



QUANTIFYING RISK, ENABLING OPPORTUNITY

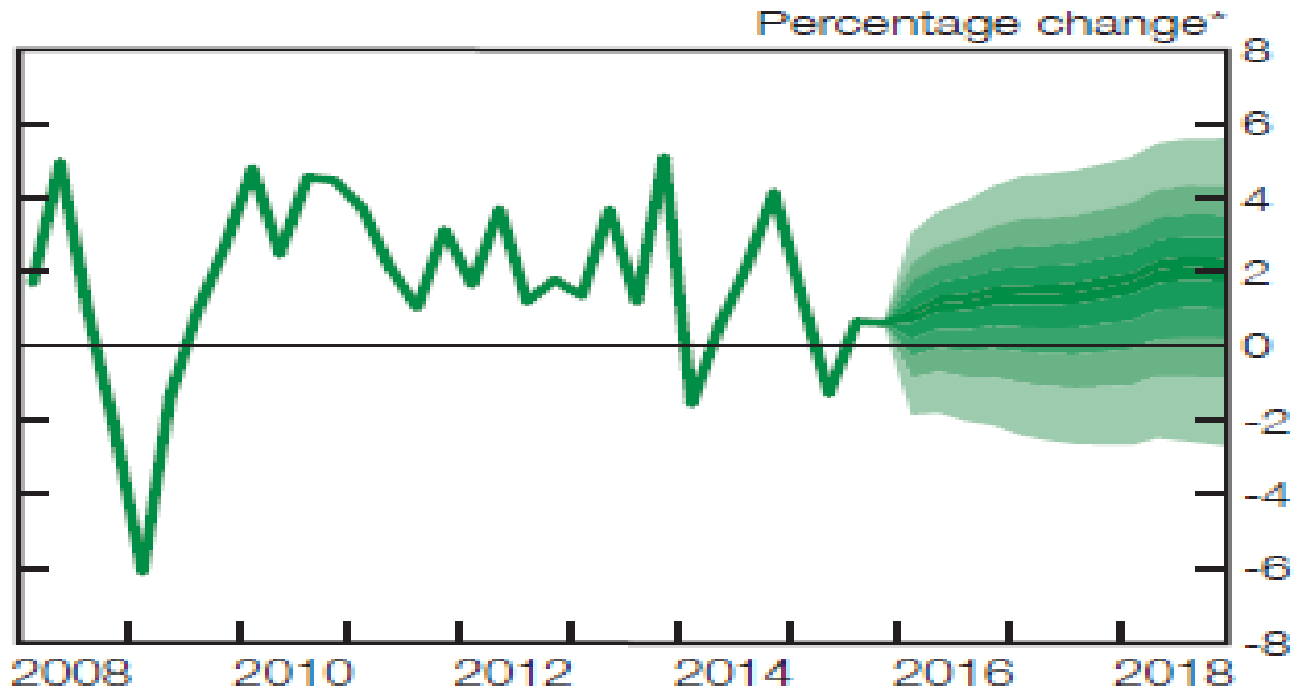
Name Brian Kantor

Title The SA economy – is the growth problem cyclical or structural? Can we hope to grow faster? And when?

Outline

- The cycle and the Zuma effect
- Identifying SA risks
- Explaining the rand
- Explaining EM equity markets
- Giving thanks for balanced portfolios
- Hoping for more market friendly reforms

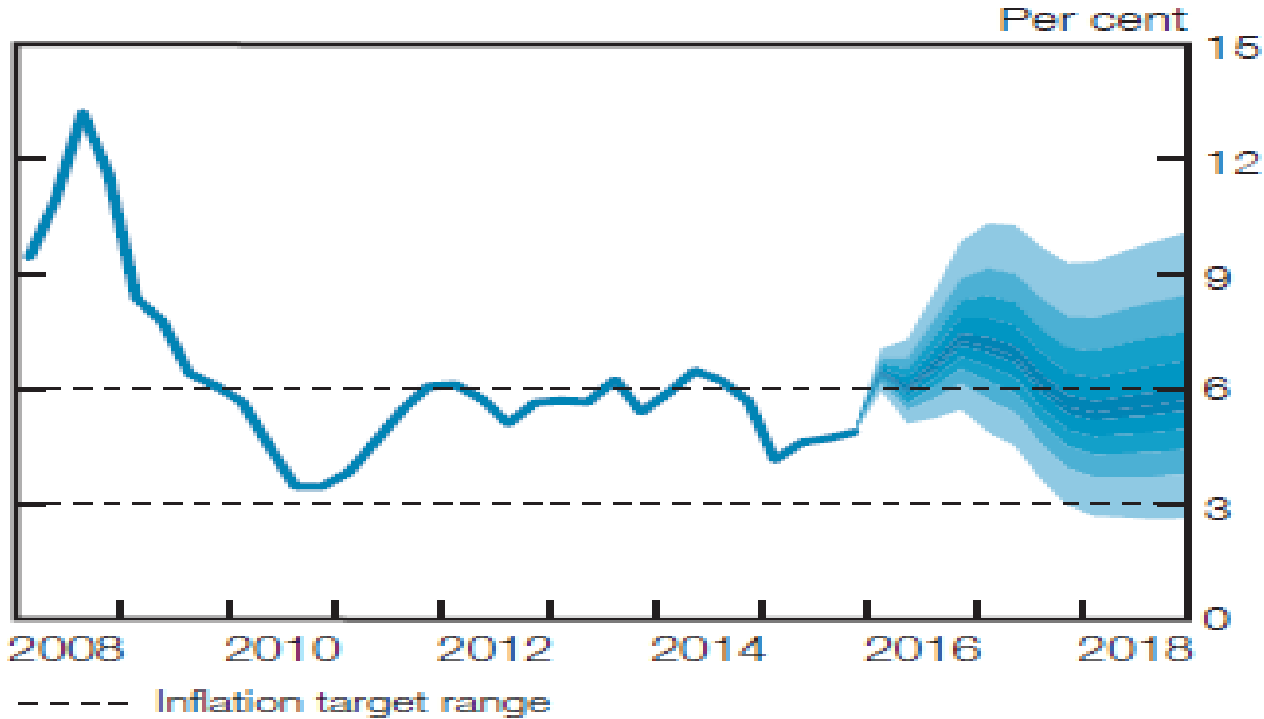
Real GDP growth forecast



* At seasonally adjusted annualised rates

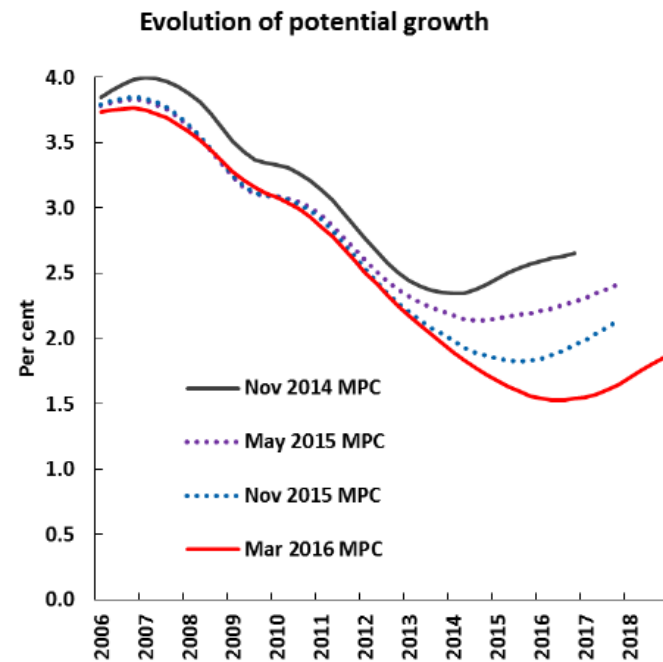
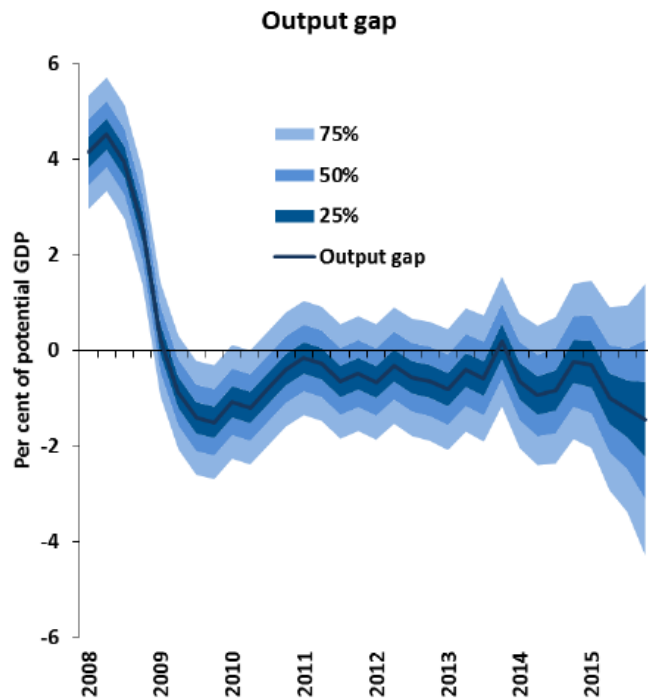
Source: South African Reserve Bank

