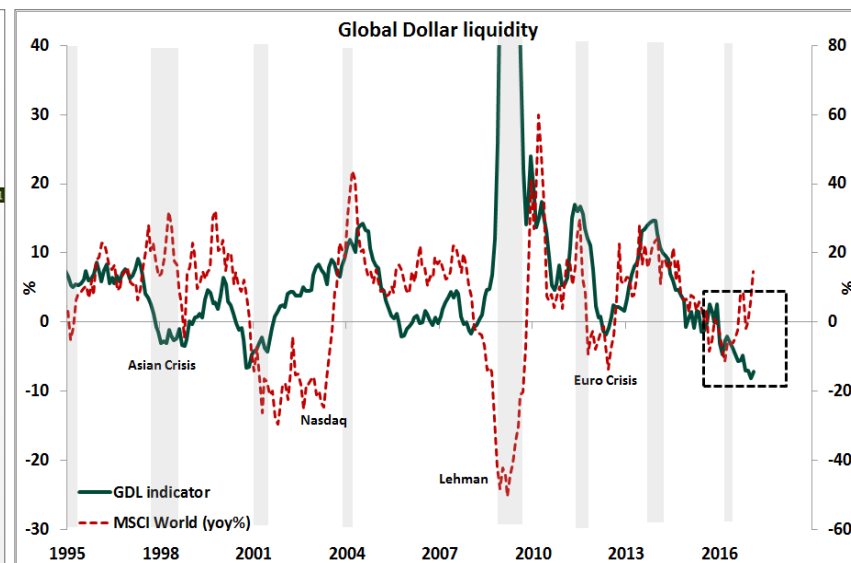
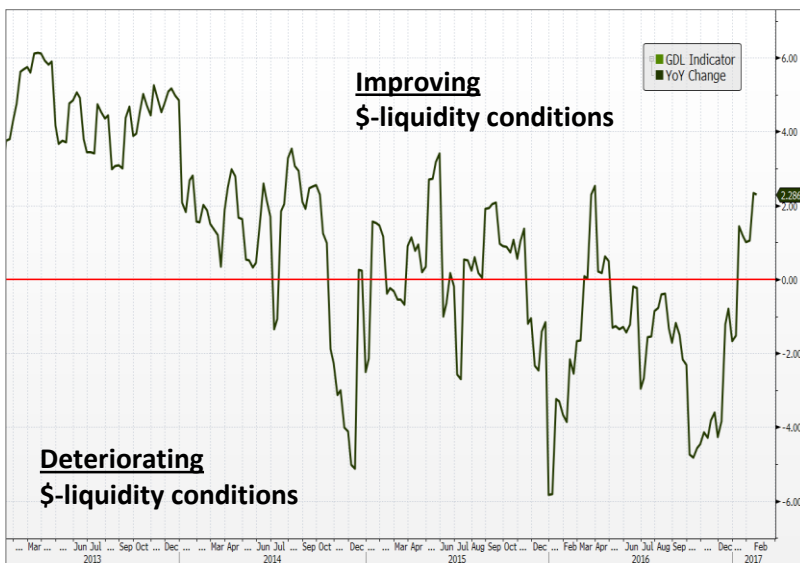


GLOBAL DOLLAR LIQUIDITY INDICATORS: GDL INDICATOR AND USD FX CROSS-CURRENCY BASIS

The **Global Dollar Liquidity** environment has improved, supporting easier global financial conditions. Over the past 30 days the BoJ and ECB have accessed the Fed's swap facility to access dollars worth \$325m.

Contents

Velocity of money indicators
Growth Metrics
Global Dollar liquidity indicators
Equities vs Bonds
FX
Corporate credit
Financial Conditions
Global Uncertainty
South Africa TechMentals
Multi-Asset Class Scanner
Tactical & Strategic views



- **LT \$-liquidity** measures still remain in negative territory as central banks liquidate \$ assets to inject liquidity into their domestic financial system.
- **ST \$-liquidity** conditions have improved markedly. This is supportive of the current reflationary environment.
- Our **Global USD cross-currency** basis swap (1-year USD cross-currency basis swap of 20 GDP-weighted currencies) is an indication of the cost of raising USD in the FX market. As expected, there has been an improvement in USD funding across the globe.
- We also monitor **the US Federal Reserve's liquidity swap lines**, as this is one of the only USD sources available to central banks.
- **Fed Swap Line activity (-30 days): Slightly above average. See here for more** <https://apps.newyorkfed.org/markets/autorates/fxswap>

EQUITIES VS BONDS PERFORMANCE

World Equity vs Bond relative performance remains above the long-term resistance line. **SA Equity vs Bond** relative performance reversed from the resistance line that has been in place since 2008/2009 (the relative is now on its way to the bottom of the channel that has been in place since 2013).

Contents

Velocity of money indicators

Growth Metrics

Global Dollar liquidity indicators

Equities vs Bonds

FX

Corporate credit

Financial Conditions

Global Uncertainty

South Africa TechMentals

Multi-Asset Class Scanner

Tactical & Strategic views



FX MARKET

We remain of the opinion that a correction phase in the dollar is unfolding. The C-wave of the correction pattern is still outstanding, targeting a move to 96.45

However, over the long-term we are USD bulls. Looking at previous USD bull cycles the bull trend remains on track.

