
June 2016

World Economy

Extreme currency volatility and global financial uncertainty created by Brexit have left most traders expecting a US rate hike well into 2017 at the earliest, compared with late 2016 prior to the vote. S&P 500 earnings are expected in the third quarter to grow for the first time since 2015, although forecasts have slipped since the Brexit vote as investors fret about the effect of renewed dollar strength and potential economic stumbles in Europe, according to Thomson Reuters data. Claims and appeals in Brazil's unpredictable legal environment are obscuring the potential size of BHP Billiton's burst-dam compensation pay-out, which is oscillating between \$2.3-billion, \$6.2-billion and the refusal to go away of a \$58-billion claim. Gold trade at a near two year high. The Saudi Minister of Energy said the oil price heads towards balance at \$50 a barrel. Nigeria devalued their currency the Naira, following the example of Russia, Kazakhstan and Angola, due to the slump in oil price. The Caixin China General Manufacturing PMI for June came in at 48.6, down 0.6 points from the May reading. It was the index's third monthly decline in a row, and marked the steepest deterioration in manufacturing sector conditions since February.

SA Economy

Statistics released by the Department of Trade and Industry revealed that South Africa's new car market was down 10.4% for the first half of the year compared with the first six months of 2015. The seasonally adjusted Barclays Purchasing Managers' Index (PMI) rose to 53.7 points in June, the fourth consecutive month above the neutral 50-point mark and up from the 51.9 points recorded in May. The Department of Energy announced an increase in the price of petrol and diesel. The Rand exchange rate improved against most currencies, with the rand/pound exchange rate below R20. SA inflation rose less than expected in May, with the annual rate easing to 6.1%/y. SA trade balance surged to a surplus of R18.7bn in May 2016, helped by increased exports as well as lower imports.

Implications and Opportunities

- The main economic risk due to Brexit, is to the British economy, with foreign direct investment likely to weaken as companies reconsider investing in the UK.
- The breakaway of the UK raises the possibility of further disintegration of the European Union, creating opportunities and possible threats for SA trade.
- Devaluation of the Naira will result in a significant discount to the 330-billion Naira fine that MTN agreed to pay Nigeria, its biggest market.
- Improvement in the PMI, CPI, trade balance and exchange rate are positive indicators for rating agencies and investors in the SA economy.

"Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble."

Warren Buffett

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