Targeted inflation* forecast

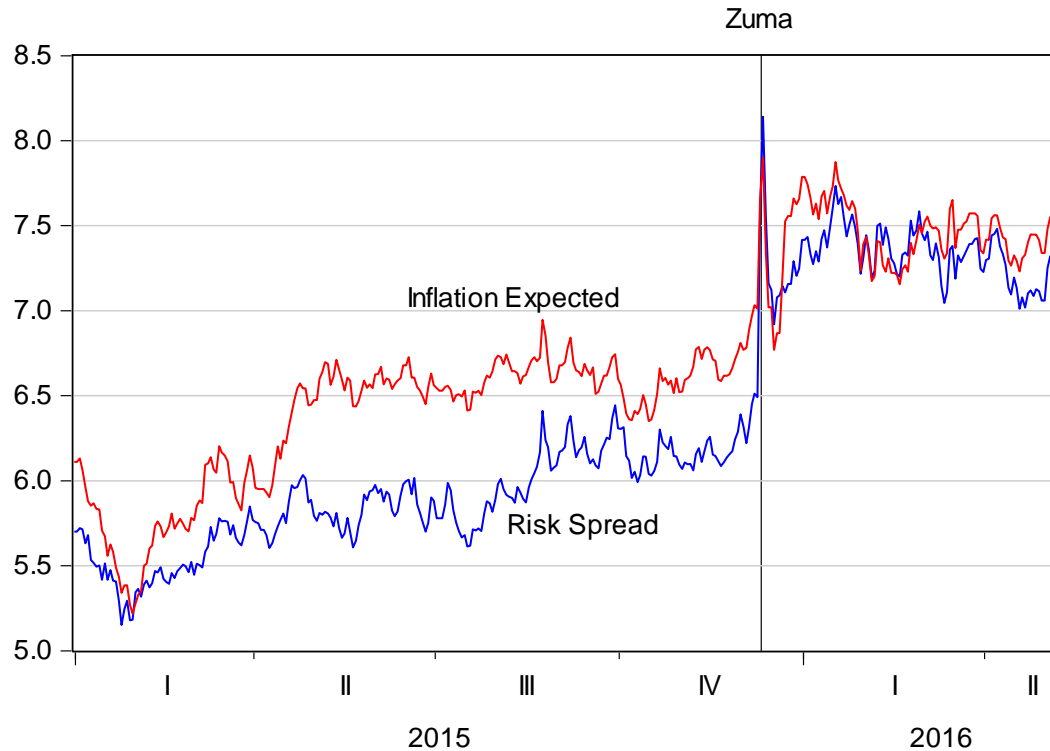


* CPIX for metropolitan and other urban areas until the end of 2008; CPI for all urban areas thereafter

Source: South African Reserve Bank

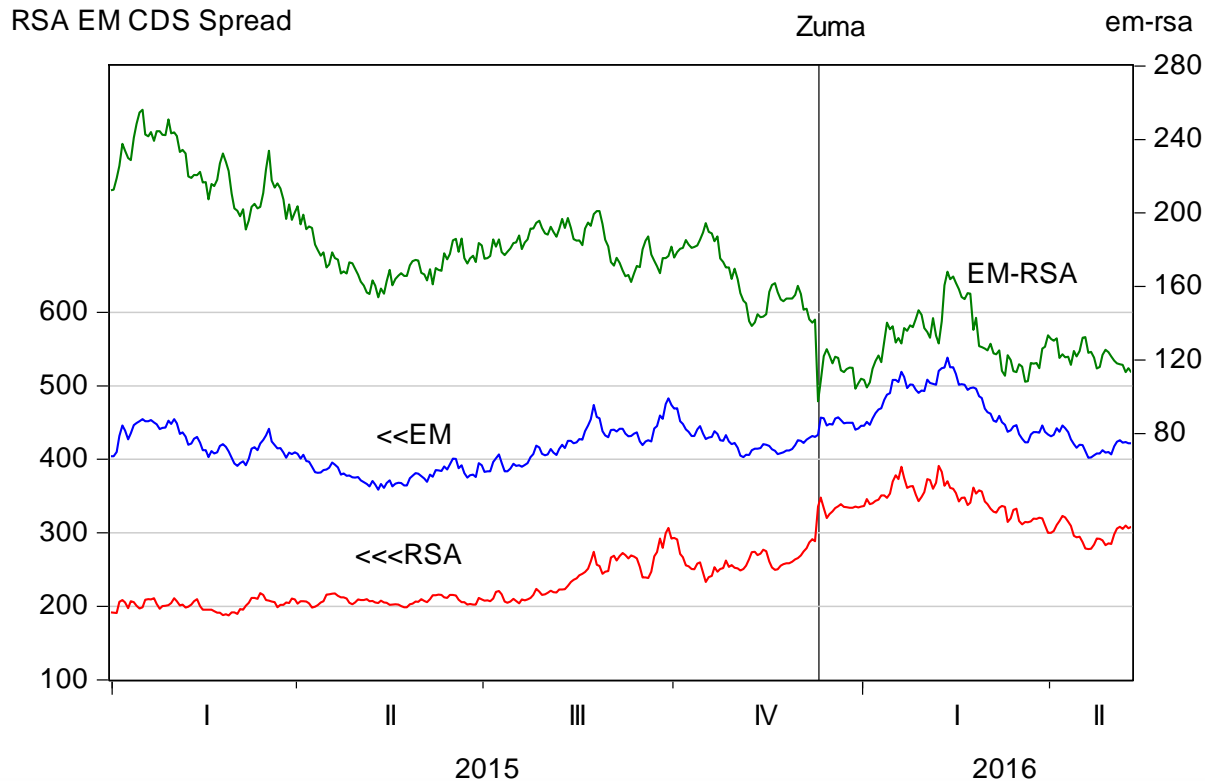


SA Risk and Inflation expected



— RSA 10 year Yield- USA TB 10 year
— Inflation Compensation in the Bond Market 10 year

EM and SA CDS spreads



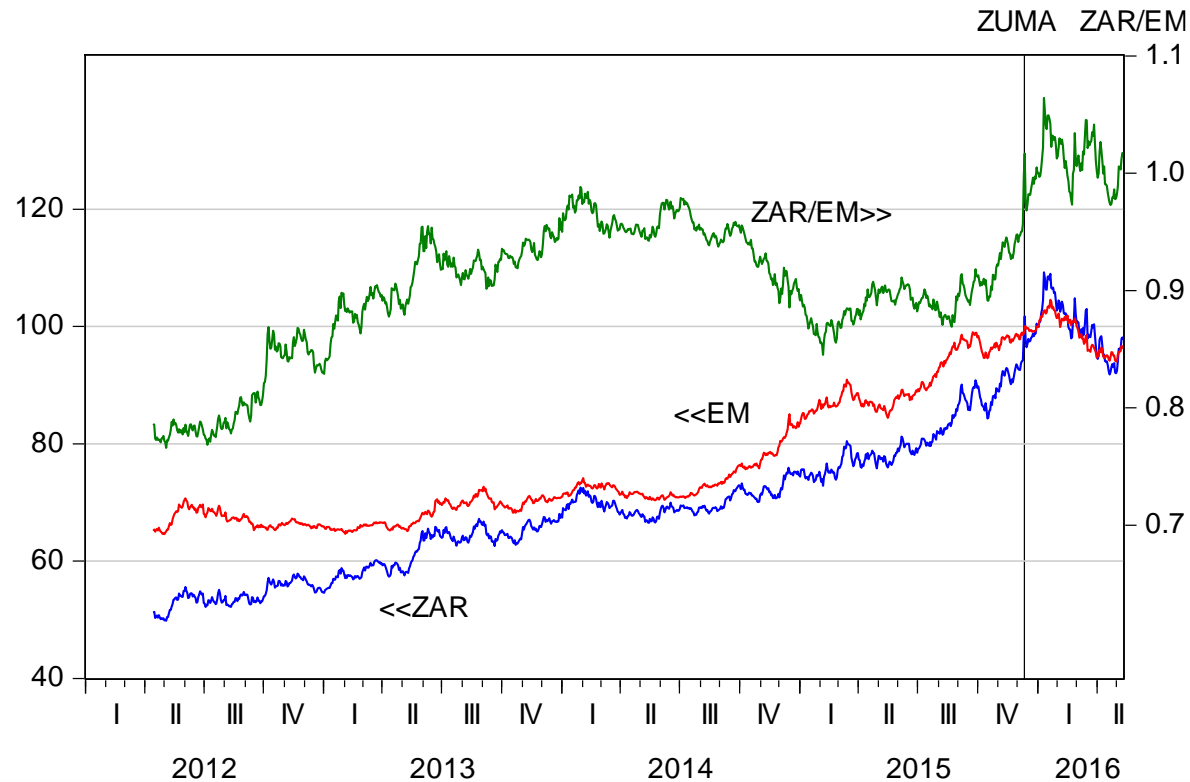
RSA relative risk – EMBI – RSA (cde spreads)

