



# South Africa: Economic & Market Outlook

## Hamstrung by the growing “twin deficits” dilemma...

---



---

**Johan Rossouw**  
(021) 481-6205  
johan@vunanisecurities.co.za

15<sup>th</sup> Feb. 2013

---

# The Global Scene



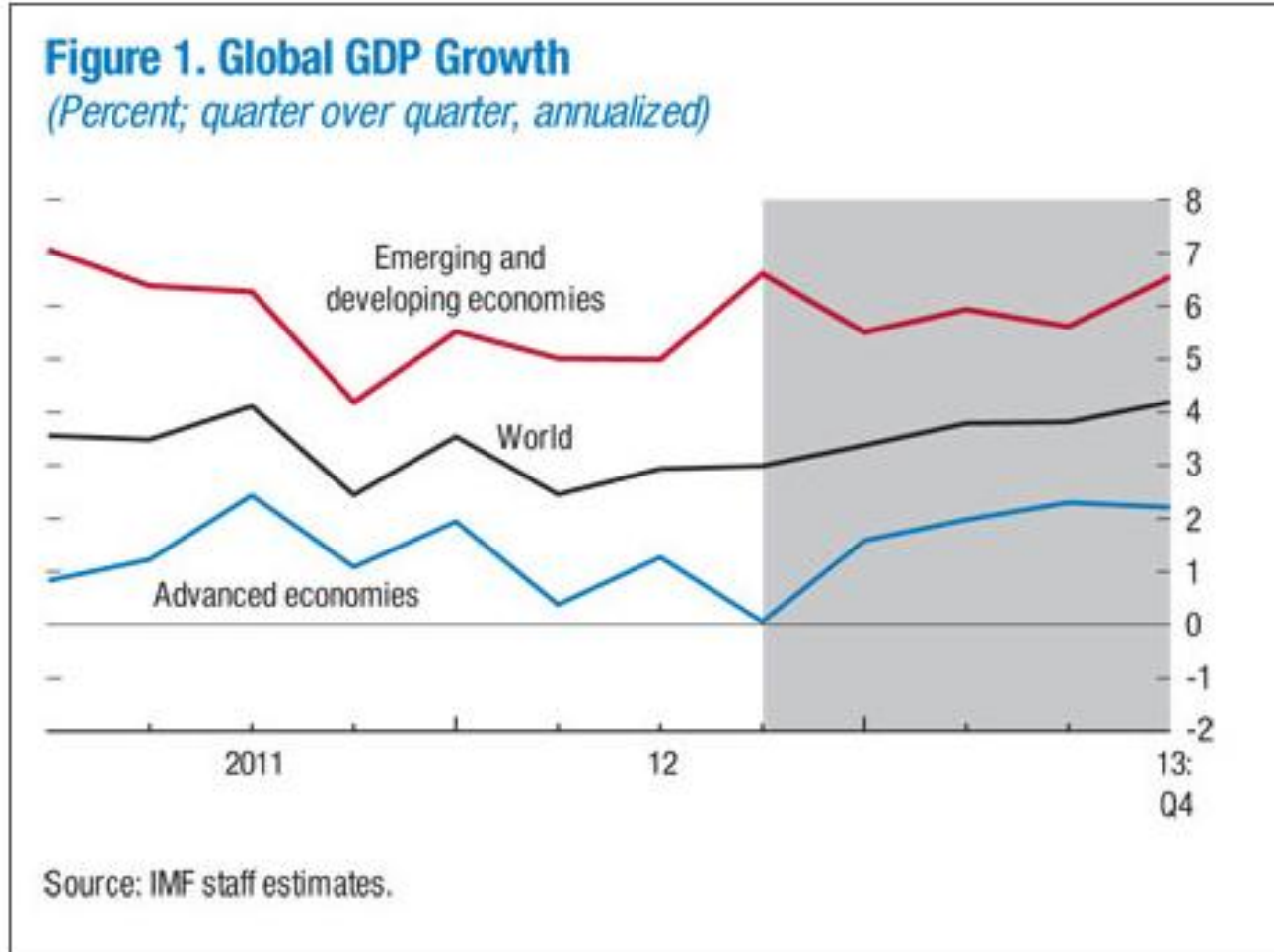
## Latest IMF view...

---

- Global growth projected to increase in 2013.
- The upturn to be more gradual than previously envisaged.
- Policy actions lowered acute crisis risks in euro area and the US.
- Euro area return to recovery is delayed.
- Japan in recession, but stimulus to boost growth in the near term.
- Policies supported modest growth pickup in some emerging economies.
- ...others hamstrung by weak external demand and domestic bottlenecks.
- Growth could be stronger than projected; significant downside risks, though...



# Latest IMF projections...

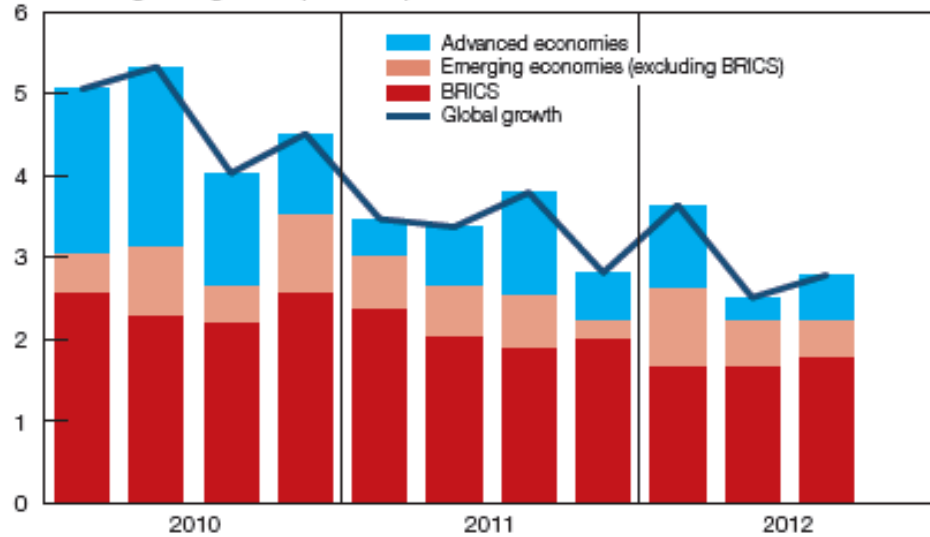




# Global growth: a regional perspective...

Global growth and contributions from advanced economies, BRICS countries and other emerging-market economies

