Macro-Economic INSIGHT

Shedding light on macro-economic developments

Week 3 & 4 February 2016

HIGHLIGHTS

Macro-economic indicators		Agri-economic indicators (Q4)		Commodities R/ton (29/02/16)	
Q4 GDP (Rmil) ↑	3 051 485	Value of Agric (Rmil)	208 252.4	White maize ↑	R5 041
GDP Growth(Q4/2015) ↑	0.6%/1.3	AgriGDPgrowth (Q4/2015)	-14.1%/-8.4	Yellow maize ↑	R3 401
R/$ ↑	R16.22	Share of AgriGDP	2.2%	Wheat ↓	R4 680
Crude oil ↑	$35.10	Net Farm Income (Rmil)	65 952.4	Sunflower ↑	R7 650
Interest (Repo / Prime) ↑	6.75% / 10.25%	Total Agri-debt (Rmil)	116 575.6	Soybean ↓	R6 259
Inflation (CPI / PPI) ↑	6.2%/ 4.8%	DAFF Agric. Public budget 2015/16 (Rmil)	6 383.0		

. The developed economies have been struggling to boost growth to sustainable levels
. Emerging market economies are expected to receive a boost from Russia
. African countries continue to grapple with bilateral trade and drought
. Brent crude oil price rebounds as producers cut production
. Rand loses gains as political tensions continue to weigh on the economy
. Budget speech attempted to restore confidence as ratings agencies watch on
. Q4 GDP in line with expectations due to contractions in agriculture, mining and manufacturing
. Agricultural machinery sales improved slightly from purchases of combine harvesters
. Agricultural commodity prices still mixed as maize varieties move in the opposite direction

INTERNATIONAL ECONOMIC DEVELOPMENTS

Developed Economies

The **US** stocks have fallen 4% in two months and at some point oil prices crashed to as low as $26 a barrel. Amid increasing Inflation and improving job market, consumer spending still flat. The current global economic situation may lead the Fed to keep the rate unchanged.

The US Fed may keep rates unchanged.

The **EU** economy is showing signs of strain from the global slowdown. February inflation dropped to 0.7% from 1% in January. Interest rates are already at record lows, however, the European Central Bank plans on putting in place negative interest rates, with the risk that these interest rates will become even more negative as time goes on. These negative interest rates have potential to boost the global economy if they are effectively implemented.

Possibility of imposing negative interest rates.

Japan's economy remained mixed as the current account balance was forecast at a surplus of 719 billion yen in January, while the q-o-q gross domestic product dropped by 0.4%. Consumer spending and external demand are weak, which lead to a decline of 12.9% in exports and 18% in overall imports, with demand for liquefied natural gas and petroleum slipping by more than 55% and nearly 44% respectively.

Japan economic growth drops as predicted.

Emerging Market Economies

Brazil's economic growth has fallen sharply and is not showing any signs of recovery in the near future since the budget deficit has reached 10.8% of GDP. Low commodity prices and political tension are putting pressure on domestic businesses and trade relations with the rest of the world. A weakened currency has helped improve the competitiveness of exporters, which the government has said will help spur Brazil's recovery.

Brazil recession deepens.

Russia is expected to remain in recession in 2016, however the pace of the contraction in its GDP will slow to 0.5% from a previous 3.7%. Even though economic growth is in negative territory, the central bank has $379 billion in foreign exchange and gold, making Russia the only major emerging market with a gain.

Russia expected to boost emerging markets.

India has highlighted **agriculture as one of the priority** areas in 2016. The budget has allocated resources towards support for these initiatives. There was much emphasis about the implementation of a ***common e-market*** platform for farmers and a platform to connect ***wholesale agricultural market*** and the launch of a ***farm irrigation fund***.

China will face challenges in trying to keep the economy growing by at least 6.5% over the next five years while pushing hard to create more jobs. The government has reiterated that it is confident about achieving medium to high-speed economic growth in 2016.

China government optimistic.

Turkey's economic growth outlook is still robust than that of the largest developing economies due to a substantial rebalancing on the current account deficit mainly led by the oil price decline. However, geopolitical risks remain and these may drag on growth.

African Economies

Southern Africa: Zimbabwean banks are facing a financial crisis, which has resulted in lowered confidence from investors whom are now reluctant to fund them due to high risk perception and sanctions. Swaziland regions have declared drought. Furthermore, the country is seeking ***drought relief funds from global funders/investors*** to deal with food insecurity concerns that have emerged.

Decline in investor confidence.

East Africa: Tanzania's annual inflation rate dropped to 6.5% in January 2016, from 6.8% growth in 2015. The cost of food has increased at slower rate and consumers are able to afford a substantial basket of goods and services. Rwanda's parliamentary members advised the central bank to lower the interest rate to drive economic activity and increase customer base.

Proposal for lower interest rate to support economic activity.

West Africa: Nigerian president rejected proposals to devaluate the Naira in an effort to stabilize economic growth due to limited benefits from weaker currency. Ghana is determined to support oil and gas producers as a measure to ensure sustainable economic growth.