EMBP-SASOV

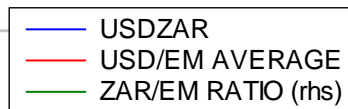
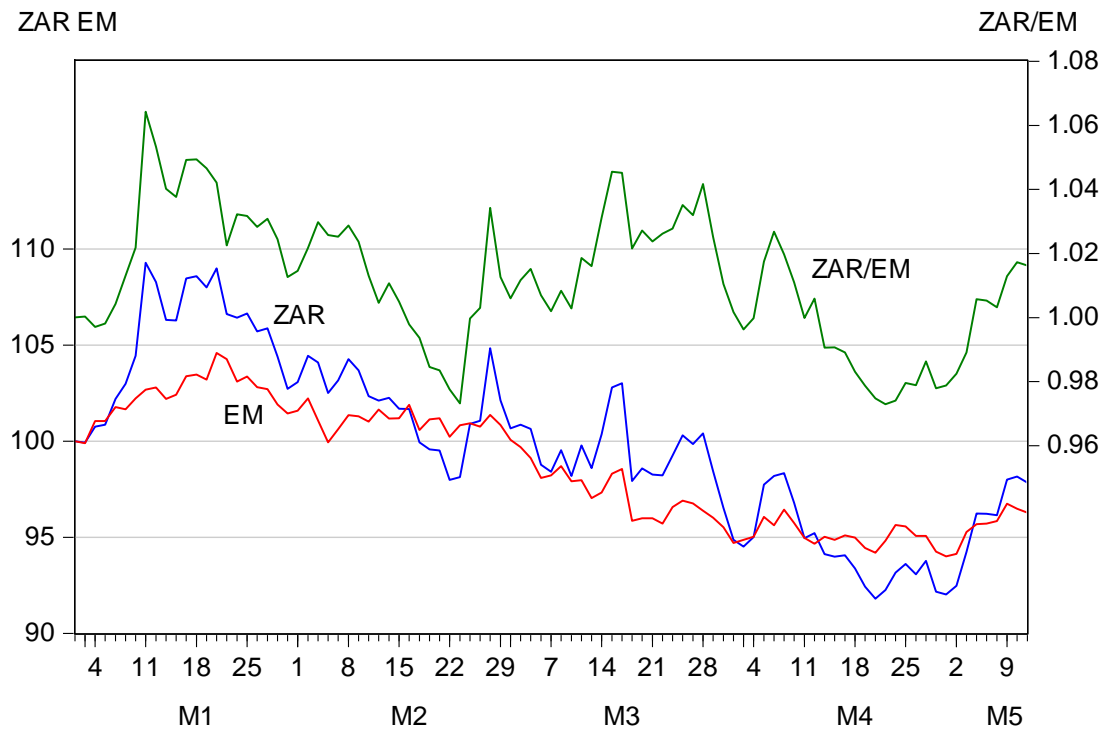
ZUMA



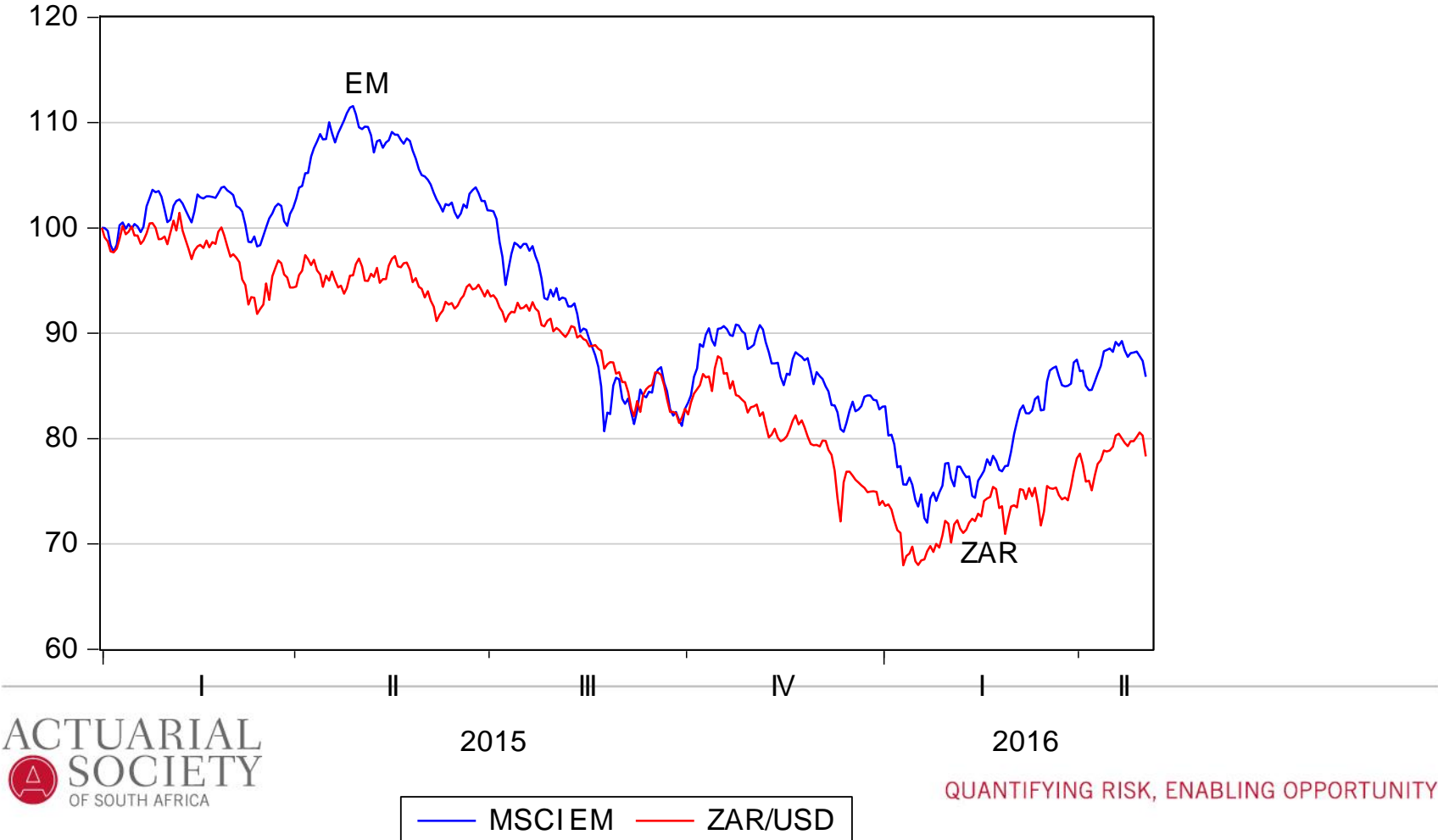
The rand (USD/ZAR) and the average EM exchange rates (2016=100) daily data