Percentage change from quarter to quarter

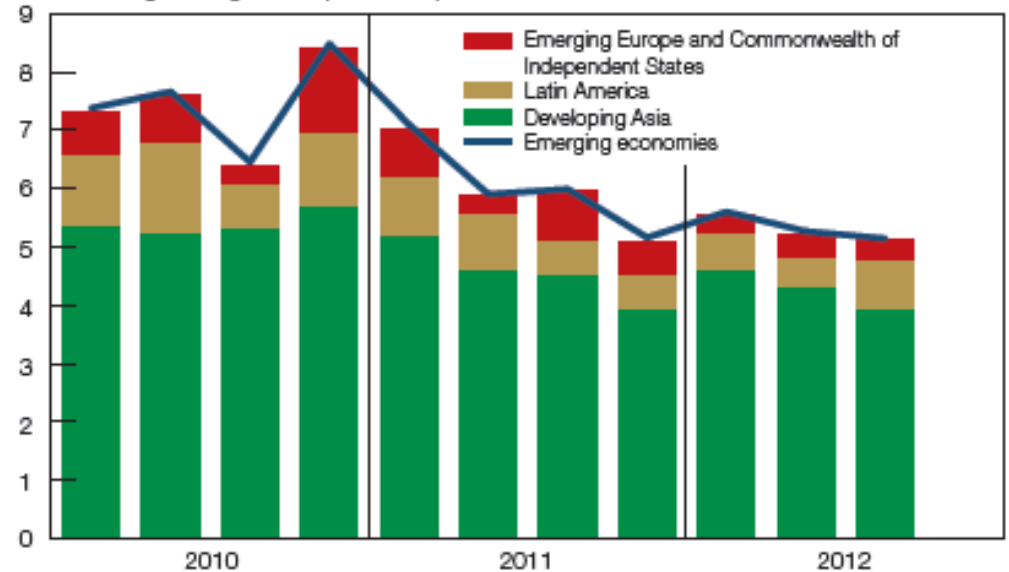


Seasonally adjusted annualised rates

Sources: National statistical offices, JPMorgan and staff calculations

Real output growth in emerging-market economies and regional contributions

Percentage change from quarter to quarter



Seasonally adjusted annualised rates

Sources: National statistical offices, JPMorgan and staff calculations

VUNANI

SECURITIES

Source: SARB Quarterly Bulletin, Dec.'12

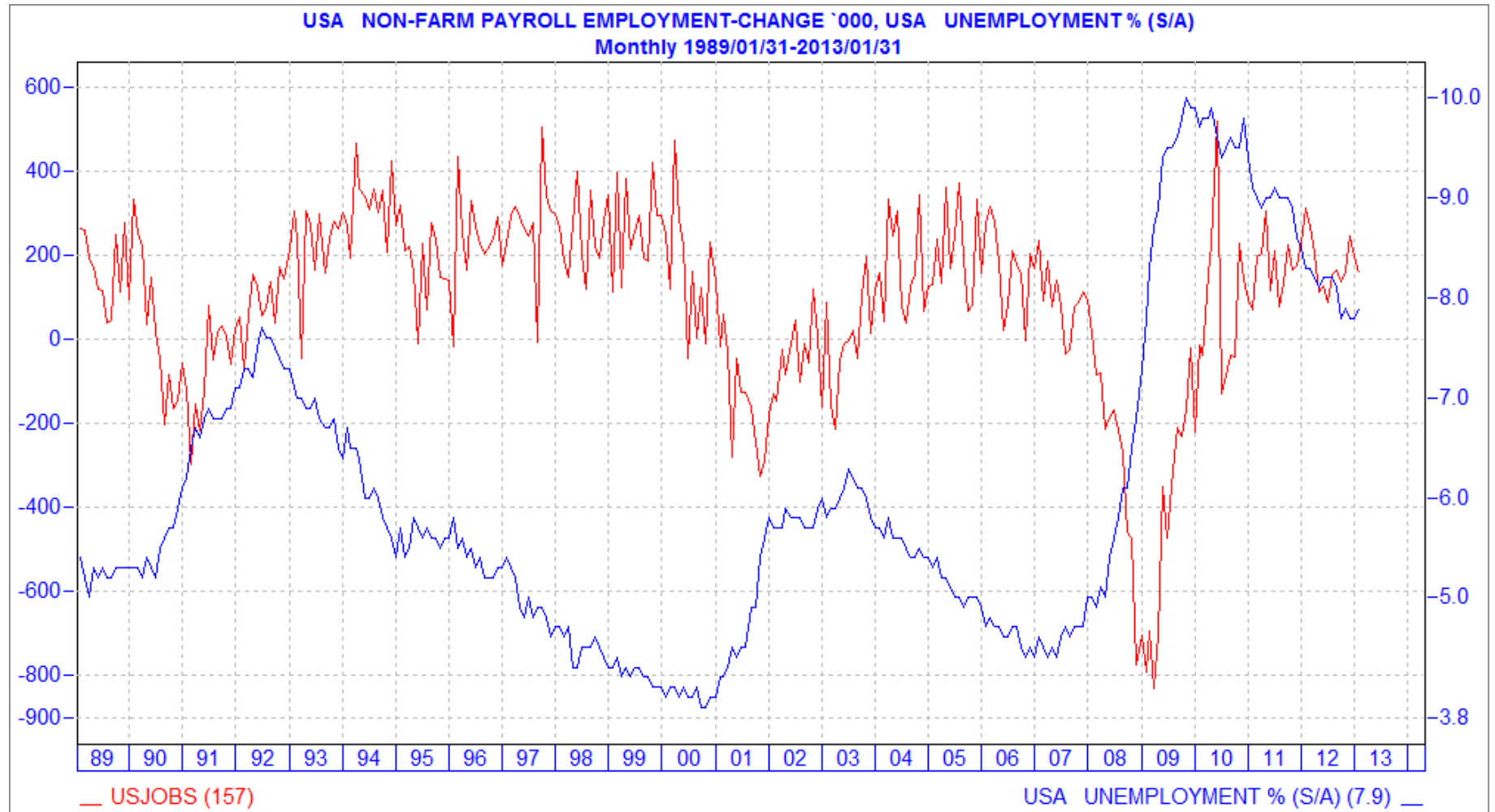


## Latest IMF projections...

	2011	2012	Projections		Difference from October 2012 WEO projections	
			2013	2014	2013	2014
<b>World Output</b>	3.9	3.2	3.5	4.1	-0.1	-0.1
<b>Advanced Economies</b>	1.6	1.3	1.4	2.2	-0.2	-0.1
United States	1.8	2.3	2.0	3.0	-0.1	0.1
Euro Area	1.4	-0.4	-0.2	1.0	-0.3	-0.1
Germany	3.1	0.9	0.6	1.4	-0.3	0.1
France	1.7	0.2	0.3	0.9	-0.1	-0.2
Italy	0.4	-2.1	-1.0	0.5	-0.3	0.0
Spain	0.4	-1.4	-1.5	0.8	-0.1	-0.2
Japan	-0.6	2.0	1.2	0.7	0.0	-0.4
United Kingdom	0.9	-0.2	1.0	1.9	-0.1	-0.3
<b>Emerging and Developing Economies</b>	6.3	5.1	5.5	5.9	-0.1	0.0
Brazil	2.7	1.0	3.5	4.0	-0.4	-0.2
Russia	4.3	3.6	3.7	3.8	-0.2	-0.1
China	9.3	7.8	8.2	8.5	0.0	0.0
India	7.9	4.5	5.9	6.4	-0.1	0.0
South Africa	3.5	2.3	2.8	4.1	-0.2	0.3



