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MARKETS MAY HAVE STABILISED BUT THE RESERVE BANK FINDS ITSELF IN A QUANDRY.

The rand has been relatively settled since the April MPC meeting but it has been a case of dollar weakness as opposed to rand strength. This is due to US corporate earnings being below expectations coupled with low inflation and a mixed jobs report, according to Sanveer Hariparsad, Portfolio Manager at Prescient Investment Management.

“The real exchange rate is 2.4% stronger from the last meeting, which is a small victory, given that it has depreciated 17% in real terms over the last year,” he said.

“Inflation projections from the SARB have been lowered slightly to 6.4% from 6.6% in 2016 and to 6.2% from 6.4% for 2017; mainly due to the earlier peak in food inflation and lower than expected Eskom tariff increases. Core inflation was a surprise with a downside reading of 5.4% from 5.7%, which may give the Reserve Bank an opportunity to pause.”

He added that the SARB has been fairly aggressive in its monetary policy stance by raising rates 100bps over the last six months. The effects of which have not yet filtered through into the economy. Economic growth is forecast to be sub 1% this year and following the gloomy mining production numbers this has prompted a number of analysts to downgrade their growth forecasts further.

“The MPC does seem tolerant of a temporary breach of inflation above the 3 to 6% target band so will welcome an opportunity to pause given the lacklustre growth outlook,” pointed out Hariparsad.

Moody’s recently affirmed South Africa’s long-term credit rating at Baa2 (two levels above sub-investment grade) with a negative outlook which surprised most investors who expected Moody’s to downgrade SA by one notch, in line with the other agencies.

“Moody’s projects economic growth to improve next year with a trough this year. The government debt to GDP ratio should be stabilised by the aggressive consolidation in the 2016 Budget and recent political developments, which highlight the soundness of the country’s institutional investor base.

“S&P’s decision in June remains another milestone that market participants will eagerly await. The forward rate agreement which looks at markets expectation of the three-month rate is only pricing in a 40% probability of a 25 basis point hike with the majority of economists opting for an unchanged repo rate. The split decision at the last MPC meeting will make this a closer call than what is currently priced into the market but a pause would seem like the more measured approached," concludes Hariparsad.

Ends

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About Prescient

- Prescient's subsidiaries include: Prescient Investment Management (SA), Prescient Securities, Prescient Management Company, Prescient Life, Prescient Fund Services, Prescient Fund Services (Ireland) Prescient Wealth Management, Prescient Profile, and EMHPrescient Investment Management.
- Prescient Investment Management is a signatory to the United Nations Principles of Responsible Investing (UN PRI) and pledged to the Codes for Responsible Investing in South Africa (CRISA).
- The Prescient Global Income Fund, now known as the Prescient Global Income Provider Fund, was ranked by Morningstar as the 7th top performing fund for 2015.
- **More recently, the Prescient Income Provider Fund won the Raging Bull Award for the Best South African Multi-Asset Income Fund, Best South African Interest-Bearing Fund as well as a certificate for the Best South African Multi-Asset Income Fund on a risk – adjusted basis over five years to December 31, 2016.**
- Morningstar data also confirmed that The Prescient China Balanced Feeder Fund has been the top performing South African domiciled fund for the second year in a row.

- Prescient Investment Management was the first institution in Africa to be granted a Qualified Foreign Institutional Investor (QFII) licence by the China Securities Regulatory Commission (CSRC).
- Prescient Investment Management was named Overall Investments/Asset Manager of the Year at the Imbasa Yegolide Awards 2011, Absolute Return Manager of the Year in 2013 and Bond Manager of the Year and Responsible Service Provider of the Year in 2015.
- The full details and basis of the award can be obtained from the fund manager.
- For any additional information such as fund prices, brochures and application forms, email info@prescient.co.za or visit www.prescient.co.za
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