Agriculture contributes to economic growth.

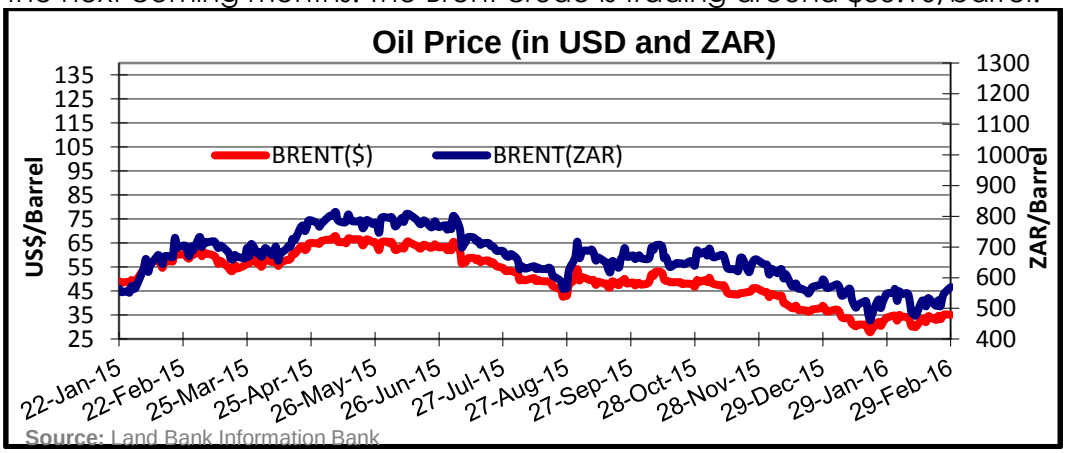
North & Central Africa: Morocco's economy increased by 4.7% in Q4 of 2015 from 2.4% in 2014, attributed to ***higher agricultural output***. Algerian oil

producer margins have been squeezed so the government has proposed to issue local currency debt with an interest rate of 5% in April 2016.

COMMODITIES: *Brent crude oil*

Global Brent crude oil price have increased as producers agreed to freeze oil production. This will likely stabilize the price in the short term. The increase in oil prices may also add ***pressure on the running costs of agricultural machineries and lead to higher food inflation***. Farmers will have to revise their budgets, since they may begin to spend more on petrol and diesel in the next coming months. The Brent crude is trading around $35.10/barrel.

Global oil prices surge after substantial cut in production.

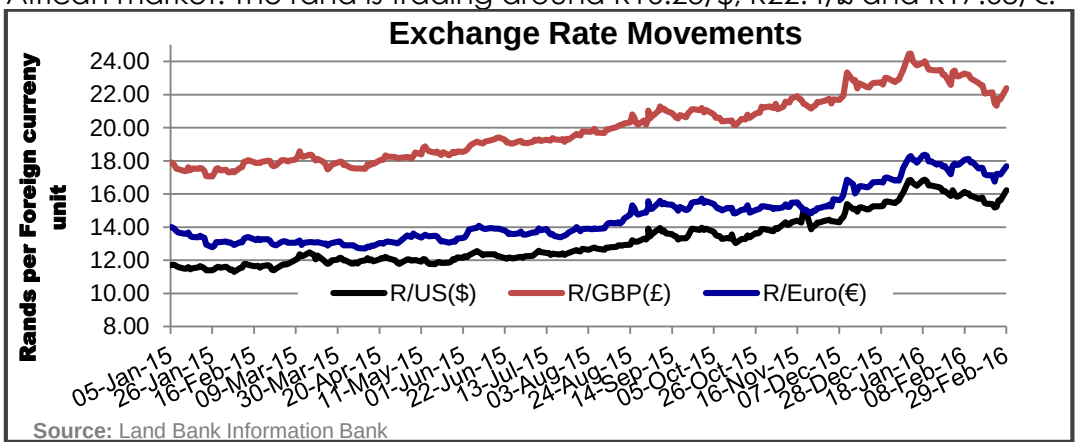


Source: Land Bank Information Bank

DOMESTIC MARKET: Exchange rate

The Rand is trading weaker as political instability and poor economic performance hampered growth prospects. A softer Rand lowered confidence and attraction of new foreign investments entering the South African market. The rand is trading around R16.23/$, R22.4/£ and R17.68/€.

Local currency vulnerable due to political instability.



Source: Land Bank Information Bank

Bond Market: Bond market was soft this week, taking its cue from a softer Rand. Credit rating agencies have held off any downgrade. However economic fundamentals suggest that a negative adjustment may be looming sooner than anticipated. R159 changed by 32 basis points, R203 by 31 basis points, R204 by 29 basis points and R186 changed by 22 basis points.

SA Yields & Spreads	29-Feb-16	Week ago	Change bps
3MNT NCD spot	6.98	6.98	0.00
159	8.32	8.00	0.32
203	9.30	8.99	0.31
204	8.92	8.63	0.29
186	9.82	9.60	0.22

Source: Land Bank Information Bank

Bond market taking cue from weaker rand.