Velocity of money indicators

Growth Metrics

Global Dollar liquidity indicators

Equities vs Bonds

FX

Corporate credit

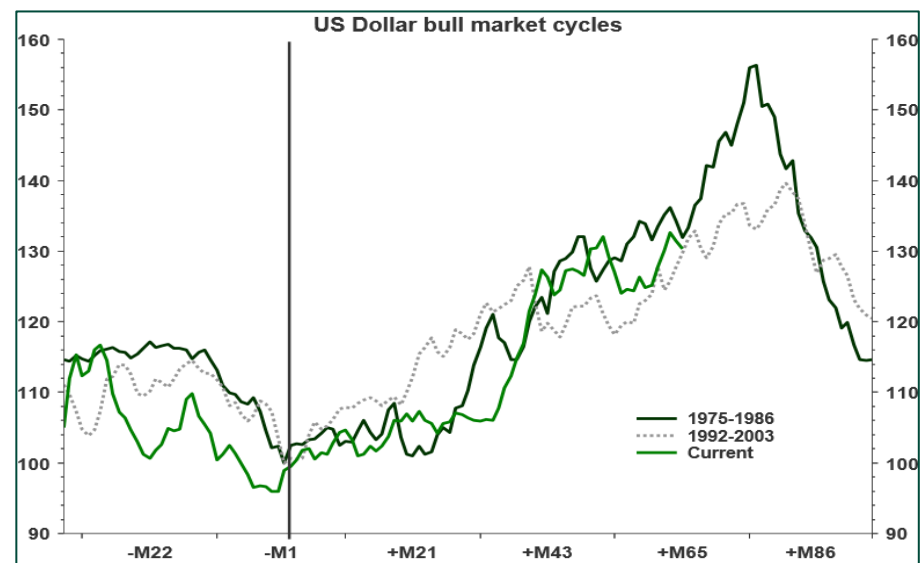
Financial Conditions

Global Uncertainty

South Africa TechMentals

Multi-Asset Class Scanner

Tactical & Strategic views



Note: Dollar bull market cycles taken from low to high in the cycle using Fed's USD trade weighted index and then based to 100 from month 0.

Source: DataStream, Nedbank CIB

CORPORATE CREDIT SPREADS

Global corporate credit spreads remain rich.

Contents

Velocity of money indicators

Growth Metrics

Global Dollar liquidity indicators

Equities vs Bonds

FX

Corporate credit

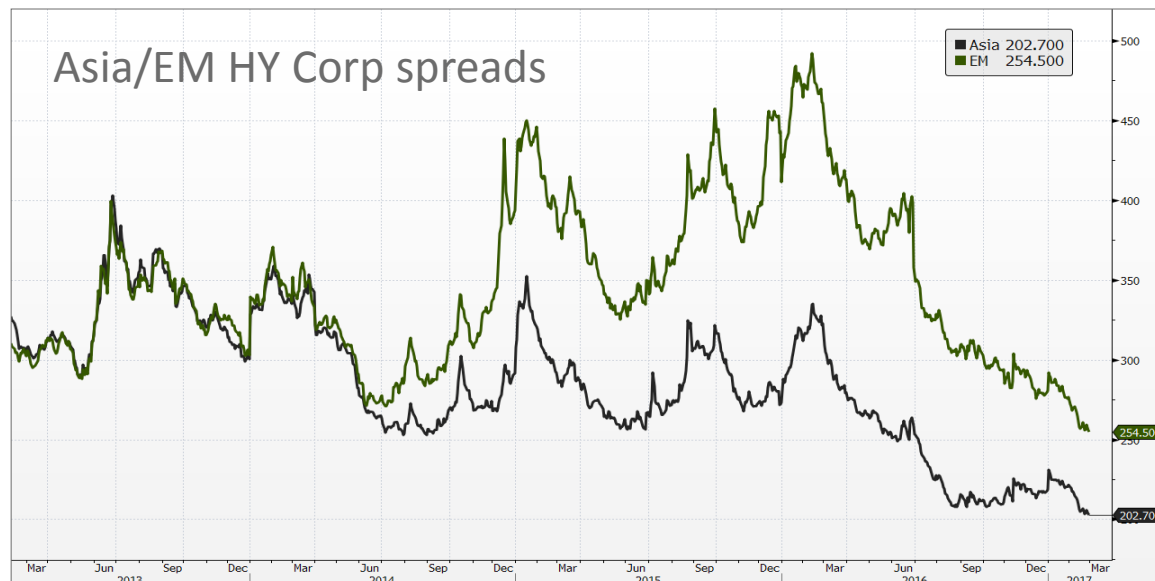
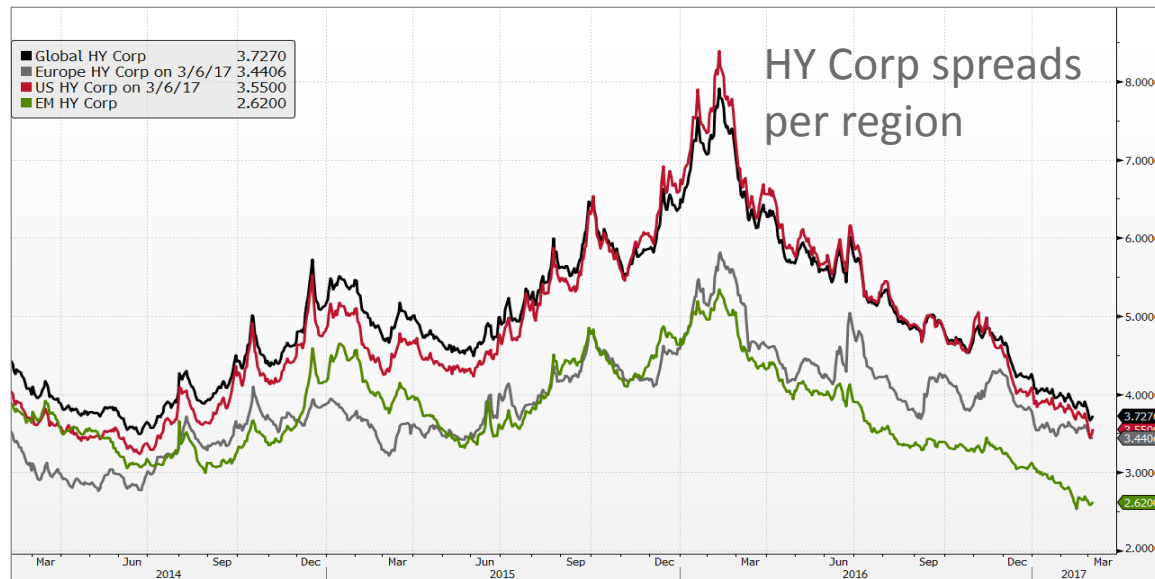
Financial Conditions