# US jobs & unemployment rate...



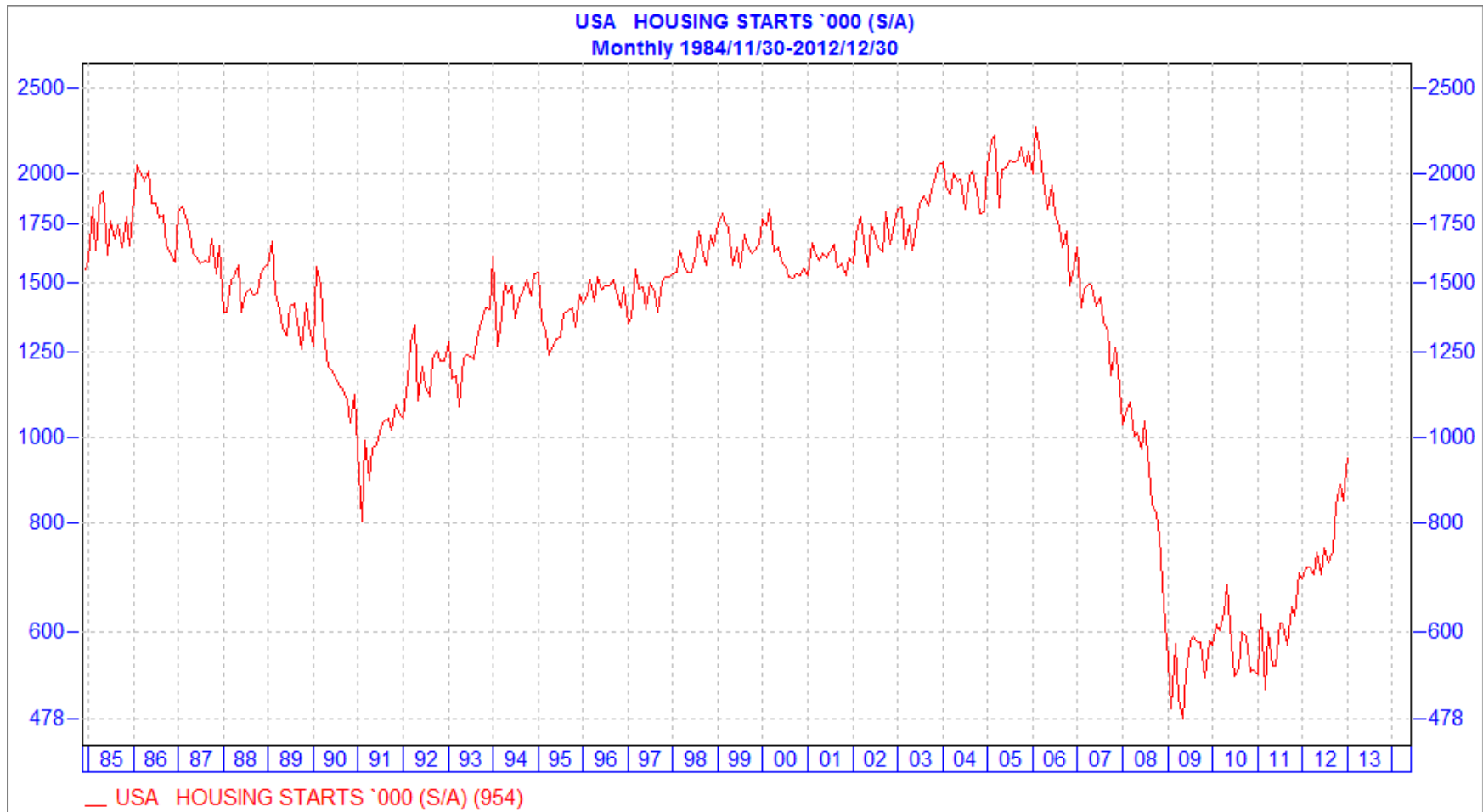
VUNANI

SECURITIES

Source: Inet-Bridge



# US housing starts...



VUNANI

SECURITIES

Source: Inet-Bridge





---

## The Domestic Scene



## The longer-term path...



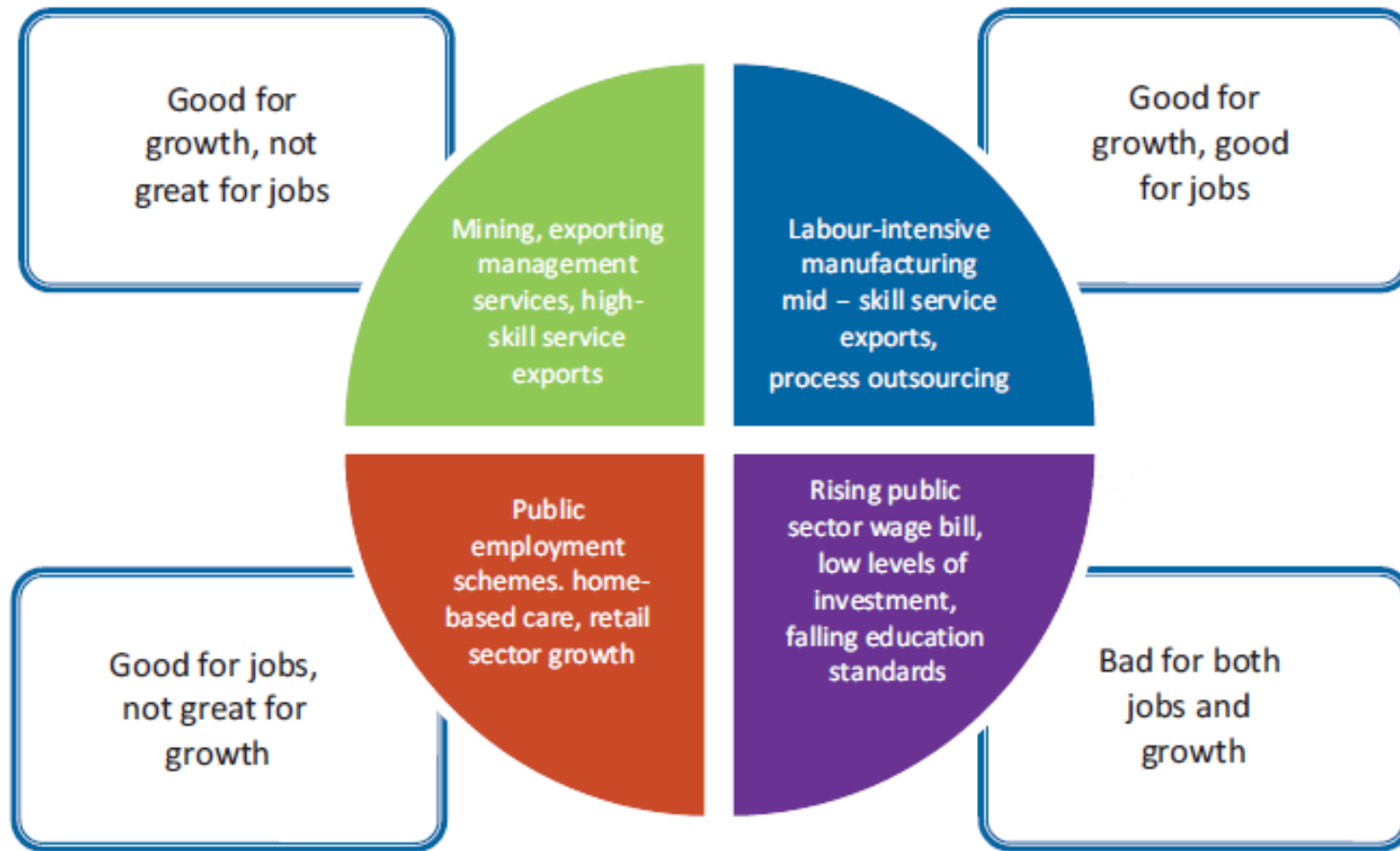
VUNANI

SECURITIES

Source: National Planning Commission



# The quandary of growth and job creation...





## NDP: Conclusion...

---

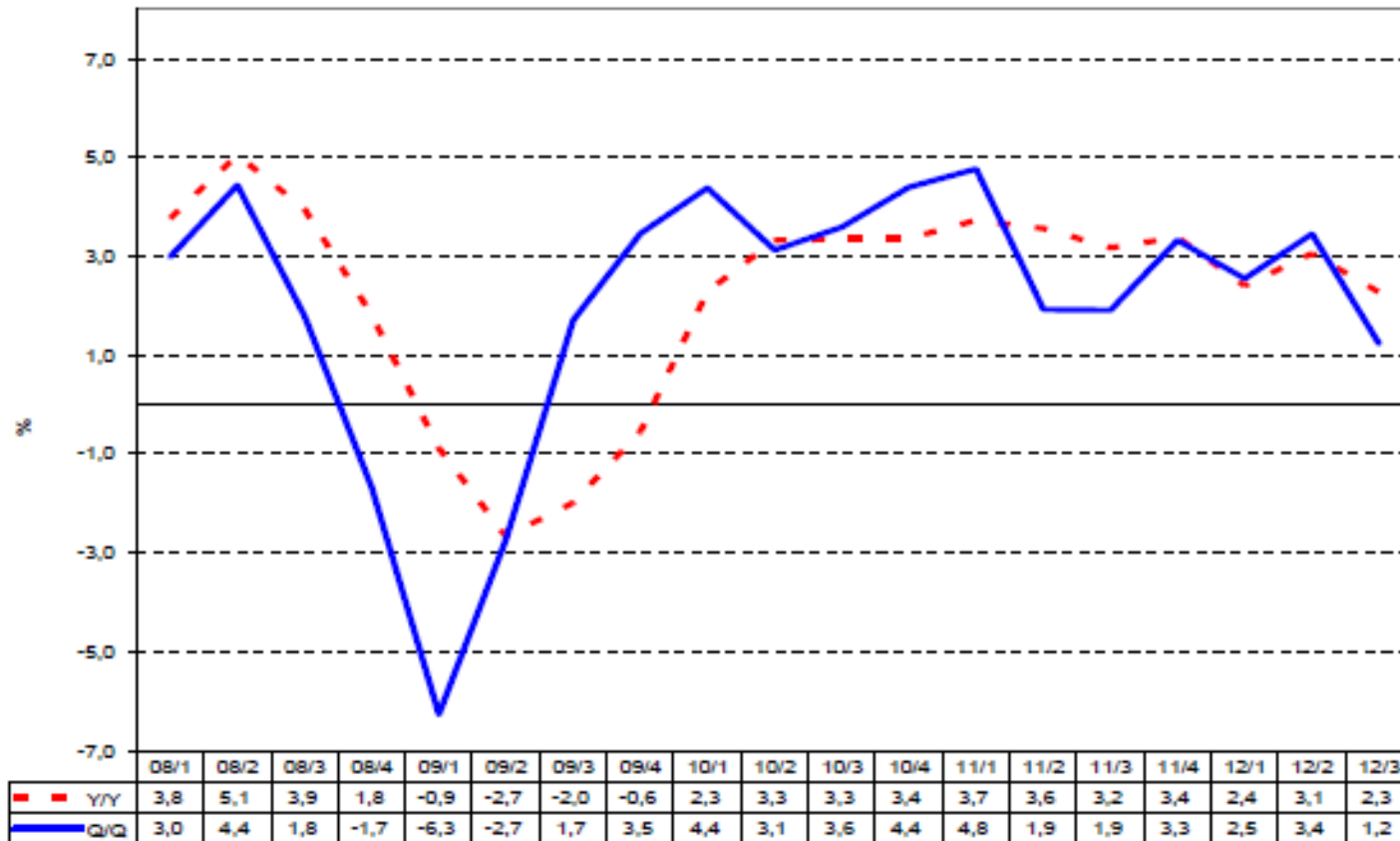
The key ingredients for success are:

- The active efforts of all South Africans
- Growth, investment and employment
- Rising standards of education and a healthy population
- An effective and capable government
- Collaboration between the private and public sectors
- Leadership from all sectors of society.