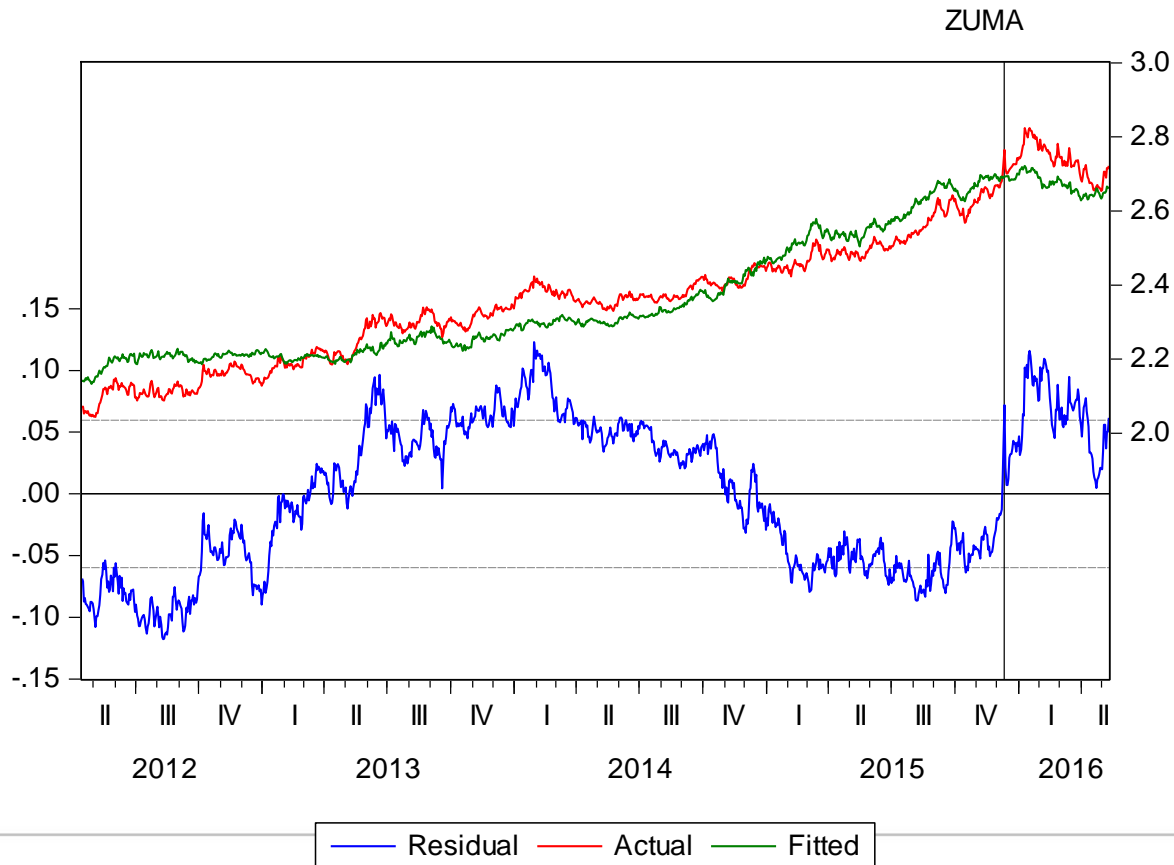
The ZAR and the EM average exchange rates in 2016 (2016=100)



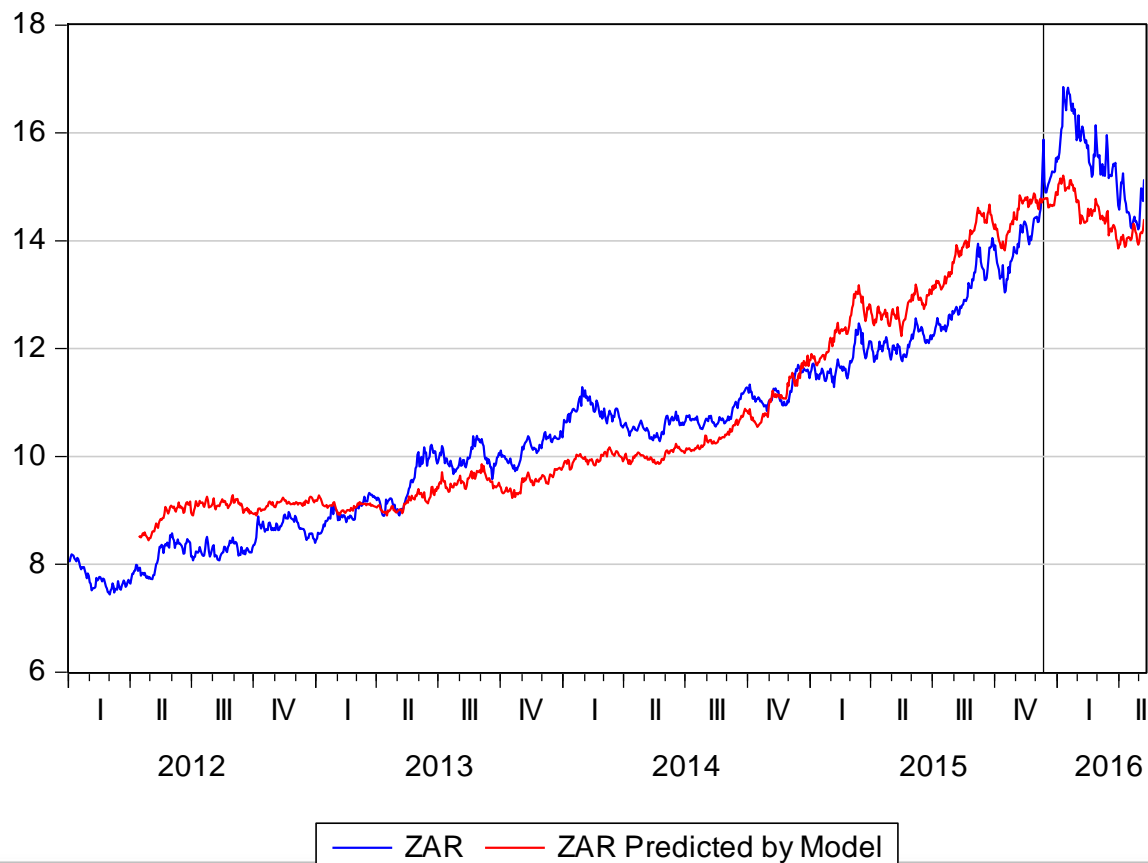
EM EQUITIES AND THE ZAR/USD



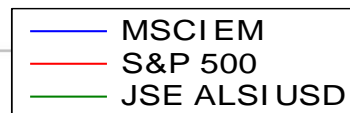
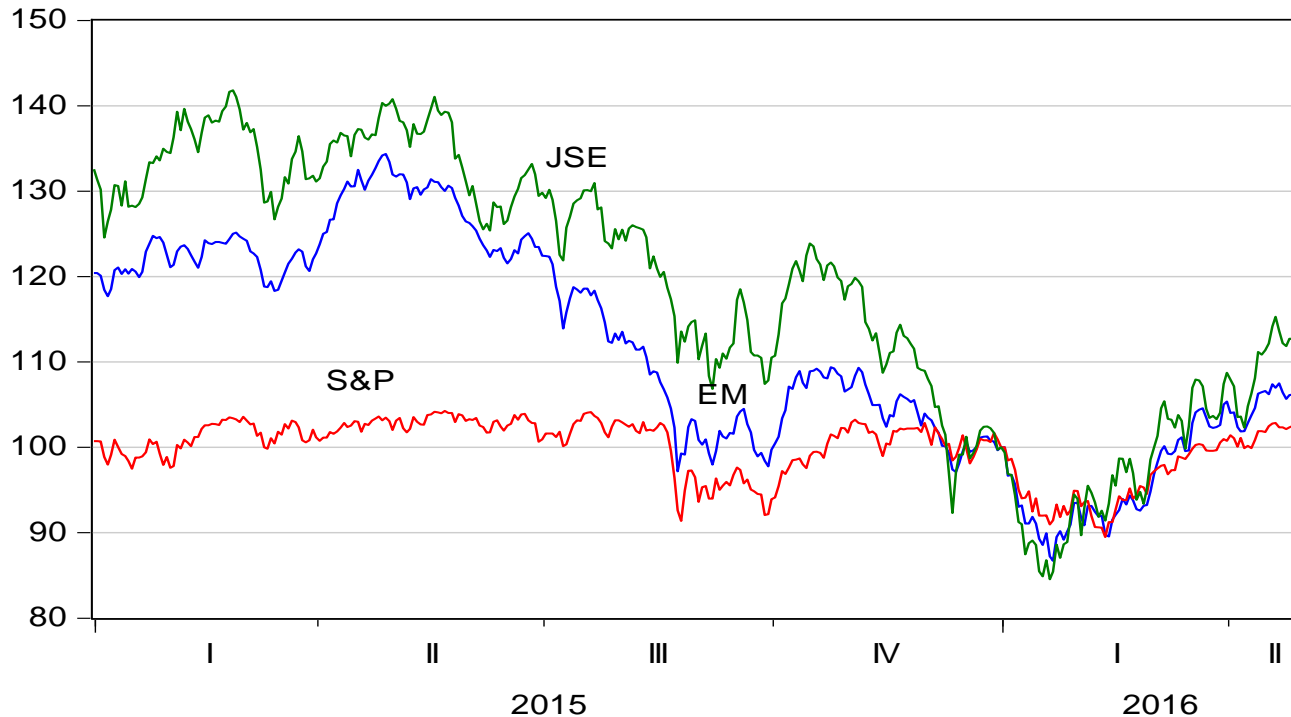
A model of the rand – explained by EM currency index and EM Bond Spread



