

March 2017

World Economy

After the Fed's quarter percentage-point move in March, Yellen said the central bank was willing to tolerate inflation temporarily overshooting its 2% goal and that it intended to keep its policy accommodative for some time. European regulators blocked Deutsche Boerse's planned \$14 billion takeover of London Stock Exchange Group, saying the deal would have created a de facto monopoly for clearing bonds and repurchase agreements in the EU. The British ambassador to the European Union handed President Donald Tusk a letter invoking Article 50 of the Lisbon Treaty, which is the starting point on the two-year exit negotiation process. Inflation in the euro area slipped to 1.5% in March, lower than economists expected, according to Eurostat's flash estimate. A rise in populism has been witnessed across several developed countries, with anti-EU politicians gaining ground in the UK, France and Italy.

SA Economy

President Jacob Zuma fired Finance Minister Pravin Gordhan and eight other cabinet members in a high-stakes power play that may threaten his own presidency and place the nation's investment grade credit rating at risk. The rand tumbled on the news, as the move is seen to risk a weaker South African economy and a split in the ruling African National Congress party. SA inflation eased further to 6.3%/y/y in February despite a relatively large monthly increase. SA's Q4 2016 current account deficit narrowed to 1.7% of GDP helped by increased exports, a decline in imports and a surge in dividend inflows. The number is the lowest in nearly 6 years. SA's trade balance improved sharply in the final quarter of 2016, recording a surplus of 1.3% of GDP compared with a deficit of -0.2% of GDP in Q3 2016. The Reserve Bank left interest rates unchanged in March, at its second meeting of 2017, which took place amid heightened political turmoil.

Trends and Opportunities

- Two more rate hikes by the FED is expected this year.
- SA inflation is expected to move lower to an average of 5.7%, helped by a slowdown in food inflation as well as favourable base effects.
- South Africa's exports are expected to gain some traction.
- Domestic political risks together with the ongoing risk of a credit rating downgrade and changes in global risk appetite are likely to keep the Rand volatile in 2017.

Economic growth without social progress lets the great majority of people remain in poverty, while a privileged few reap the benefits of rising abundance." John F. Kennedy

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