Global Uncertainty

South Africa TechMentals

Multi-Asset Class Scanner

Tactical & Strategic views

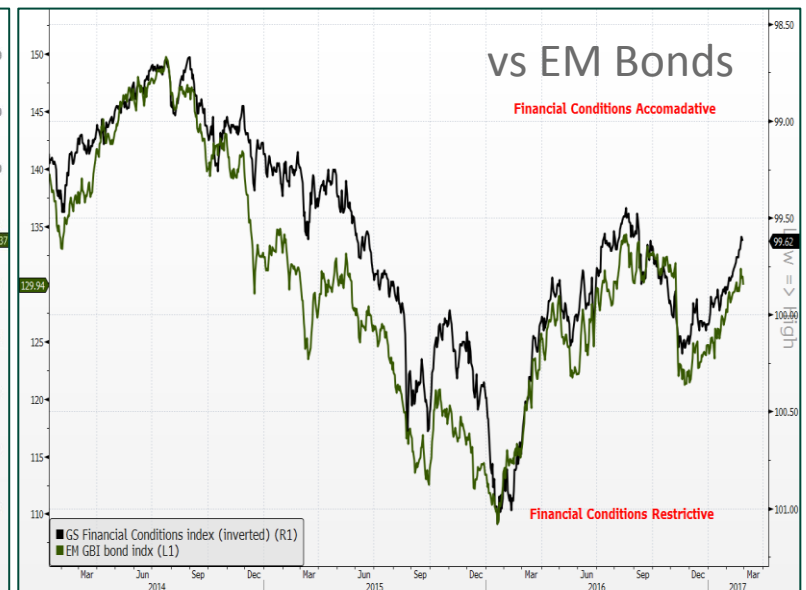
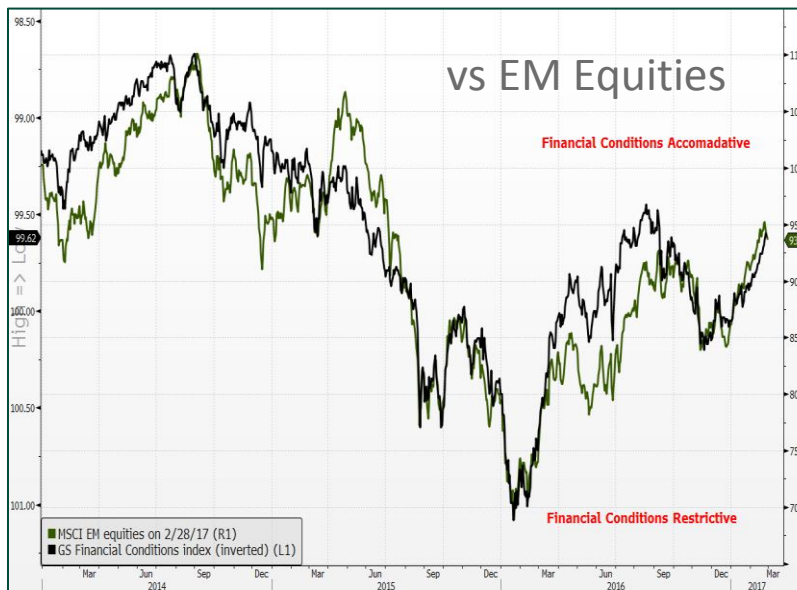
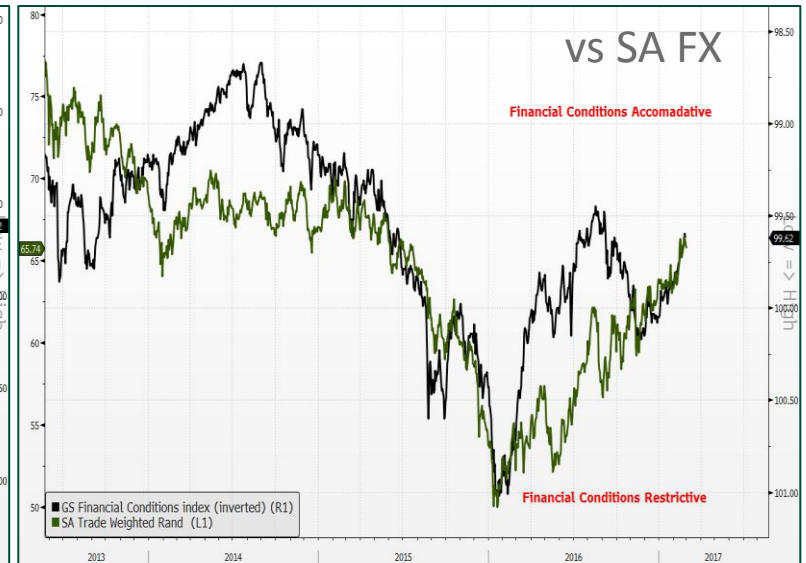
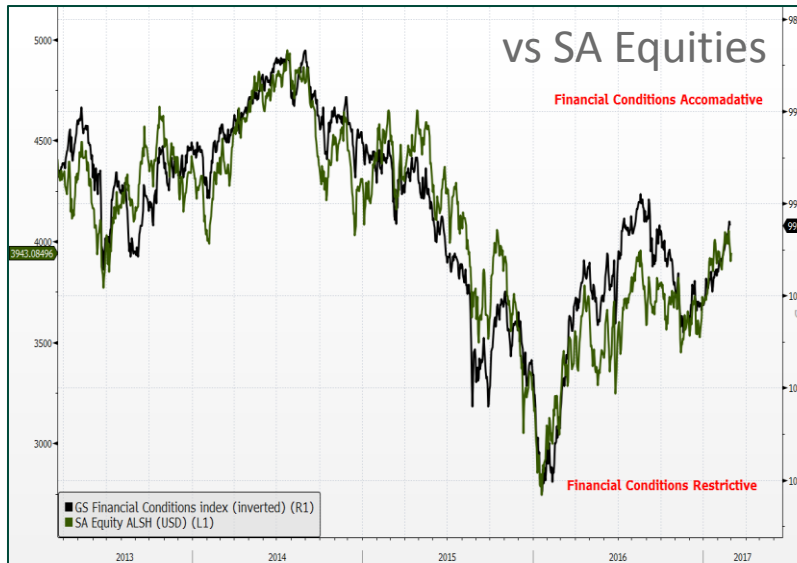


