Macro-Economic INSIGHT

Shedding light on macro-economic developments

Week 1 & 2 February 2016

HIGHLIGHTS

Macro-economic indicators		Agri-economic indicators (Q3)		Commodities R/ton (12/0/16)	
Q3 GDP (Rmil) ↑	3 046 807	Value of Agric (Rmil)	208 252.4	White maize ↑	R4 910
GDP Growth(Q3) ↑	0.7%	AgriGDPgrowth (Q3)	-12.6%	Yellow maize ↑	R3 796
R/$ ↑	R15.86	Share of AgriGDP	2.2%	Wheat ↓	R4 596
Crude oil ↑	$30.06	Net Farm Income (Rmil)	65 952.4	Sunflower ↑	R8 200
Interest (Repo / Prime) ↑	6.25% / 9.75%	Total Agri-debt (Rmil)	116 575.6	Soybean ↓	R6 950
Inflation (CPI / PPI) ↑	6.2%/ 4.8%	DAFF Agric. Public budget 2015/16 (Rmil)	6 383.0		

. The US economy with more downside risk due to uncertainty in global markets.
. The EU is weathering new challenges and seems to be staggering from one crisis to another.
. Emerging market economies remain under pressure from the slowdown in China.
. African economies growth forecast has been downgraded as demand for commodities wanes.
. Weak rand no catalyst for South African Exports and the impact of the rebound are yet to be felt.
. OPEC members in talks about cutting oil supply in an effort to boost prices and curb losses.
. Mining and manufacturing output recovering but remains low, with prospects of more job losses.
. Inflation surged up to 6.2% in January, mainly from food prices and petrol. The SARB more likely to hike interest rates further at the next MPC meeting in March.
. Agricultural commodity prices mixed due to supply issues, either too much or too little in the market.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Developed Economies

The **US** economy grew by just 0.7% in Q4 and expanding to 2.4% for the whole of 2015. It was a tough year for the US and the data figures showed new weaknesses in the nation's long and sluggish recovery. This was despite the fact that interest rates being held around zero percent for more than seven years and the $3.7 trillion worth of quantitative easing that was supposed to lift off the economy. The US is still determined to boost its economic growth in 2016 and remain robust and attractive than others in the advanced world.

US economic growth came in below market expectations.

The **EU** continues to weaken as equity markets have plunged by 22% in just two months of the New Year. Political tensions with regards to economic migration have also been a hot topic in Europe, with proposals to restore borders and impose controls. As the eurozone staggers from crisis to crisis, many British voters think Britain would be better off leaving the EU entirely. However, the IMF believes that the migration into Europe could lift GDP through greater state spending and long-term boost to jobs market with negative effects short-lived

Europe's problems beyond immigration controls.

Japan's economy is still subdued as the turmoil in global markets is making the yen to rise in value, which has a negative impact on the stock market.

This has raised worries for the government as "Abenomics" is in danger of falling apart. A weaker currency has been beneficial for Japan as it also drives up the cost of imported goods and helps shake off a vicious cycle of falling prices (deflation) that has led to lower profits and less spending.

A stronger currency not good news for Japan.

Emerging Market Economies

Brazil's economy is a long way from recovery as a large number of its middle class citizens slide back into poverty because of the economic contraction. It is evident that the government will need to implement a series of belt-tightening measures to reduce the public deficit and reign in inflation which is expected to hover around 6.9% this year. Structural reforms are needed to turn the country around. Brazil's best, most competitive producers are in commodities like agriculture but this cannot be the only means to ensuring growth and sustainability if the country is to exit recession.

Brazil stuck in recession, with little hope of recovery.

India's economic growth is outpacing that of all other large nations, and plummeting oil prices have slashed its bill for energy imports. A large amount of political capital have been used for economic reforms. Foreign direct investments have also flooded in as global companies signed deals to expand their manufacturing operations in India.

China's bad loans rise to its highest level as the economy slows. There have been increased efforts to lower the number of non-performing- loans. Commercial banks will need to have more aggressive recollection methods and criteria for granting loans. Similarly, the People's Bank of China reported that new credit surged in January to a record 3.42 trillion yuan, almost double the amount in December. This further highlights turnaround of asset quality

China's financial institutions under threat from bad debt.

African Economies

Southern Africa: *Zimbabwe's* economy remains stagnant coming on the heels of a severe drought in 2015. The outlook for 2016 remains difficult and growth is projected to remain around 1.5%. *Mozambique's* economy is also set to struggle in achieving growth of 7% and inflation of 5.6% in 2016 due severe drought in its southern regions and a weak global economy.

Drought continues to hamper growth.

East Africa: *Kenya's* economy remains volatile, with inflation on the upside and as a consequence lending rate accelerated by 2.2% to 18.3%. *Sudan* is determined to achieve the sustainable development despite the economic sanctions imposed by Washington. The *Ethiopian* government introduced protective measures for industries by instituting high tariffs and banning the importation of commodities that might adversely affect the market share of domestically produced goods.