# Real GDP growth moderation...

Growth in gross domestic product year-on-year (Y/Y) and quarter-on-quarter seasonally adjusted and annualised (Q/Q)



VUNANI

SECURITIES

Source: STATSSA



## Real gross domestic product: supply side...

Percentage change at seasonally adjusted annualised rates

Sector	2011					2012		
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Primary sector .....	-5,5	-4,2	-14,2	-2,1	0,2	-9,5	24,0	-7,1
Agriculture .....	-4,7	-9,2	-5,8	-3,7	-0,1	4,8	9,3	7,4
Mining .....	-5,9	-2,1	-17,4	-1,4	0,3	-15,1	30,9	-12,7
Secondary sector .....	10,3	-3,2	-0,5	3,6	2,9	5,5	-0,5	1,5
Manufacturing .....	13,1	-4,3	-0,3	4,5	3,6	6,4	-0,8	1,2
Tertiary sector .....	3,9	4,1	4,5	3,5	3,8	3,1	2,3	1,9
Non-primary sector .....	5,5	2,3	3,2	3,5	3,6	3,7	1,6	1,8
Total .....	4,8	1,9	1,9	3,3	3,5	2,5	3,4	1,2



## Real gross domestic expenditure...

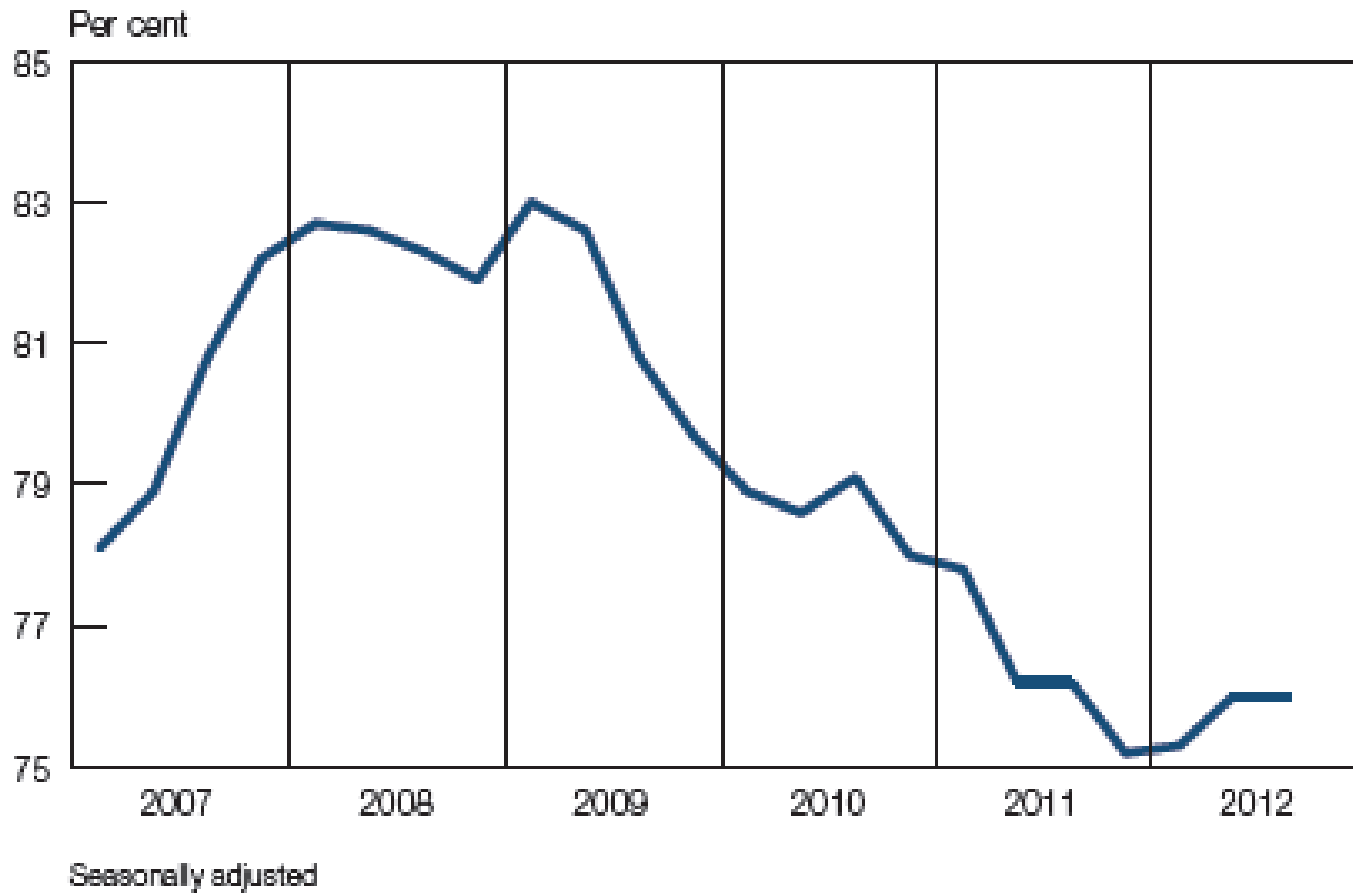
Percentage change at seasonally adjusted annualised rates

Component	2011					2012		
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Final consumption expenditure								
Households.....	6,3	3,1	3,2	4,4	4,8	3,7	3,1	2,6
General government.....	9,3	-0,5	4,8	7,8	4,6	1,9	3,7	8,4
Gross fixed capital formation.....	5,8	5,2	6,8	7,3	4,5	5,7	7,0	7,2
Domestic final demand.....	6,8	2,7	4,2	5,6	4,7	3,7	4,0	4,6
Change in Inventories (R billions)*.....	7,7	2,0	3,6	7,0	5,1	5,9	7,0	1,1
Gross domestic expenditure.....	4,8	2,3	4,9	5,2	4,6	4,1	4,9	3,0

\* At constant 2005 prices



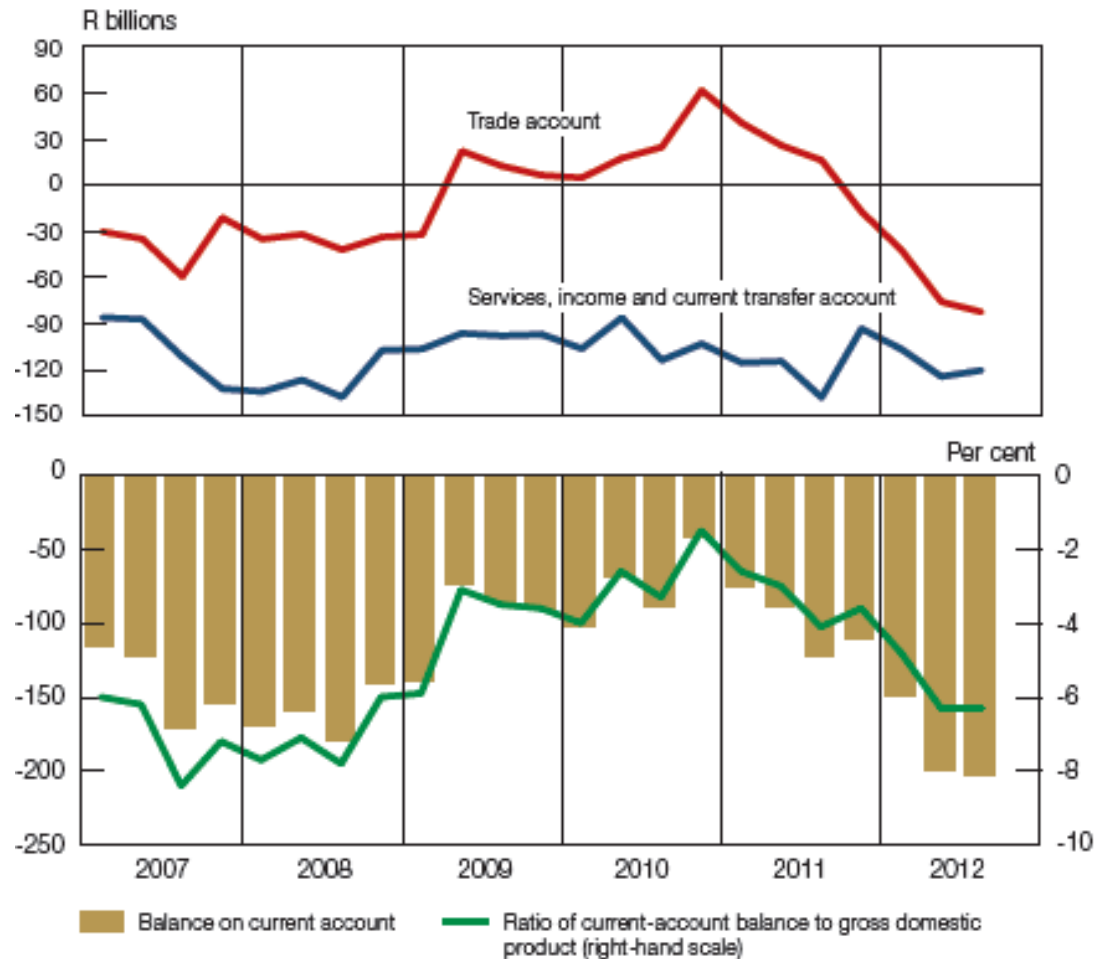
# Household debt as a percentage of disposable income...