GLOBAL FINANCIAL CONDITIONS

The high correlation between the **GS Global Financial Conditions** index and EM/SA risk assets remains intact.

Contents

Velocity of money indicators
Growth Metrics
Global Dollar liquidity indicators
Equities vs Bonds
FX
Corporate credit
Financial Conditions
Global Uncertainty
South Africa TechMentals
Multi-Asset Class Scanner
Tactical & Strategic views



GLOBAL ECONOMIC POLICY UNCERTAINTY INDEX

The Global Economic Uncertainty (EPU) Index for February 2017 fell to below Brexit levels amid some political calm and transparency from the Trump Administration. However, tensions remain in Asia – especially with N. Korea and its on-going missile tests.

Contents

Velocity of money indicators

Growth Metrics

Global Dollar liquidity
indicators

Equities vs Bonds

FX

Corporate credit

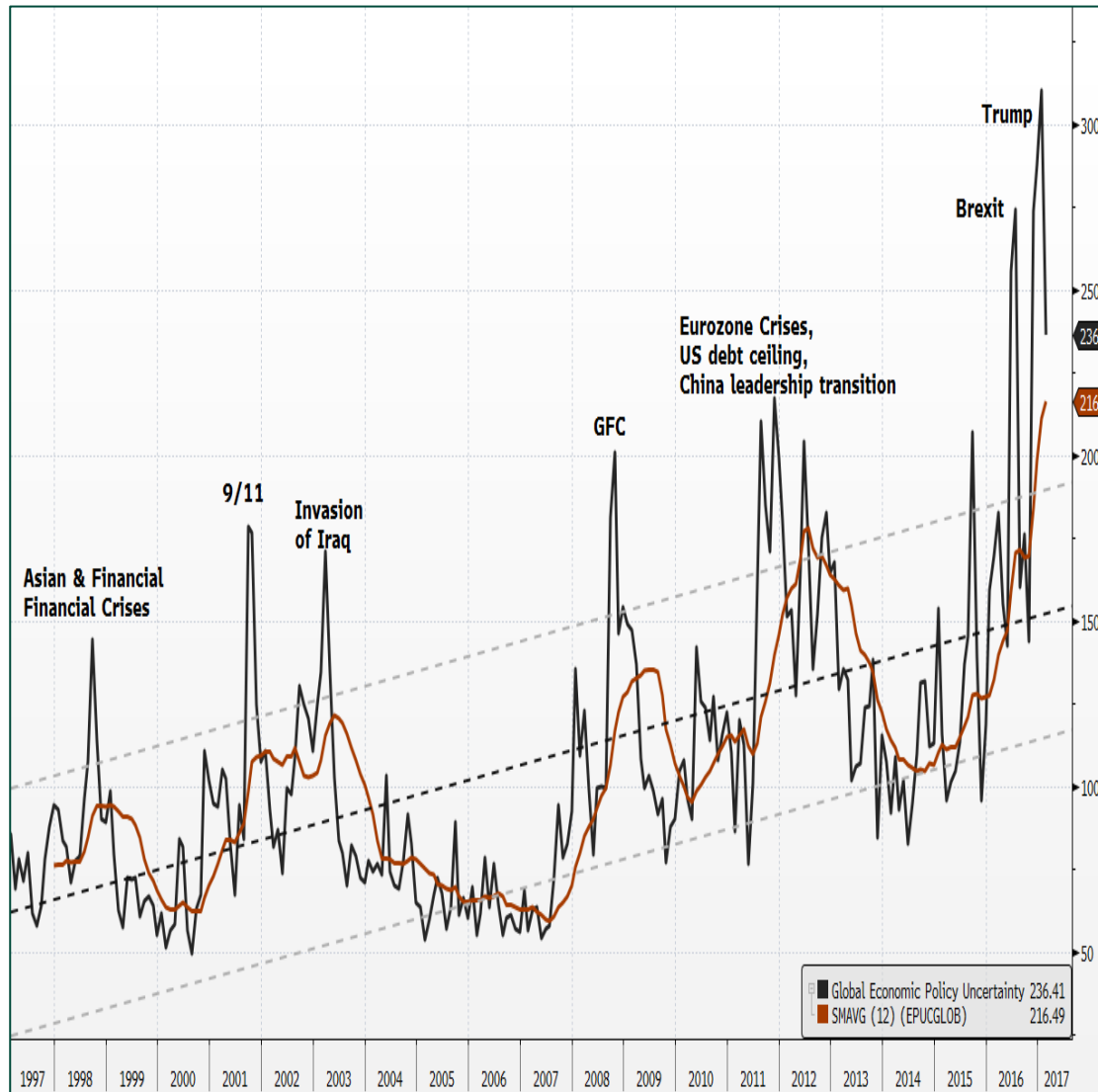
Financial Conditions

Global Uncertainty

South Africa TechMentals

Multi-Asset Class Scanner

Tactical & Strategic views



Political events to watch in 2017

March UK Proposed Data for Triggering Article 50

March Netherlands General Election

March US debt ceiling Extension Expires

March-April Italy Potential General Election

23 April/7 May French Presidential Elections

May G7 Summit in Italy

July G20 Summit in Germany

September/October Germany Federal elections

October/November China 19th Congress Communist Party meeting

December South Africa ANC Party Conference

SOUTH AFRICA CREDIT IMPULSE

For the first time since March 2016, SA's credit impulse has fallen into negative territory.