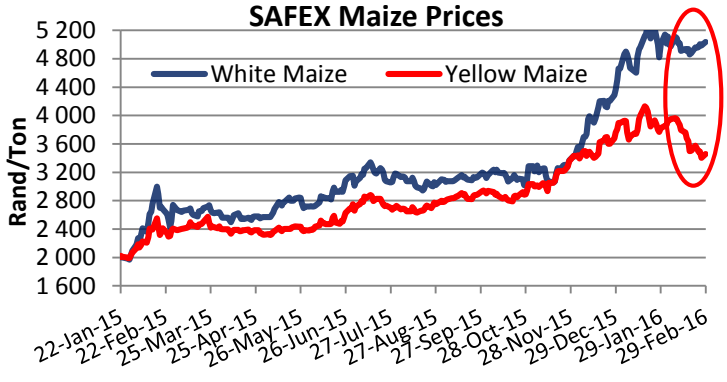
DOMESTIC DEVELOPMENTS

Y-o-y GDP growth was in line with expectations, increasing by 1.3% from 1.5% the previous year. The main contributor to the slowdown in economic growth was the agricultural sector as the industry contracted by 8.4%, the largest annual fall in agriculture production since 1995. This was attributed to the severe drought. Furthermore, growth in mining and manufacturing was flat given that the two sectors contracted for most of the year. However, the finance sector expanded by 2.8%, making it the largest contributor to the 1.3% growth. Unfortunately the outlook for 2016 is likely to be negative with expectations of even lower growth compared to 2015. Higher inflation and interest rates, together with increased taxation, are likely to erode growth in disposable income. Furthermore, lack of business confidence is bound to cause capital investment to remain lacklustre.

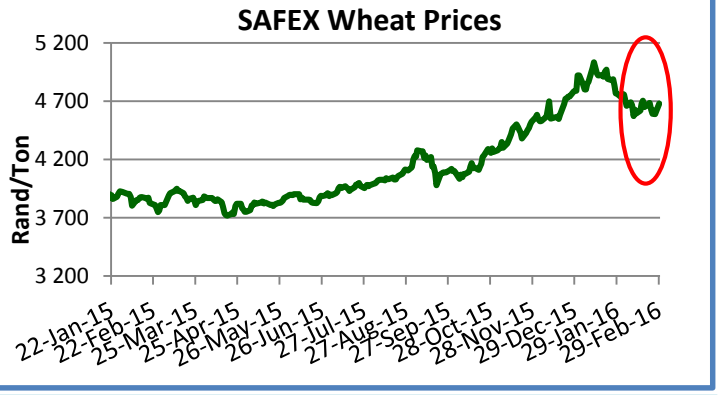
The Minister of Finance presented the 2016/17 budget where much of his efforts were to appease credit rating agencies to avoid another downgrade. The Minister was under a lot of pressure to introduce measures to revitalise growth and reverse South Africa's long-term economic decline. The agricultural sector which has been affected by drought was also a point of priority. Initiatives to stimulate growth in agriculture are under way with projects such as ***the agri-parks in rural communities, strengthening small scale farming and promoting agro-processing.***

Agricultural machinery and equipment sales in January were marginal as there are still signs of weakness. January tractor sales came in lower than the units sold in the same month the previous year, dropping by almost 4%. Combine harvesters on the other hand were significantly higher for the same period, growing to 16 units compared to the 6 recorded last year. Farmers are struggling to purchase equipment due to lower income and squeezed profit margins. Therefore, farmers will look to alternatives such as buying second hand machinery in order to cut cost and avoid a bigger debt burden. Expectations are that tractor sales for 2016 will be between 4 500 and 5 100 units, 10 to 15% down on last year. This shows that market conditions are still on the downside and if economic fundamentals remain bearish this will lead to an inevitable slowdown in sales.

SAFEX maize prices were mixed as white varieties moved in the opposite direction compared to yellow maize. White maize price is trending upward, while the yellow maize price is downward. The increase in price of white maize is a result of limited supply of maize in the domestic market. White maize will likely run short by end of next month.



SAFEX wheat prices have increased as a result of the wheat import price. Dry season is currently weighing on wheat prices and may also be forced to sell the wheat that is supposed to be used for planting in the coming season. There is a high possibilities that the price of wheat will increase further in the next season. Wheat is trading around R4680/ton.



MACRO-ECONOMIC INSIGHT TEAM

Compiler: Nontobeko Ndaba – Specialist: Business Analysis
Interns: Lebogang Boloka – Agribusiness; Tshifhiwa Muenda – Environment & Social Sustainability
Editor: Dr. Moraka N Makhura – Head of ERBI
Reviewer: Robert Matsila - IDC
Distributors: Babalwa Nkumbesi – Specialist: Information Management

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For more information contact The Information Resource Centre (IRC) at bnkumbesi@landbank.co.za or 0126860974.

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