## Balance of payments: current account...





## Fiscal projections...

Percentage of gross domestic product

Component	2012/13		2013/14		2014/15	
	Feb*	Oct**	Feb*	Oct**	Feb*	Oct**
<b>Consolidated government</b>						
Revenue .....	27,4	27,5	27,8	27,5	28,0	27,6
Expenditure .....	32,1	32,3	31,7	32,0	31,0	31,3
Budget balance*** .....	-4,6	-4,8	-4,0	-4,5	-3,0	-3,7
Gross loan debt.....	41,0	41,3	42,2	42,4	42,4	42,7
Net loan debt .....	36,0	35,7	37,8	37,7	38,5	38,8

\* Budget Review 2012

\*\* Medium Term Budget Policy Statement, October 2012

\*\*\* Deficit – surplus +

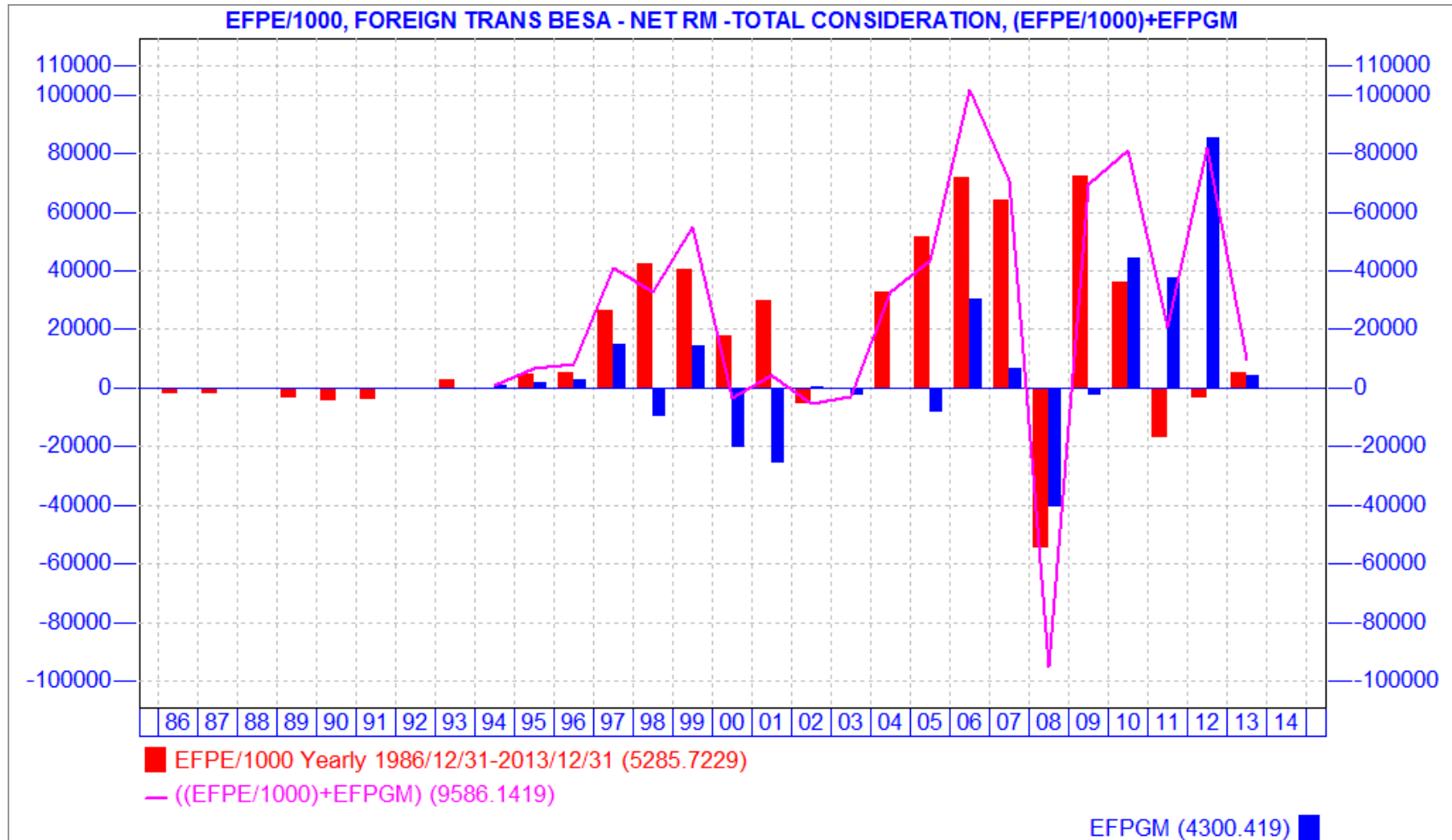
# VUNANI

SECURITIES

Source: SARB Quarterly Bulletin, Dec.'12



# Net foreign purchases of SA securities (R m).



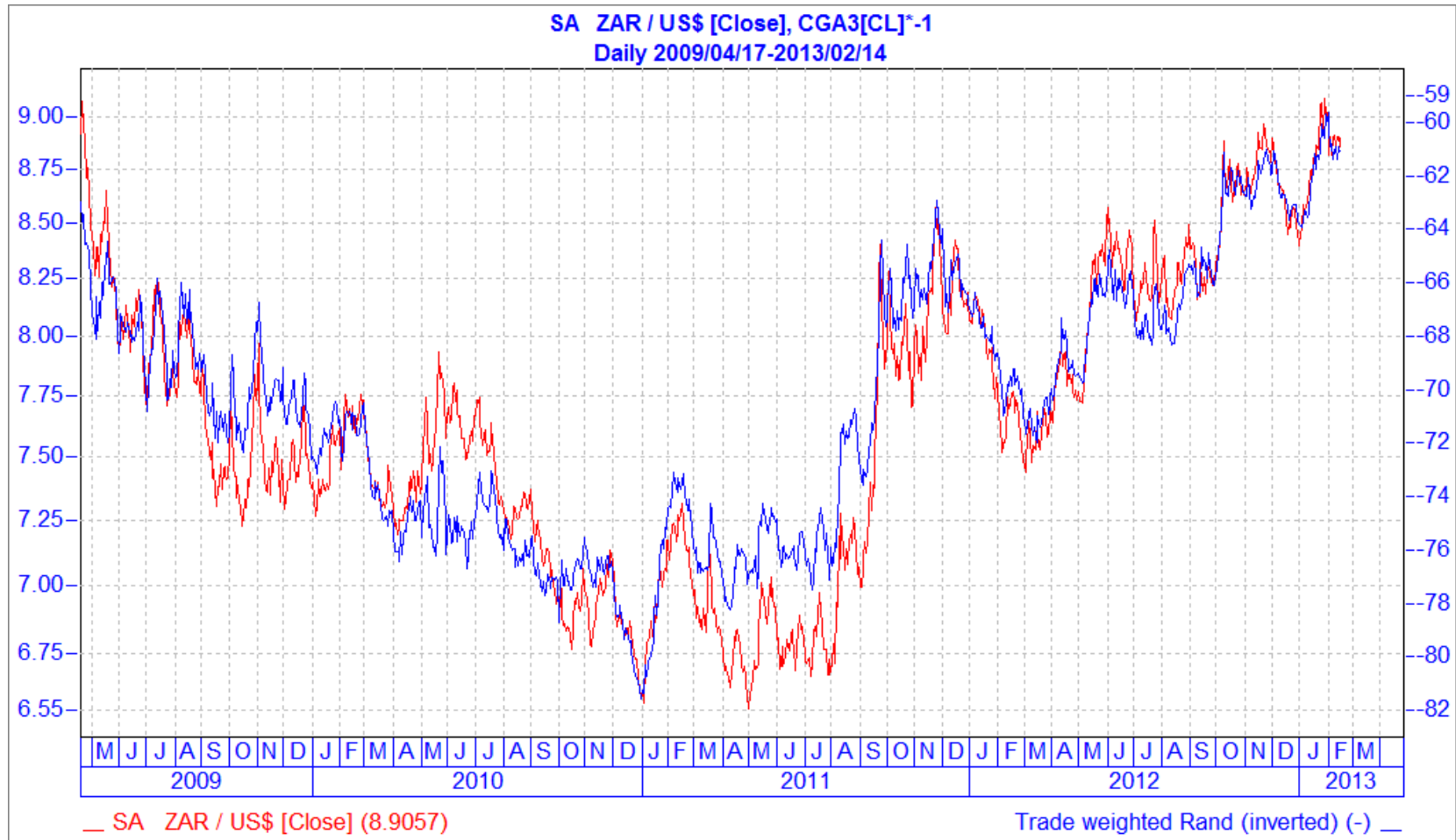
VUNANI

SECURITIES

Source: INET & Vunani calculations and forecasts



# Rand: Rolling twelve-month weakening...



VUNANI