Contents

Velocity of money indicators

Growth Metrics

Global Dollar liquidity
indicators

Equities vs Bonds

FX

Corporate credit

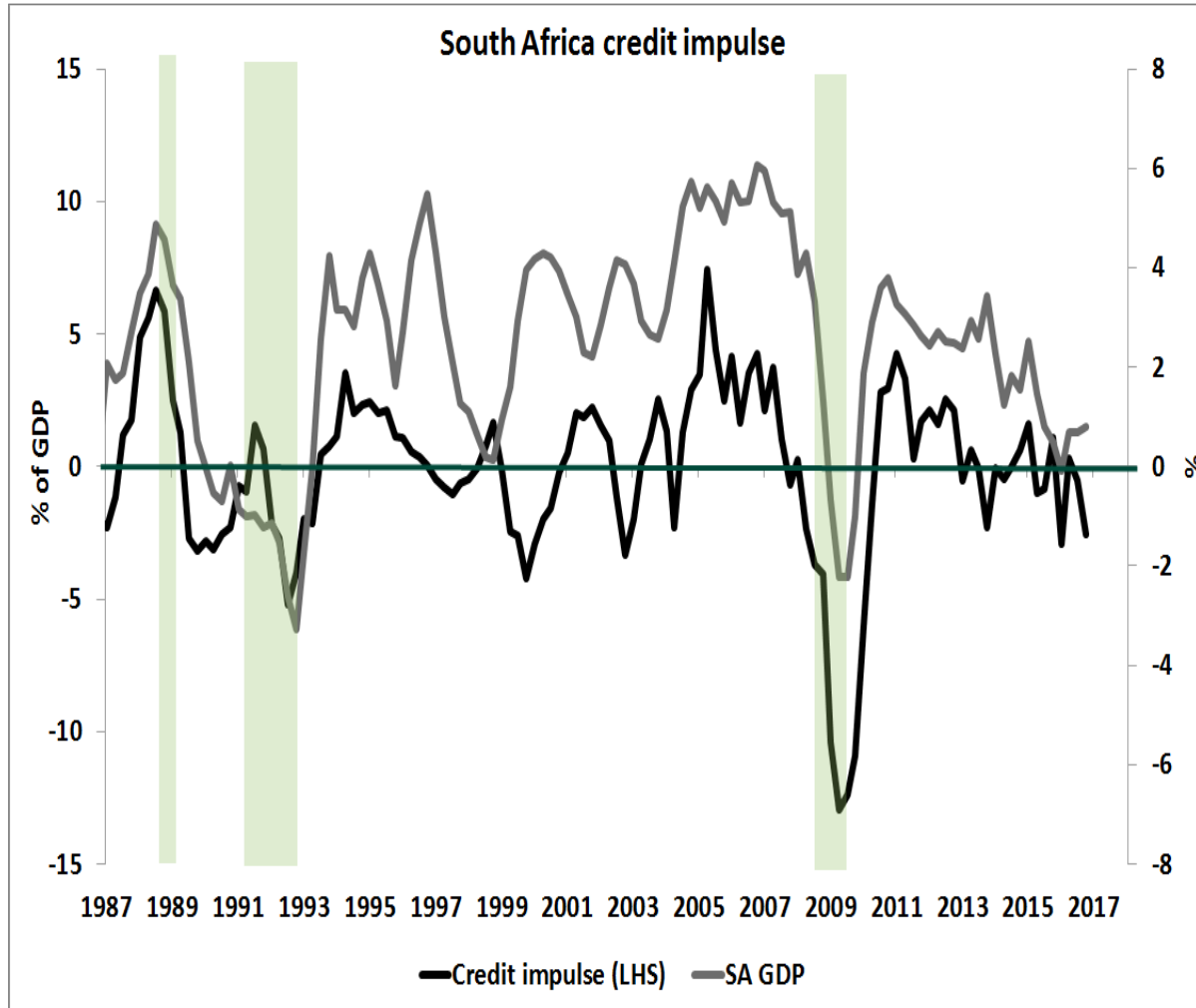
Financial Conditions

Global Uncertainty

South Africa TechMentals

Multi-Asset Class Scanner

Tactical & Strategic views



The credit impulse is a second derivative of private sector credit growth relative to GDP.

SOUTH AFRICA EQUITY MARKET THEMATICS

SA growth/value relative outperformance took a breather over the month. However, we expect the outperformance to continue as financial conditions remain supportive.

Longer term, we favour stocks that are orientated towards value.

Contents

Velocity of money indicators

Growth Metrics

Global Dollar liquidity indicators

Equities vs Bonds

FX

Corporate credit

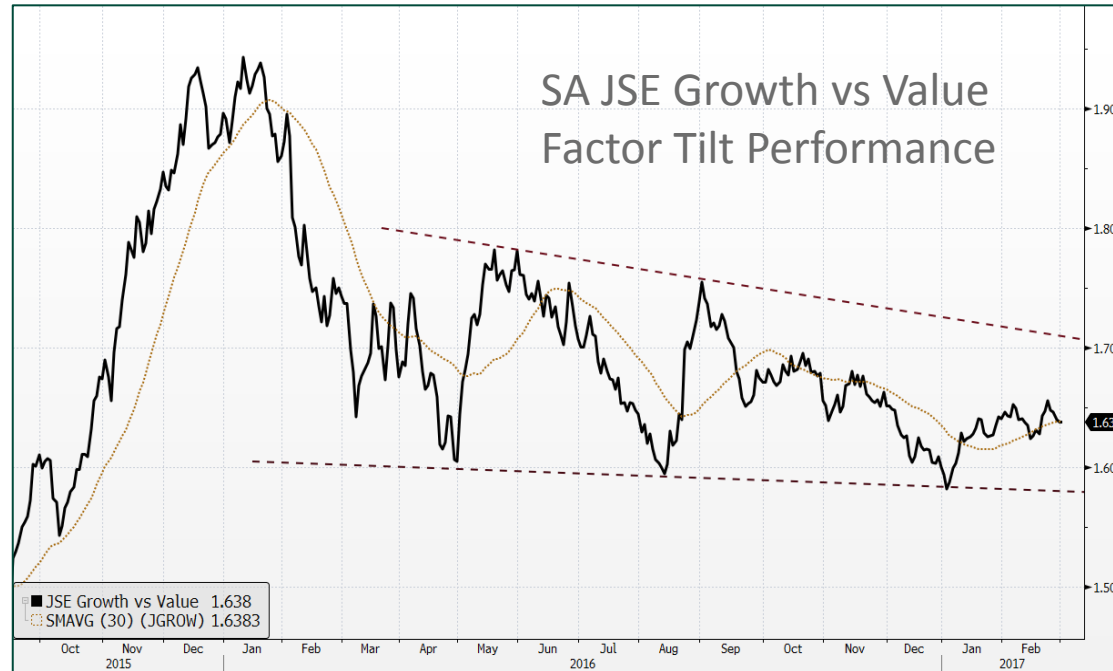
Financial Conditions

Global Uncertainty

South Africa TechMentals

Multi-Asset Class Scanner

Tactical & Strategic views



Factor tilt	Description	Monthly %	YTD %
JSE All Share	Market capitalization-weighted index.	-1.31	+1.67
JSE Top 40	40 largest companies by market capitalization.	-2.08	+1.19
SA Growth Stocks	Excess returns from stocks with stronger past performance.	-1.4	+2.53
SA Value Stocks	Stocks that have low prices relative to their fundamental value.	-1.1	-0.23

SOUTH AFRICA FI/FX

MARKET THEMATICS

The Sharpe Ratio for SA FX has improved over the past month, supporting the ZAR.