High inflation remains an issue for African economies.

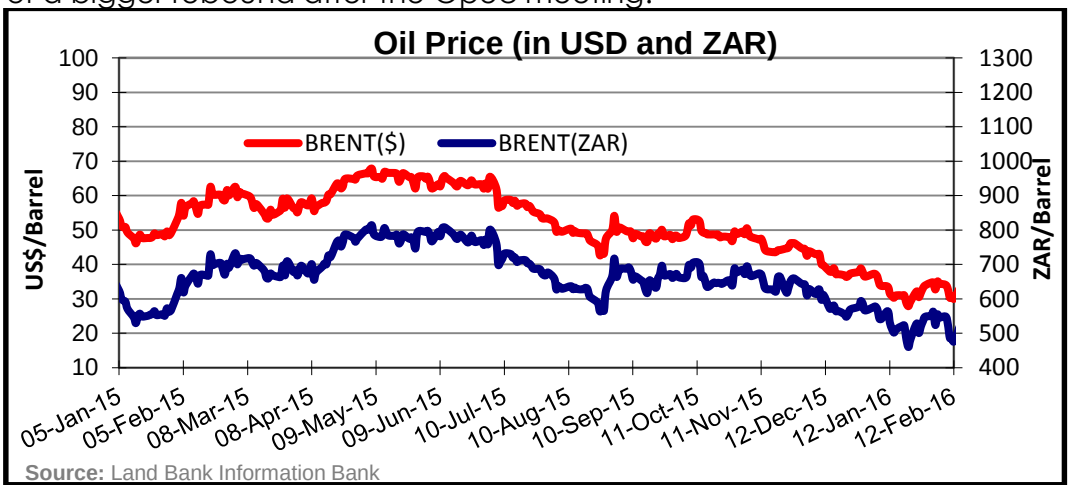
West Africa: *Nigeria's* economy is in crisis. The naira has fallen over 50% in the last year alone and continues to depreciate. Oil revenues have also fallen to their lowest as global energy prices plummet. The government has proposed plans to diversify the economy, raise agricultural output and encourage foreign investment in an effort to see a recovery in economic growth. *Liberia's* political transition may be contributing to the economic financial crisis the country is facing. Investor sentiment has been hampered mainly by political risk and has resulted in less capital inflow to fund development projects.

Currency depreciation could work in favour of Nigeria as oil price tumbles.

COMMODITIES: *Brent crude oil*

Global Brent crude oil price marginally gained strength as Russia and OPEC members decided to cut production and minimise losses in the short term. The petrol price rose by 0.5%, while diesel declined by 6.1% at the end of January. Farmers are not feeling the entire benefit of lower oil prices due to the weakness of the rand, which in turn has resulted in an addition in input costs. Brent crude oil was traded just above $30.06/barrel, with expectations of a bigger rebound after the Opec meeting.

Talks of oil producers cutting supply to curb losses.

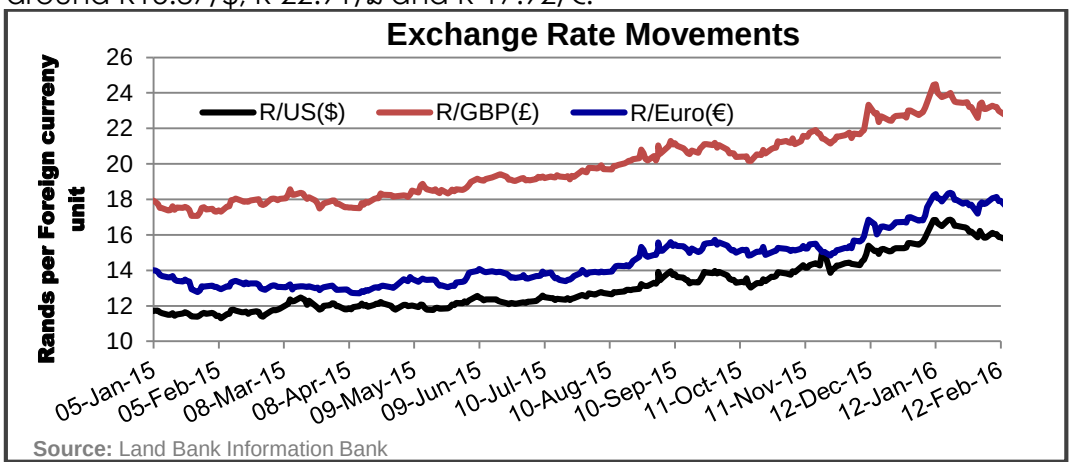


Source: Land Bank Information Bank

DOMESTIC MARKET: Exchange rate

The Rand appreciated against its major counterparts after the SARB announced the increase in repo rate. However, little benefit was derived from this rebound. The appreciation of rand may not be sustainable given the concerns over the domestic economic outlook. The rand is trading around R15.87/$, R 22.91/£ and R 17.92/€.