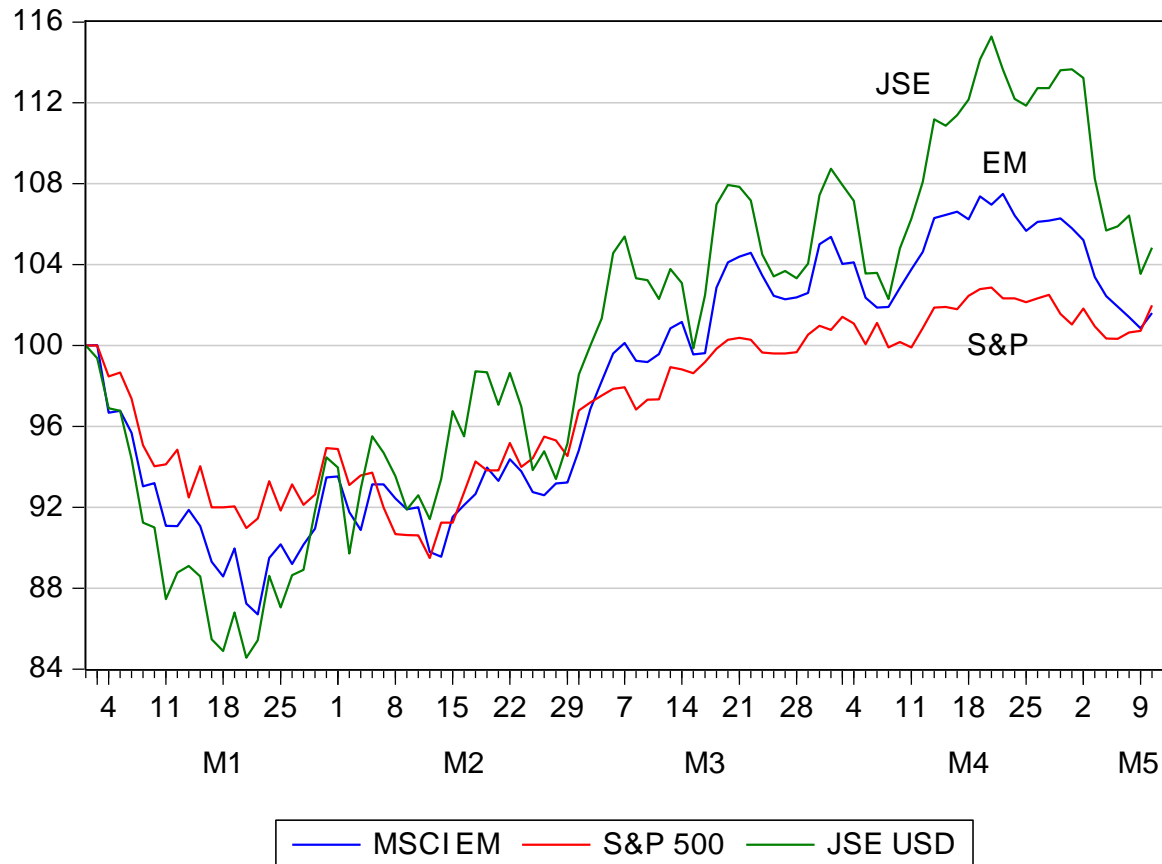
Fair value for the ZAR is R14.3



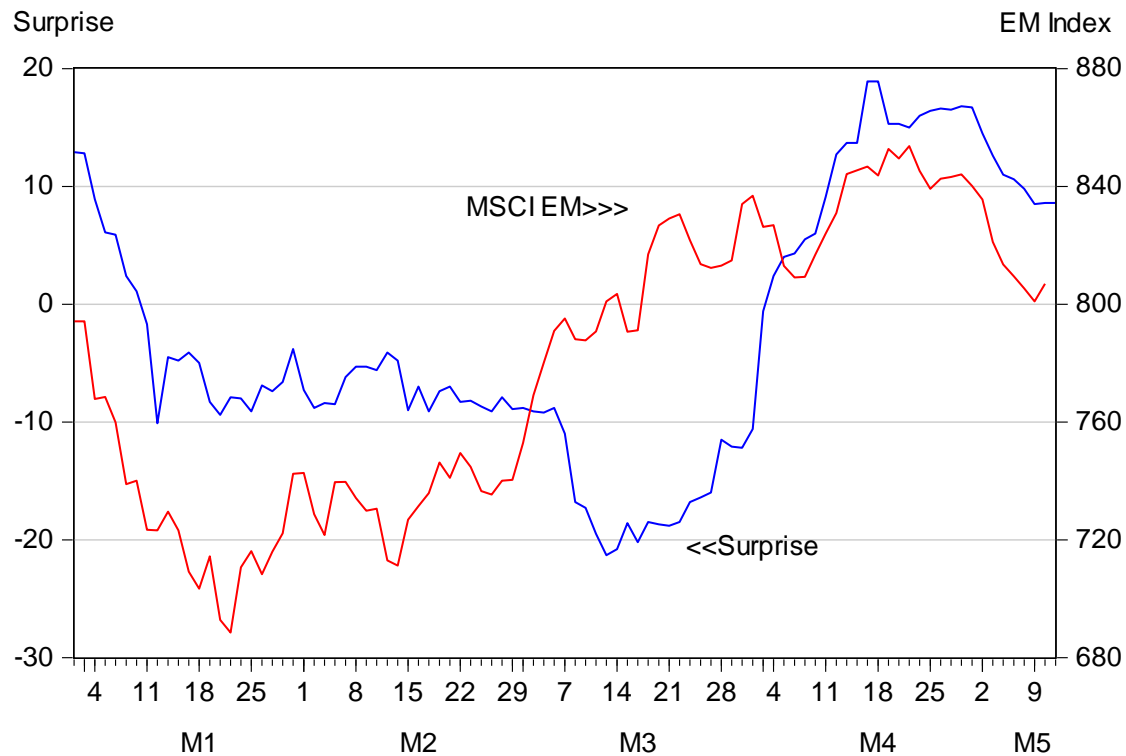
Share Markets in 2015-2016. Emerging Markets Vs S&P 500 VS JSE ALSI (USD) (January 2015 = 100) Daily Data