SA vs EM bond outperformance is stretched and we would advise caution as we expect a pull-back.

Contents

Velocity of money indicators

Growth Metrics

Global Dollar liquidity indicators

Equities vs Bonds

FX

Corporate credit

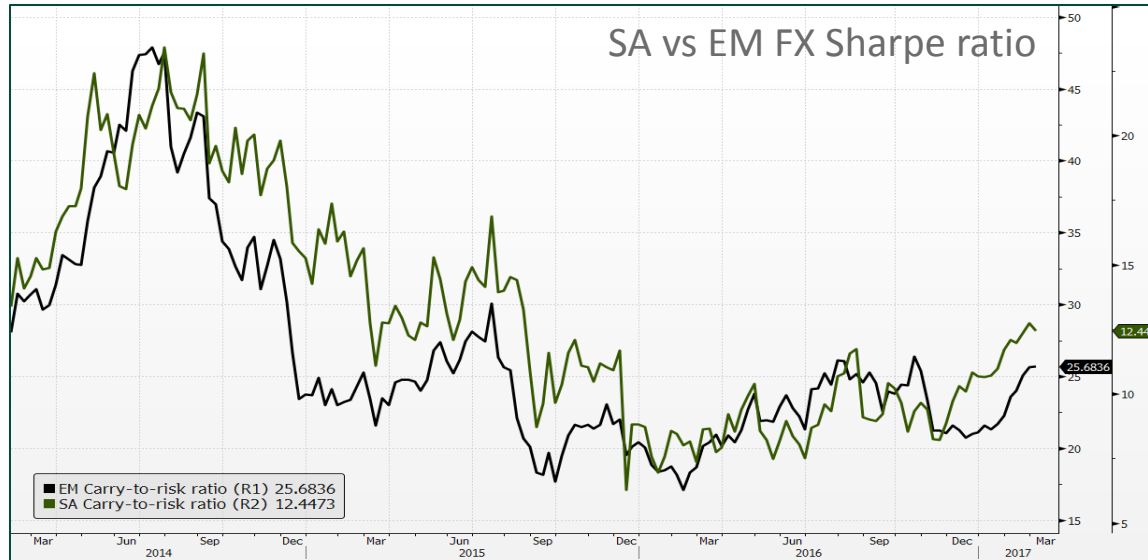
Financial Conditions

Global Uncertainty

South Africa TechMentals

Multi-Asset Class Scanner

Tactical & Strategic views



Global HY, S&P, EM \$-Bonds, MSCI World, EM FX Vol = OVERBOUGHT China 10 yr Govi, AUD/USD, Australia 10yr, Russia Micex = OVERSOLD