SECURITIES

Source: INET

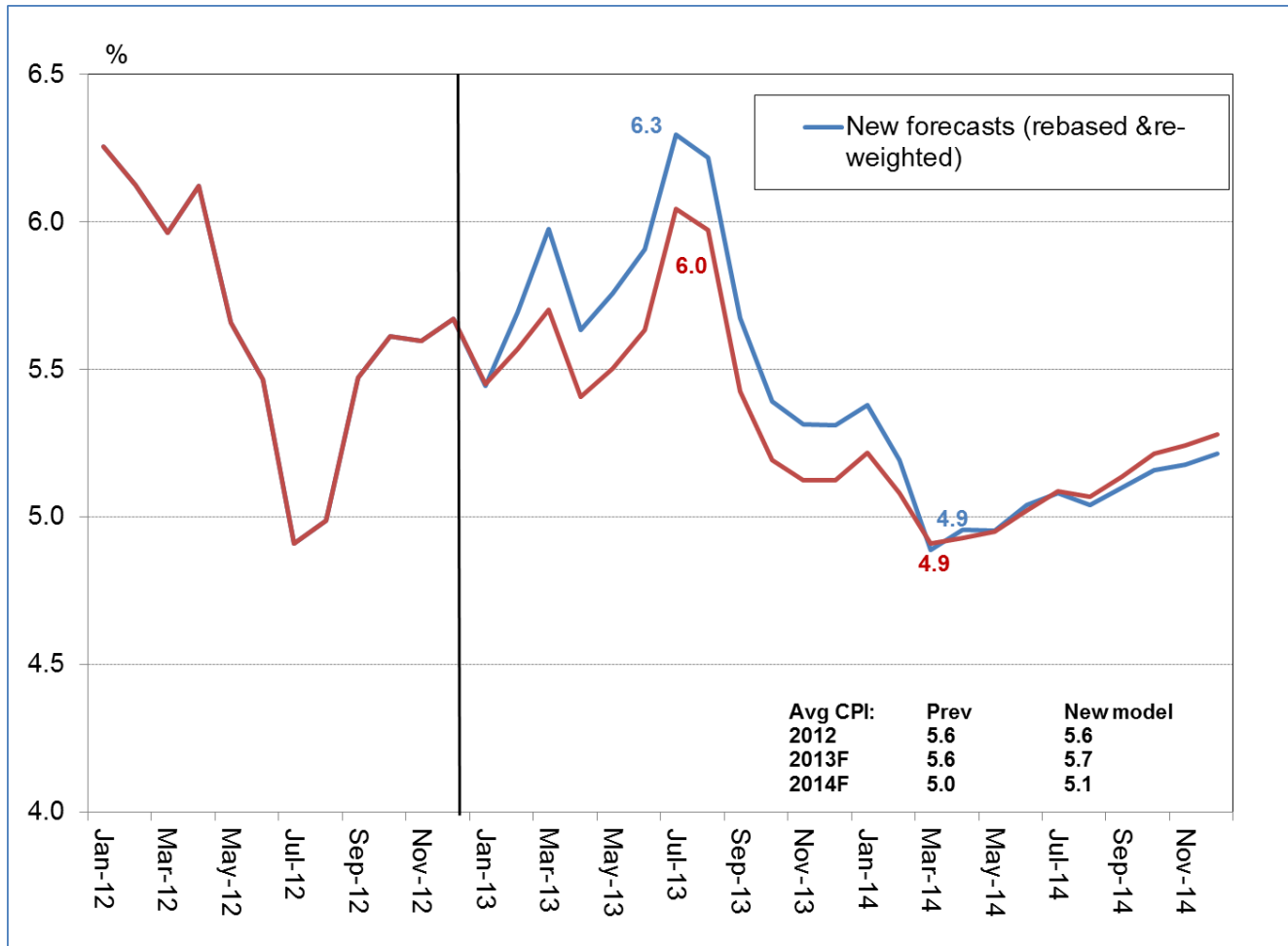


---

# Interest rates and markets

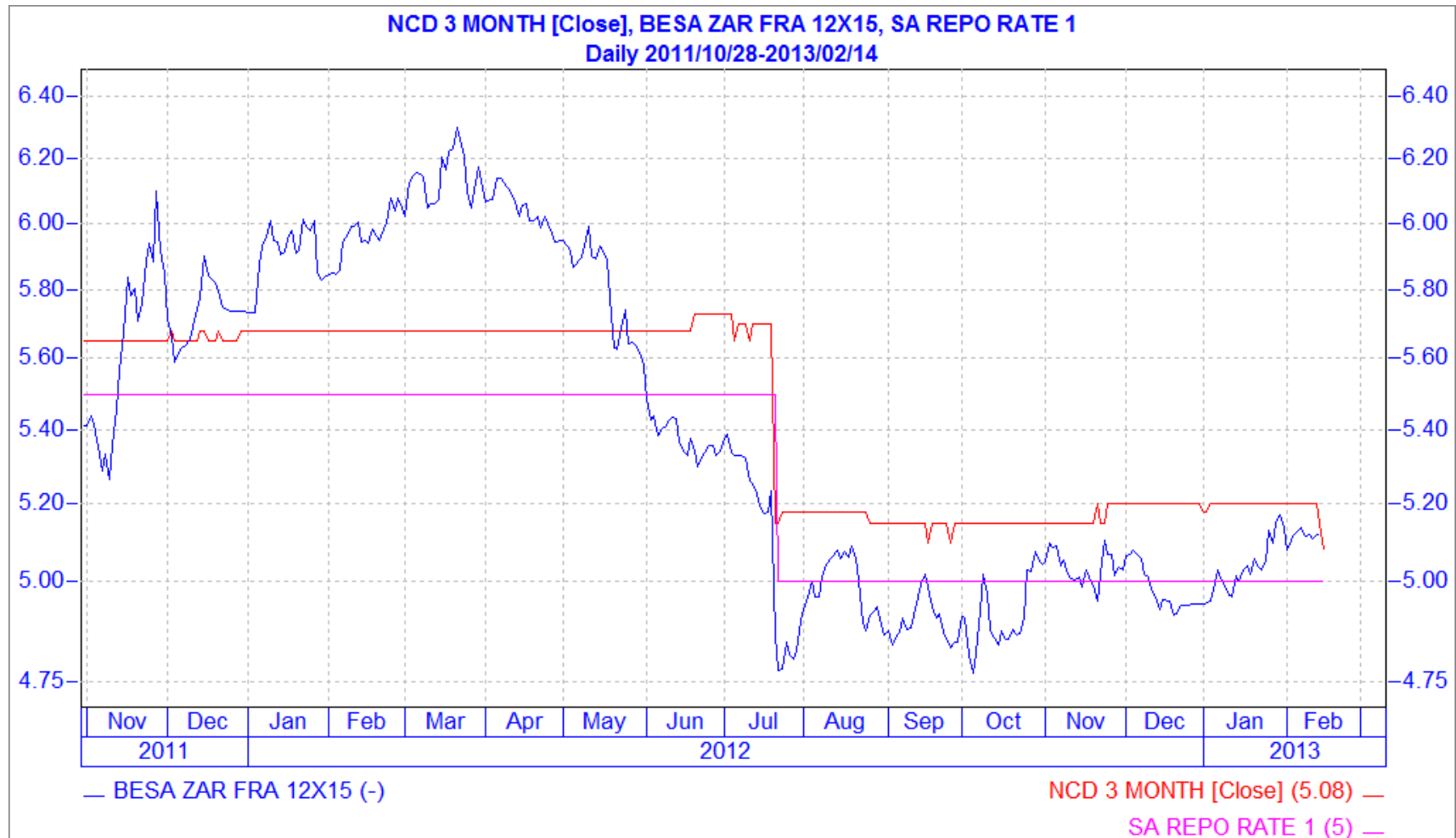


# Impact of adjusted CPI weights and rebased.



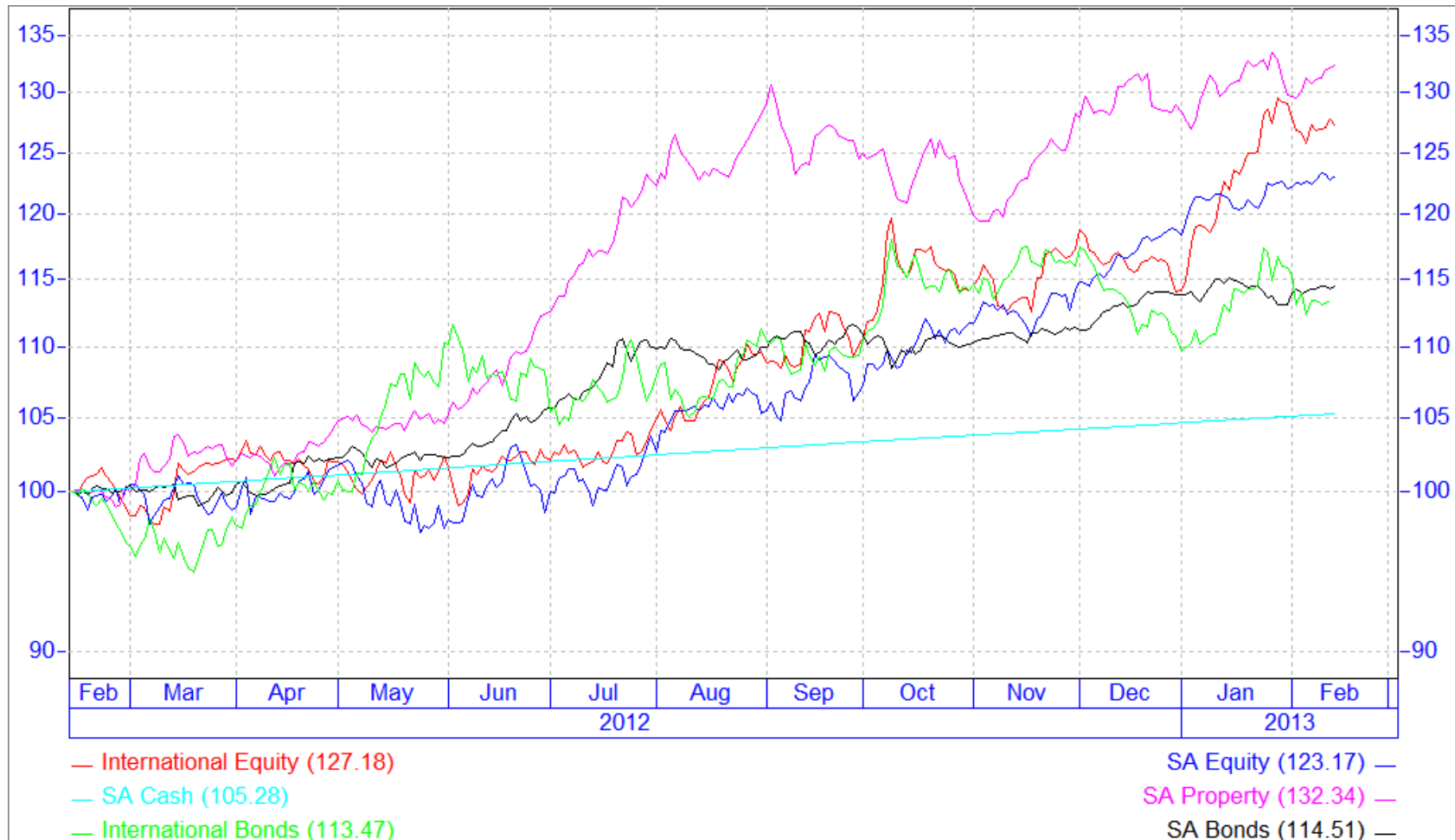


# Rates: market neutral regarding next change...





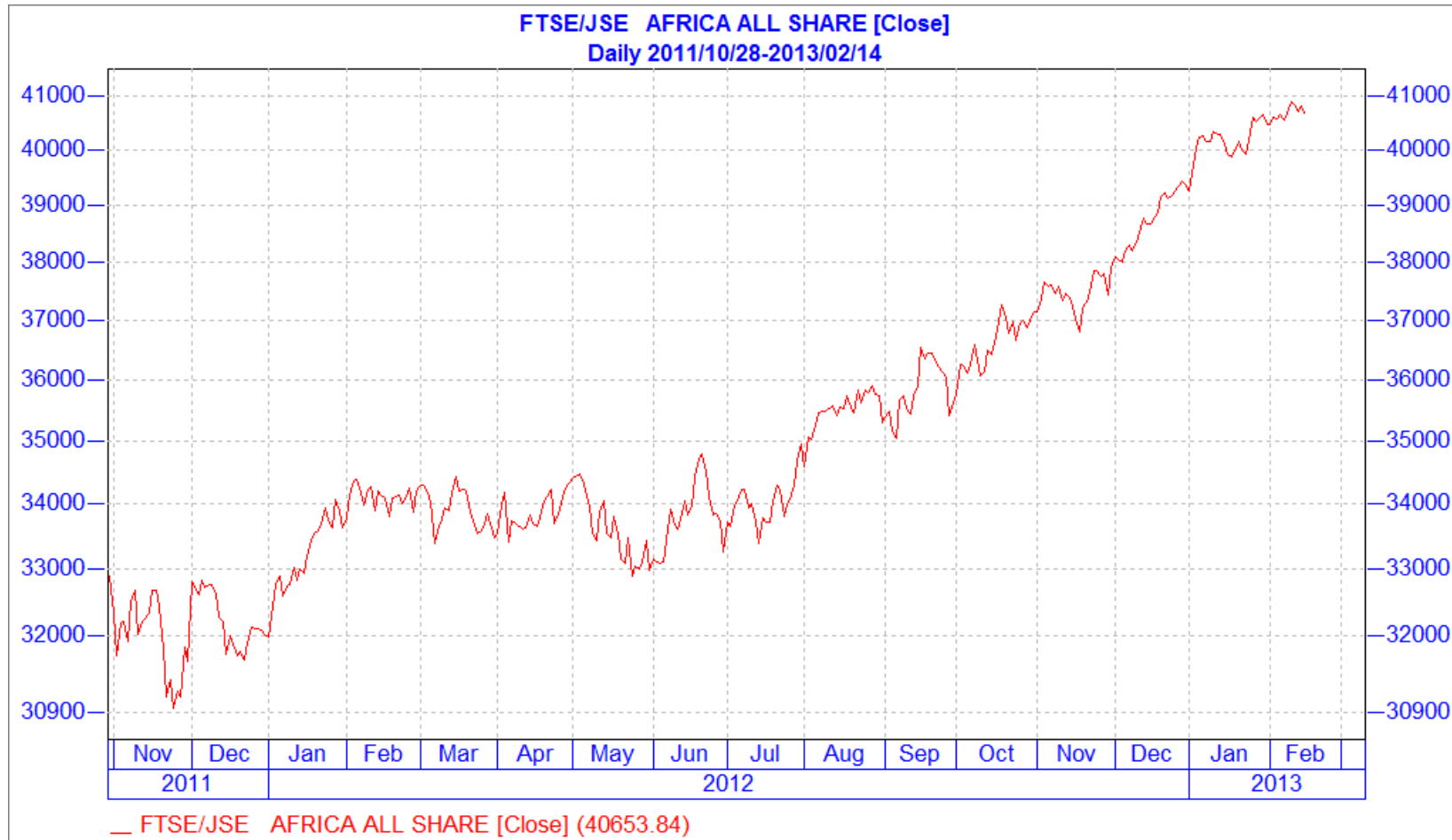
# Asset class rolling 12 months performance by 13<sup>th</sup> February '13 (R).