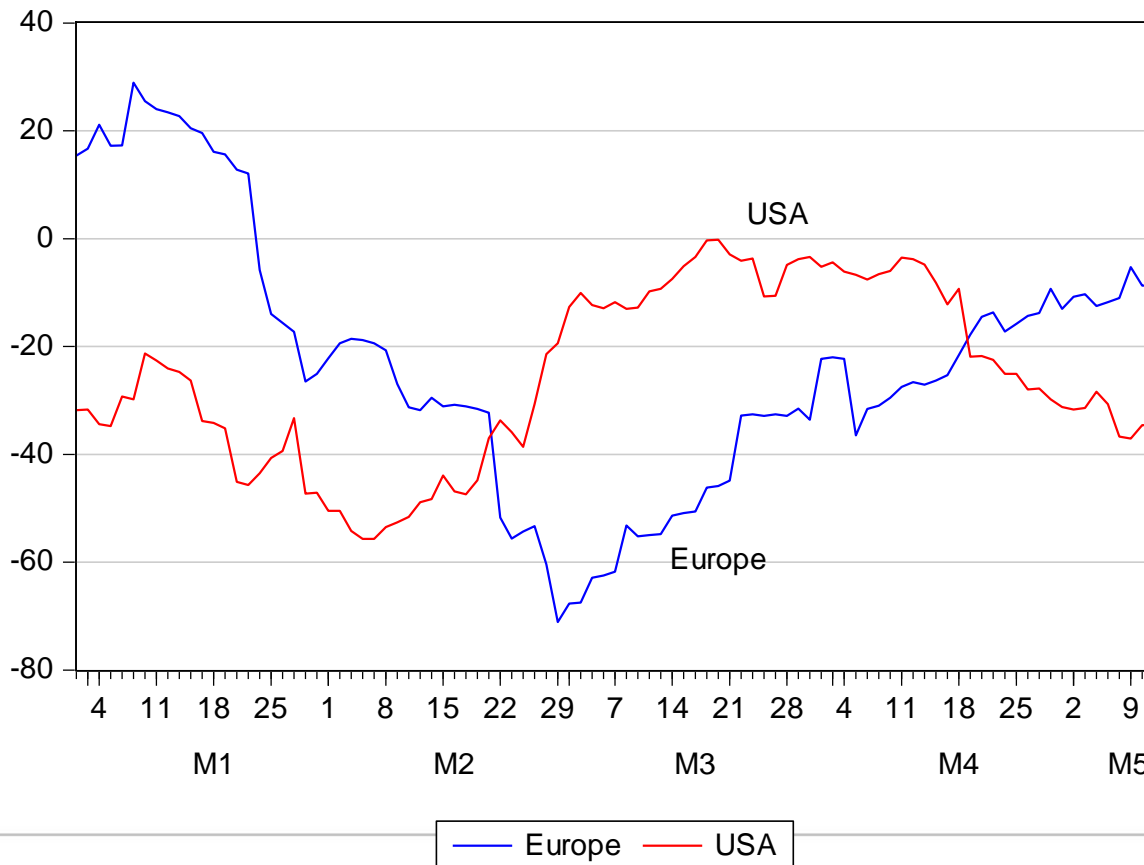
Share market performance in 2016



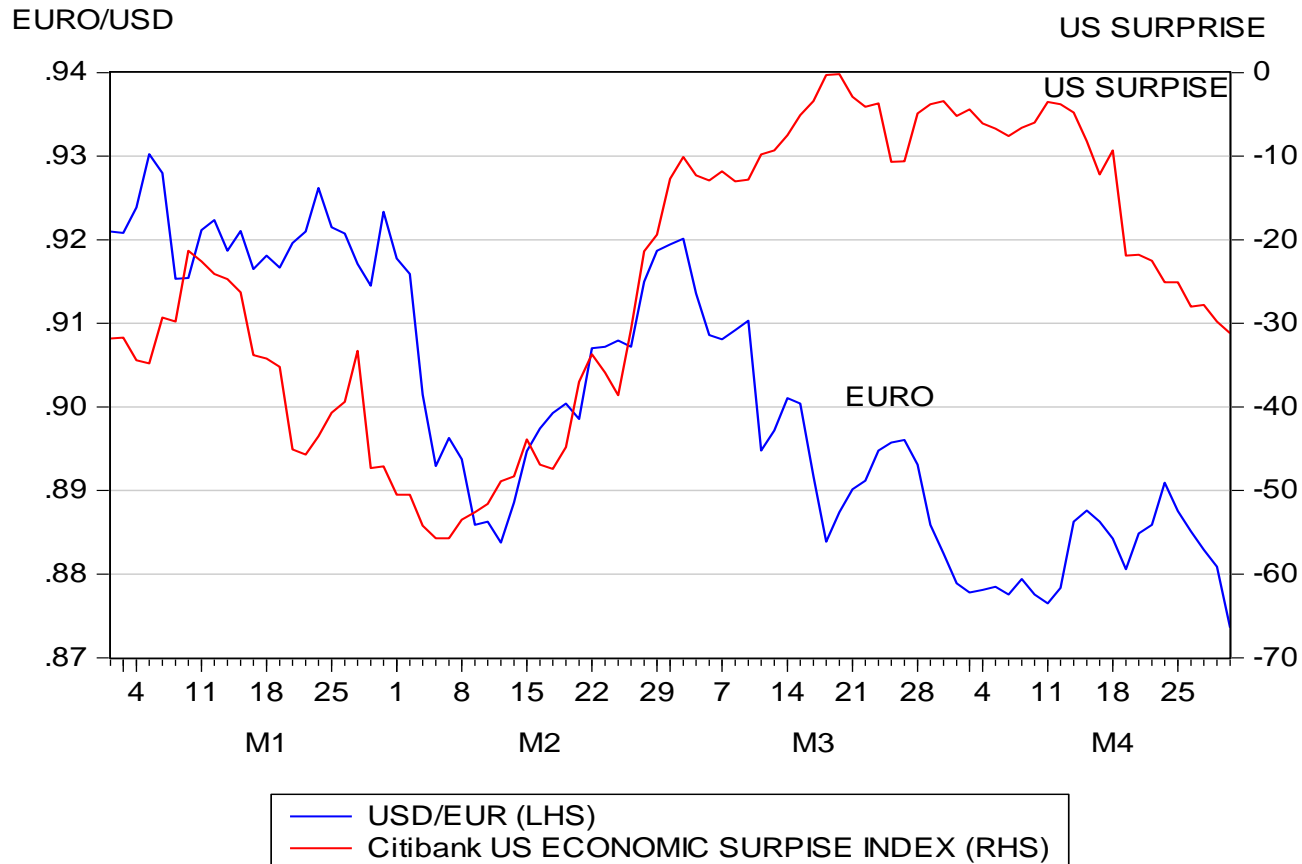
EM equities and EM economic surprises



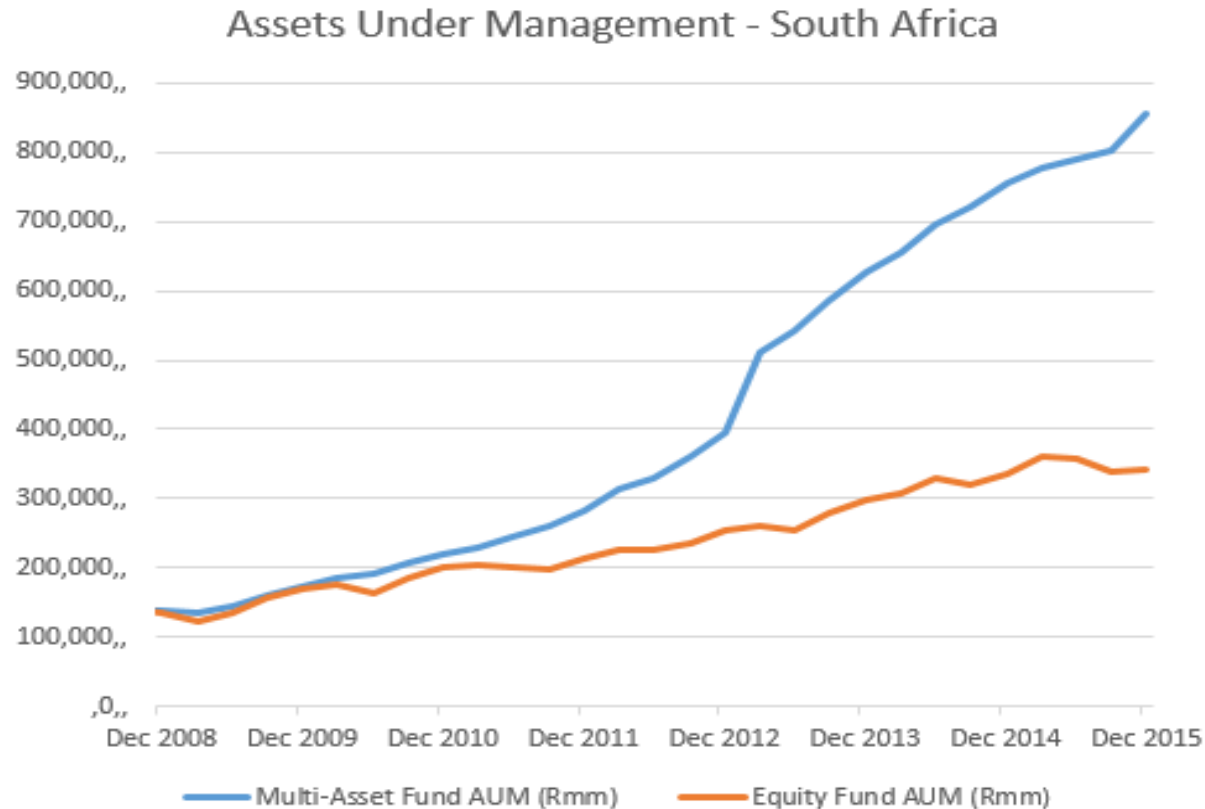
US and European surprises – surprising Europe