Contents

Velocity of money indicators

Growth Metrics

Global Dollar liquidity indicators

Equities vs Bonds

FX

Corporate credit

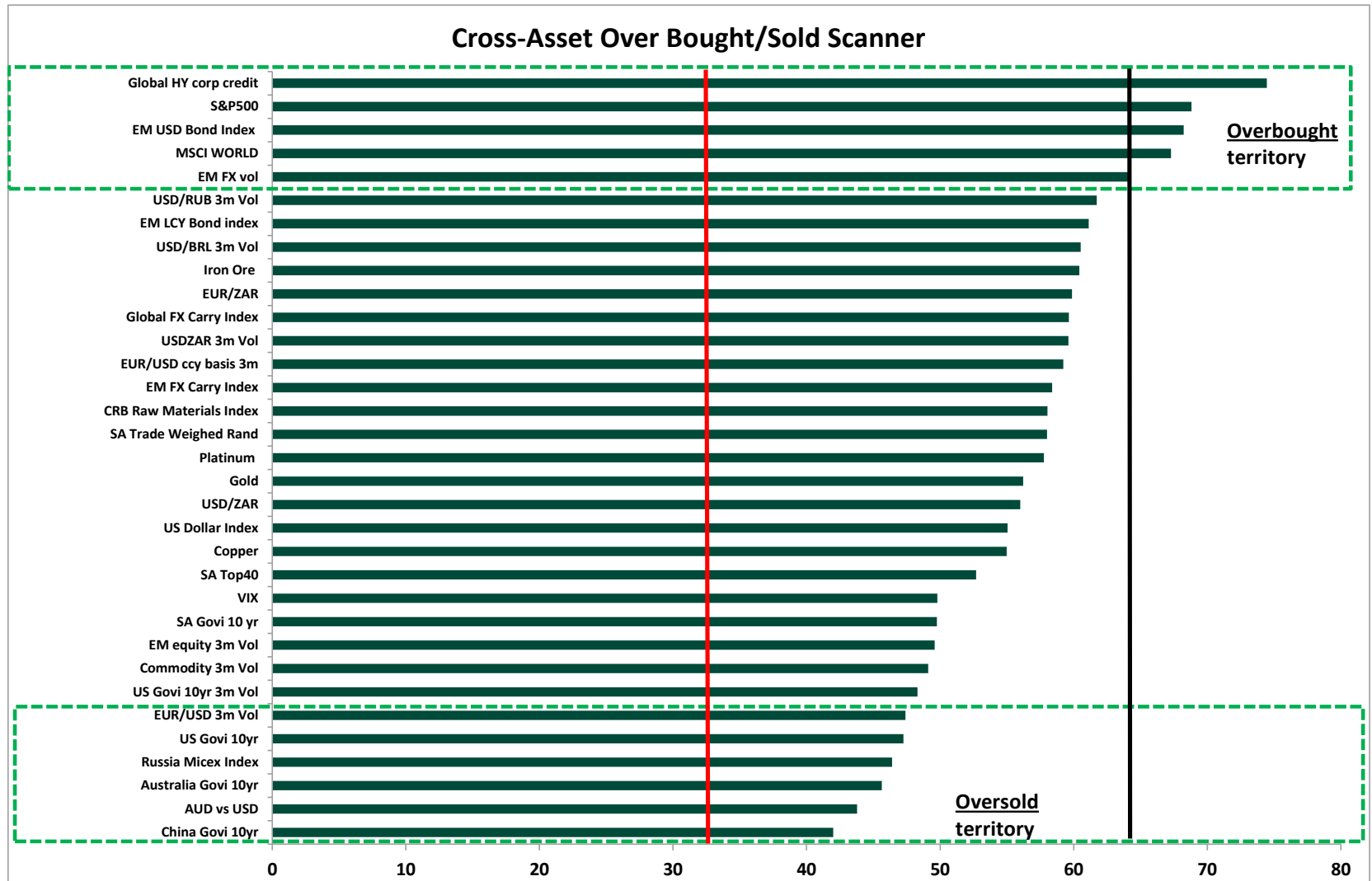
Financial Conditions

Global Uncertainty

South Africa TechMentals

Global Asset Class Scanner

Tactical & Strategic views



Note: Overbought and oversold conditions are determined by using technical price indicators such as RSI and MACD.

Source: DataStream, Nedbank CIB

SUMMARY OF VIEWS

Contents

Velocity of money indicators

Growth Metrics

Global Dollar liquidity indicators

Equities vs Bonds

FX

Corporate credit

Financial Conditions

Global Uncertainty

South Africa TechMentals

Multi-Asset Class Scanner

Tactical & Strategic views

@ a Glance - Our Asset Class Views

		Underweight		Neutral		Overweight	
Level Initiated		-	-	0	+	+	+
Equities	Levels						
SA	45700			●		✱	
US	2264		●		✱		
Europe	3300			●	✱		
EM's	886		●			✱	
Fixed Income							
SA 10yr	8.78		●			✱	
US 10yr	2.34		●			✱	
Global	1.46		●			✱	
EM LCY	6.77		●			✱	
Corp HY	3.51	●		✱			
Forex							
USD/ZAR	13.74		✱			●	
US Dollar	101		✱			●	
EUR/USD	1.06		●			✱	
EM FX vs USD	235		●			✱	
Other							
Brent \$	55		●			✱	
Gold \$	1197				●	✱	
EUR & YEN ccy swap vs USD	-47 / -77		●		✱		
Cash ZAR	357		✱		●		
Cash \$	185		✱		●		

● Strategic (12 months)

✱ Tactical (3-6 months)

→ Increase

← Decrease

*Notes: SA = Top40 , US=S&P500, Europe= EuroStox50, EM = MSCI EM, Global bond =JPM GB yld, EM LCY= EM GBI yld, Corp HY= CSI Barc HY, EM FX= Bloomberg EM FX carry index, Cash (ZAR)= STEFI, Cash (USD)= LIBOR TR 6m Cash index

Themes

Over the long-term we expect returns from equities to be low, given where valuations are and as the world remains in a **balance sheet recession** only boosted from time to time by short-term reflationary actions by central banks (**ie fundamentals have not changed**). The **corrective/reflationary rally** we are expecting over the next quarter would bode well for equities in general. We expect **growth to outperform value** during this period. A rally in global bond yields would be bullish for interest rate sensitive sectors.