# The domestic equity market at record levels...



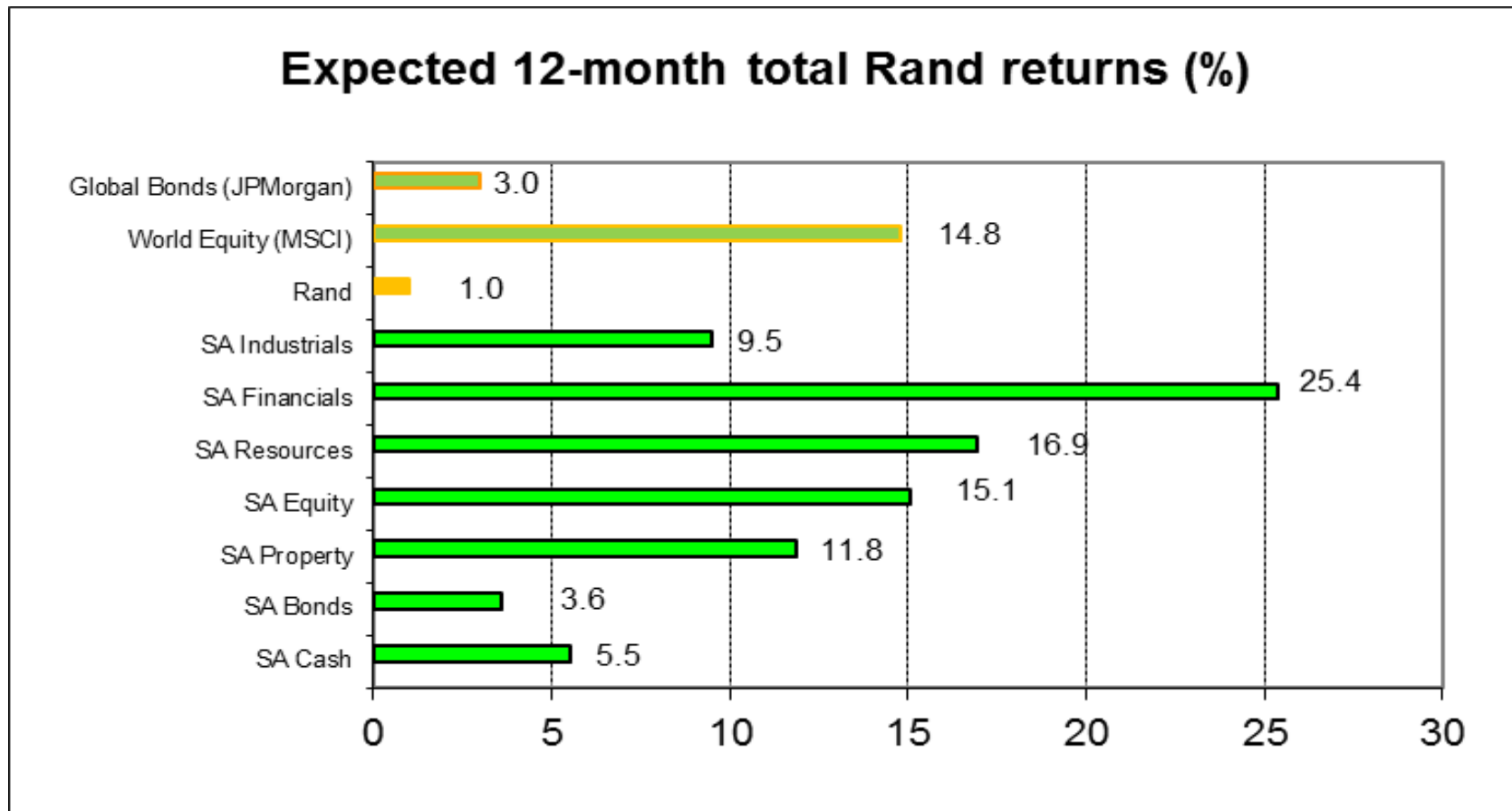


# Equity Market Scenarios (ex dividend).

Rolling twelve months equity performance				
Base case	Spot	Rolling twelve months ending:		Rolling 2 yr average/year
	31-Jan-13	31-Jan-14	01-Feb-15	
FTSE/JSE Alsi Index	40483	45459	49972	
Exit PER (X)	15.21	15.0	14.2	
EPS	2661.47	3037.9	3525.2	
EPS growth (%)	5.70	14.1	16.0	
<b>Growth in FTSE/JSE Alsi index (%)</b>		<b>12.3</b>	<b>9.9</b>	<b>11.11</b>
Bull case	Spot	Rolling twelve months ending:		Rolling 2 yr average/year
	31-Jan-13	31-Jan-14	01-Feb-15	
FTSE/JSE Alsi Index	40482.92	52429	58061	
Exit PER (X)	15.21	17.3	16.5	
EPS	2661.47	3037.9	3525.2	
EPS growth (%)		14.1	16.0	
<b>Growth in FTSE/JSE Alsi index (%)</b>		<b>29.5</b>	<b>10.7</b>	<b>20.13</b>
Bear case	Spot	Rolling twelve months ending:		Rolling 2 yr average/year
	31-Jan-13	31-Jan-14	01-Feb-15	
FTSE/JSE Alsi Index	40482.92	38488	41884	
Exit PER (X)	15.21	12.7	11.9	
EPS	2661.47	3037.9	3525.2	
EPS growth (%)		14.1	16.0	
<b>Growth in FTSE/JSE Alsi index (%)</b>		<b>-4.9</b>	<b>8.8</b>	<b>1.95</b>



# Asset Class Potential 12-Month Total Return (From 31<sup>st</sup> Jan. '13) .





# South African Economic Indicators.

	2012Est.	2013F'cast	2014F'cast	2015F'cast
Real final household consumption expenditure (%)	3.5	3.0	4.2	3.8
Real government consumption expenditure (%)	4.5	4.7	4.6	4.7
Real gross fixed capital formation (%)	6.5	6.8	7.0	6.0
Change in inventories (R bn.)	7.3	9.5	-1.0	-2.5
<b>REAL GROSS DOMESTIC EXPENDITURE (%)</b>	<b>4.3</b>	<b>4.1</b>	<b>4.3</b>	<b>4.4</b>
Real export growth (%)	0.5	3.5	5.7	8.0
Real import growth (%)	7.5	7.1	7.2	8.5
Nominal net exports (R bn.)	-76.2	-110.0	-131.3	-150.0
<b>REAL GROSS DOMESTIC PRODUCT (%)</b>	<b>2.5</b>	<b>2.5</b>	<b>3.1</b>	<b>3.7</b>
Current account (R bn.)	-190	-226	-250	-272
Current account as % of GDP	-6.0	-6.7	-6.8	-6.8
Financial account (incl. unrecorded trans.) (R bn.)	160	190	250	300
<b>CHANGE IN NET RESERVES (R bn.)</b>	<b>-40.0</b>	<b>-36.0</b>	<b>0.0</b>	<b>28.0</b>
<b>Headline inflation (avg.) (%)</b>	<b>5.6</b>	<b>5.7**</b>	<b>5.1**</b>	<b>5.2</b>
Headline inflation (year-end) (%)	5.7	5.3**	5.2**	5.4
<b>Producer inflation(average) (%)</b>	<b>6.2</b>	<b>6.5*</b>	<b>4.8*</b>	<b>4.5</b>
Producer inflation (year-end) (%)	5.2	4.5*	7.0*	4.5
<b>Rand/Dollar exchange rate (Q4 avg.) ('R)</b>	<b>8.67</b>	<b>8.98</b>	<b>8.97</b>	<b>8.86</b>
Rand/Euro exchange rate (Q4 avg.) ('R)	11.32	12.18	12.16	12.00
<b>Prime rate (year-end) (%)</b>	<b>8.5</b>	<b>8.5</b>	<b>9.5</b>	<b>10.0</b>
SA 10 YR bond yield (Q4 avg.) (%)	6.77	7.10	8.1	7.8
<b>FTSE/JSE ALSI (year - end)</b>	<b>39250</b>	<b>44837</b>	<b>49407</b>	<b>53920</b>
Brent oil price (year-end) (\$)	111.0	112.0	108.0	100.0

Est. = estimate, F'cast = forecast

\* Estimated New (locally manufactured) PPI \*\*Estimated New CPI

# VUNANI

SECURITIES

Sources: SARB, STATSSA, INET & Vunani calculations and forecasts



## Disclaimer.

---

Vunani Securities (Pty) Ltd is a registered financial services provider. The above material was produced by one of the companies in the Vunani Group. A Group Company and/or persons connected with it may effect or have effected a transaction for their own account in the investments referred to in the above material or any related investments before the material is published to any Group Company's customers. A Group Company, persons connected with it and their respective directors and/or representatives and/or employees may have a position in the securities or any related investment and may make a purchase and/or sale, or offer to make a purchase and/or to buy any securities. The information and opinions contained in this document have been compiled or arrived at by the relevant Group Company's judgment as of the date of this document and are subject to change without notice. The information contained in this document is published for the assistance of recipients, but is not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient. No Group Company accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.