The Euro and the US Surprise Index. Daily Data

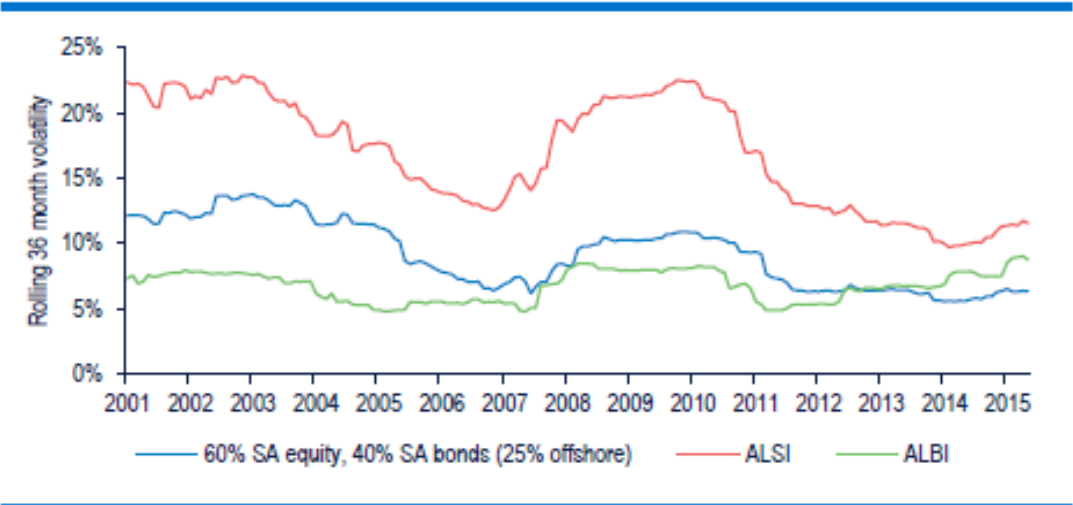


The shift to balanced funds



Balanced Portfolios have become less risky

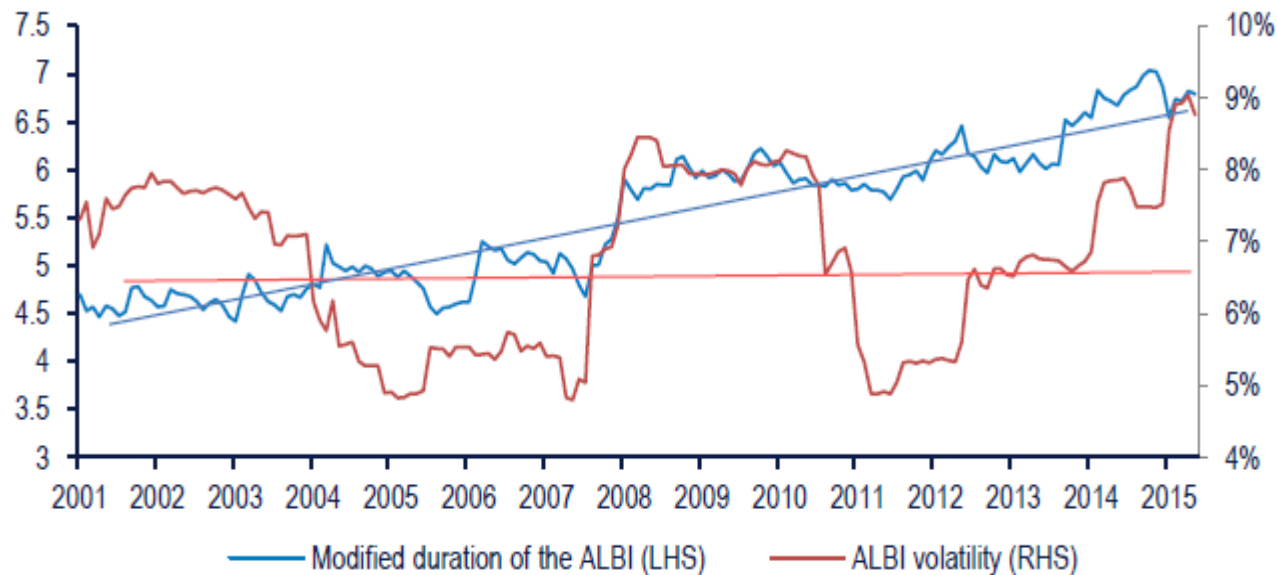
Figure 9: Balanced portfolios not reflecting the increase in SA specific risk



Source: Investec Securities research and I-Net

Albi duration has increased markedly

Figure 3: Bond market vol has not escalated with ALBI duration



Source: Investec Securities research and I-Net

The rand and the bond market

Figure 5: Rolling 36-month correlation between rand and long bond yield near a record high...



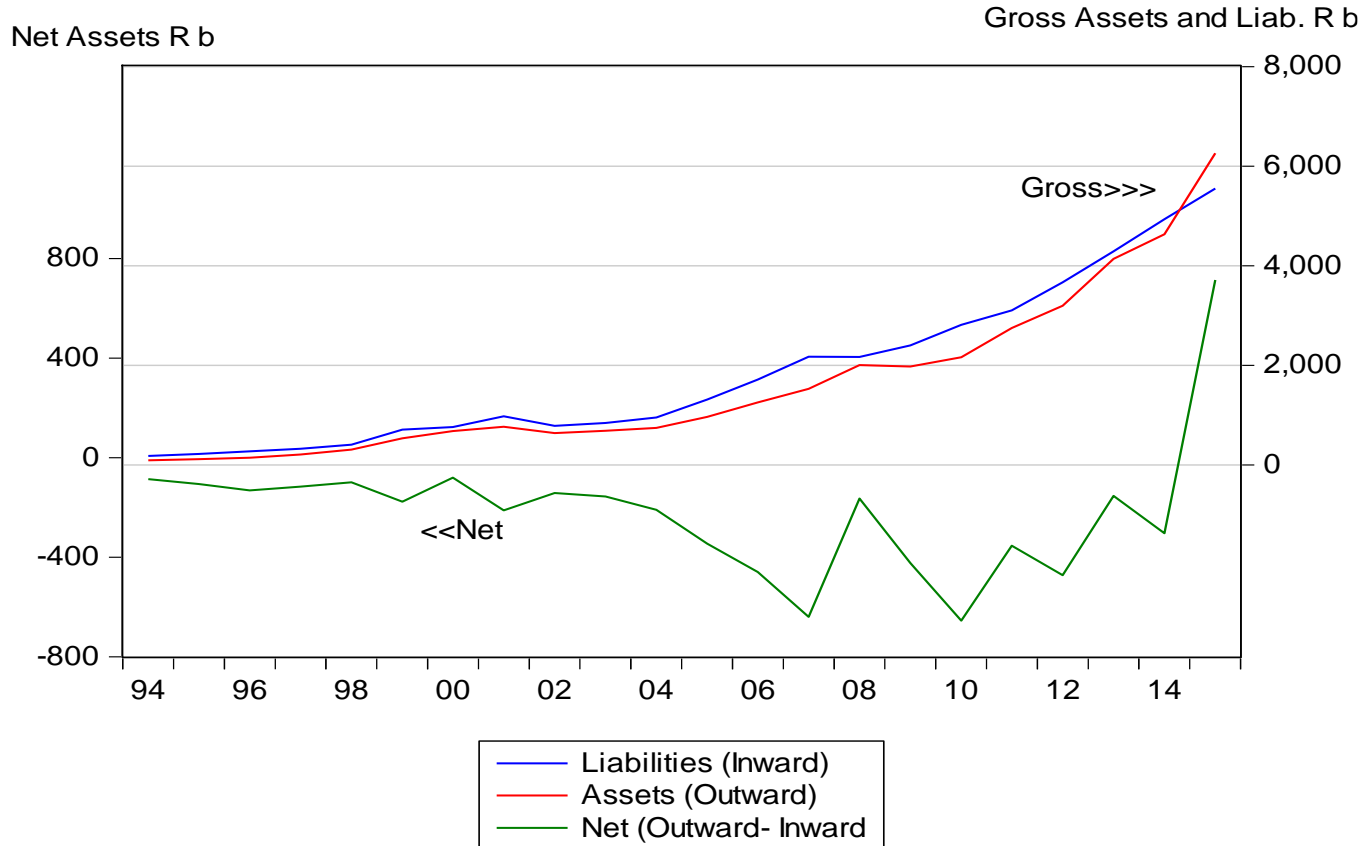
Source: Investec Securities research and I-Net