The contraction in global money supply in the **Eurodollar system** should continue amid stringent banking regulations, slowing global trade and capital flows. The impact of the contraction in global dollar-liquidity would filter through into markets via **the global carry-trade**, leaving the bond/FX market very volatile and dislocated from traditional fundamentals. The effects of **'financial plumbing'** should play an increasing role going forward.

In South Africa the growth forecast remains weak. The lack of meaningful structural reforms should continue to negatively impact the real economy. We can expect another **volatile year for the rand and bonds**, caused not only by local forces but also by international forces through the global carry-trade and Eurodollar system. SA equities will most likely again be influenced by international themes. During the expected rally in 1Q17, we expect **growth stocks to outperform value** but for them to underperform for the year as a whole.

Risk to our views

Should a **disorderly rise in global interest rates** during 1Q17 (sparked by forced deleveraging in the highly geared bond markets) occur, a tightening of financial conditions would lead to the risk-on phase being short-lived.

A **stronger dollar** would indicate a contraction in the global money supply, which would have the same effect as the abovementioned.

China still remains a risk that we will be monitoring closely. There is a real risk that controlled financial tightening attempted by authorities may spill over into the real economy faster than expected. This would impact EM sentiment and commodities negatively, leaving our tactical call at risk.

Rising populism and growing uncertainty regarding world politics is also a factor that has the potential to derail the reflationary environment that we are expecting.



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