The Rand rebounded slightly.



Source: Land Bank Information Bank

Bond Market: The bond market was firm, taking its cue from strong rand. Anxiety about the global economy, fall in oil prices as well as the US Federal Reserve's testimony to congress has made investors around the world to shift their investments to gold and government bonds.

Bond market firmer on the back of stronger local currency.

SA Yields & Spreads	12-Feb-16	Week ago	Change bps
3MNT NCD spot	6.98	7.03	-0.05
159	8.00	8.43	-0.43
203	8.99	9.49	-0.50
204	8.63	9.15	-0.52
186	9.60	9.96	-0.36

Source: Land Bank Information Bank

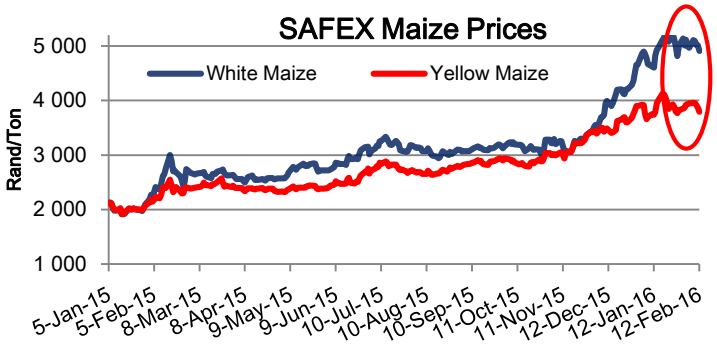
DOMESTIC DEVELOPMENTS

The South African economy is stagnant and may be at the brink of a decline. Continued drought, coupled with a tumbling currency and political turmoil, will adversely ***affect job prospects, consumer food prices and overall sentiment in 2016.*** However, y-o-y growth in mining production recovered to a marginally negative -0.3% in December therefore retrenchments in the mining sector are likely to continue to weigh on lower-income households and depress consumer spending. Furthermore, y-o-y manufacturing output grew by 0.4% in December from -1.2% in November. This improvement assisted in preventing negative growth in manufacturing production for the whole of 2015 but the q-o-q deterioration of -2.0% in production could drag on overall GDP growth in the fourth quarter.

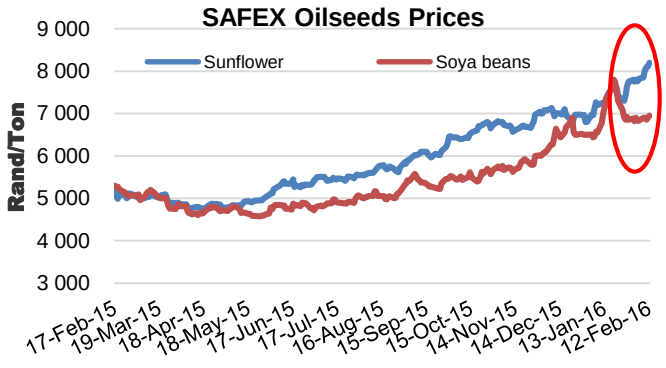
Y-o-y consumer price inflation rose to 6.2% in January from 5.2% in December, ***breaching the 6% SARB target band***. The main contributor to this increase was the sharp increase in food inflation, presumably attributable to the intensification of the drought and the pass-through effects of sharp currency depreciation between November and January. Y-o-y food inflation rate shot up in January this year, to 7.0%, from 5.8% in December. The inflation rate in expected to continue increasing in the next month or two as drought conditions persist. As inflationary pressures remain high the SARB will be trying to return inflation within its target, therefore a further 0.25% hike in the repo rate can be anticipated at the March MPC meeting.

Agricultural machinery sales in December were lower than the units sold in the same month last year. Tractor sales dropped by 30%, whereas combine harvester sales were 37% down. Machinery sales continue to be under pressure as a result of rand depreciation and low performance in the agricultural sector. Farmers who rely mostly on irrigation systems have reached a point where they need rain as dam are running dry. The increase in the price of agricultural machineries is likely to have significant impact on production and ultimately on food security. The machinery sector is expected to still face challenges during 2016.

SAFEX maize prices have been fluctuating, however they remain elevated. Farmers are expecting a rainfall in maize production areas where they will be carefully observing, when maize will be going through pollination process. Farmers are hoping that the recent rain will help animals that are currently consuming yellow maize feed to be rescued during the winter season, and then perhaps decrease the price as well.



SAFEX soya bean prices declined in the short term, which might be due to adequate import supply, while sunflower prices have increased as a result of the global shortfall. Farmers planted more quantities of sunflower in the planting season, but insufficient rain may adversely influence the growing season and reduce the level of yield.



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