Figure 6: ... bond sensitivity to the USDZAR has increased

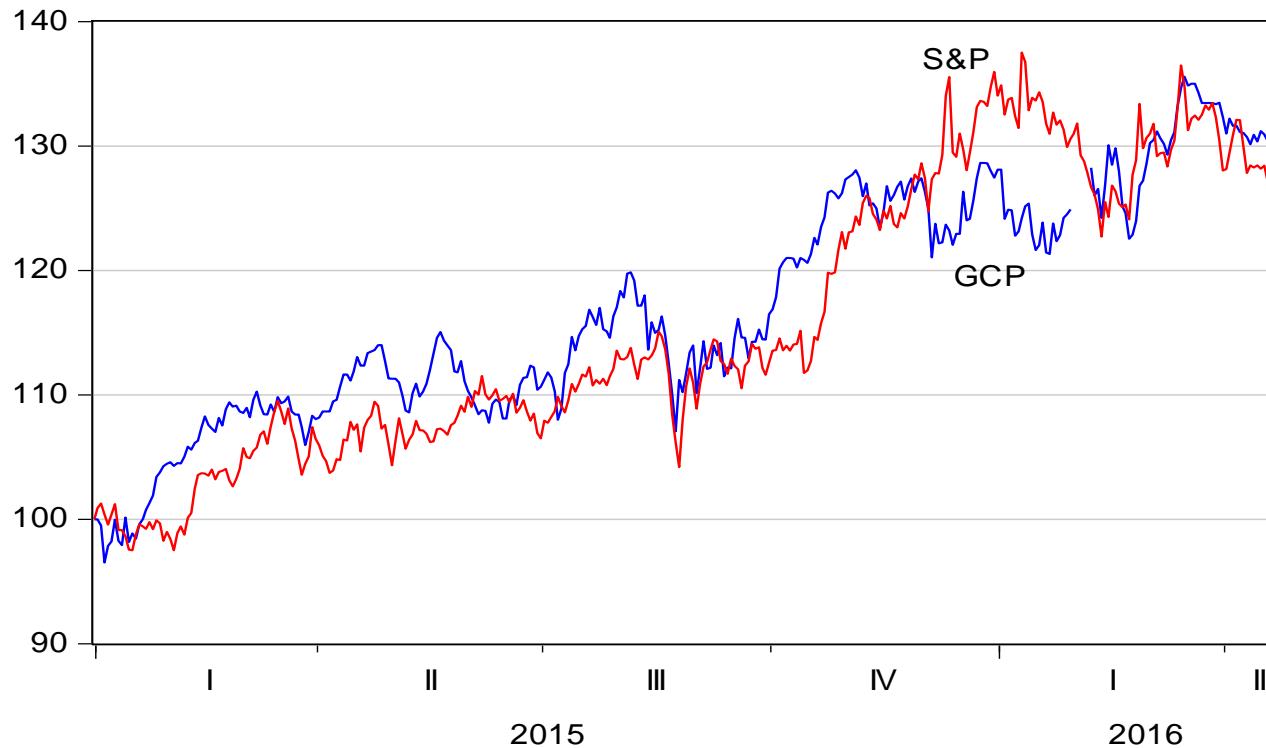


Source: Investec Securities research and I-Net

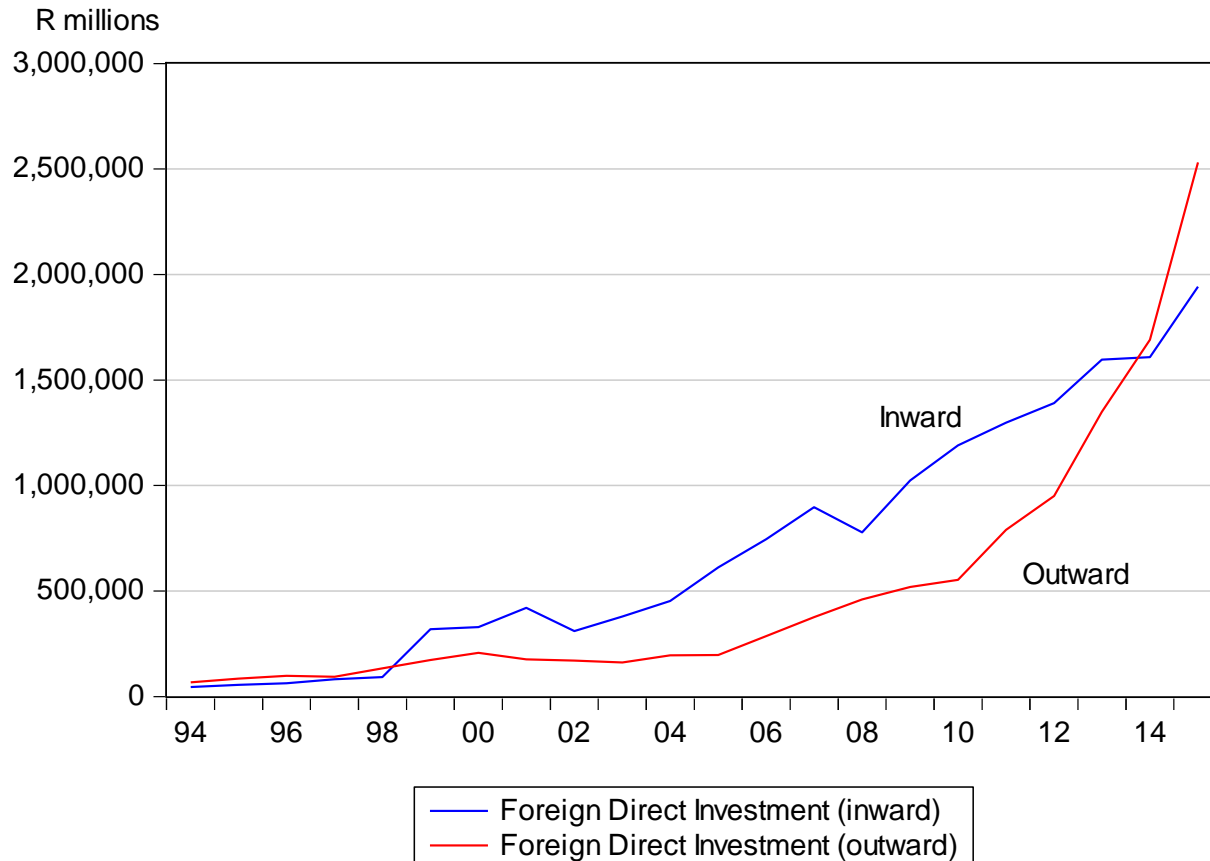
RSA – Gross and net foreign assets and liabilities – a milestone passed



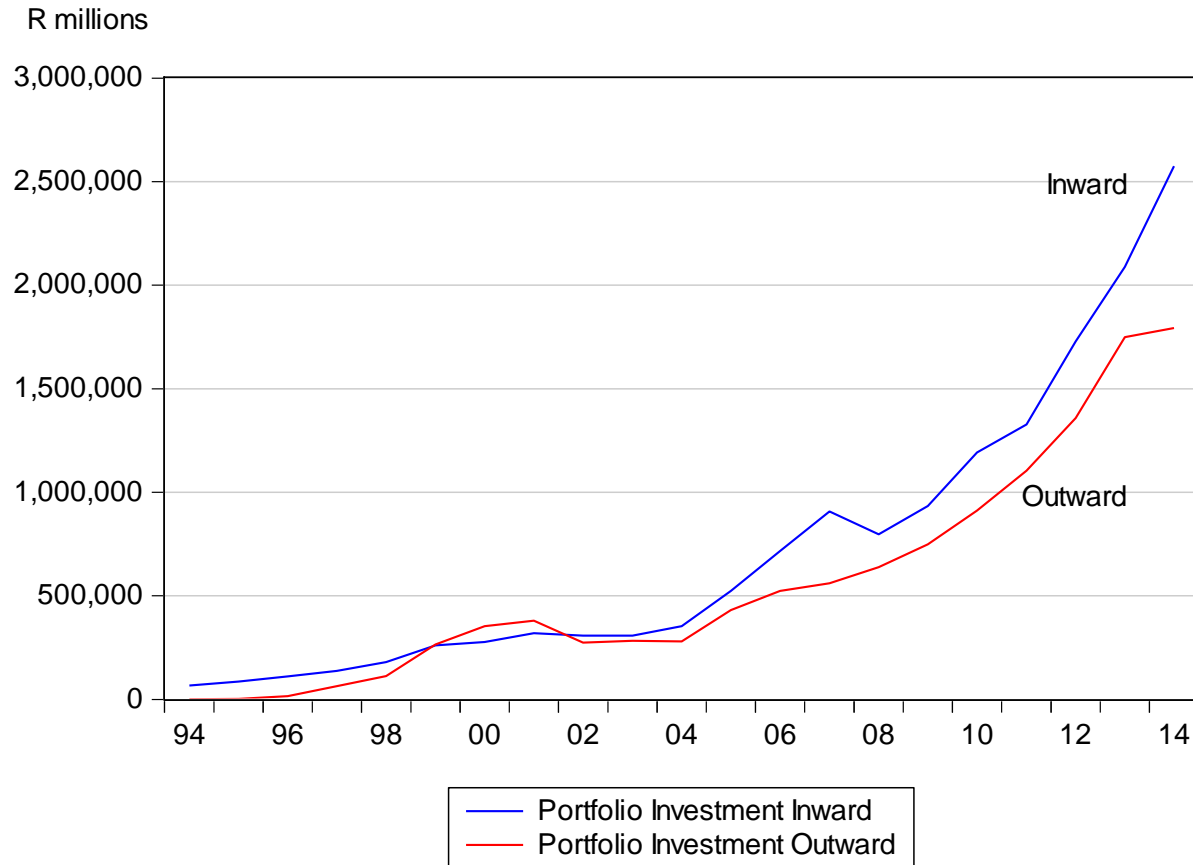
A comparison of equity returns – The 14 JSE Global Consumer Plays Vs the S&P 500, in rands (January 2015=100)



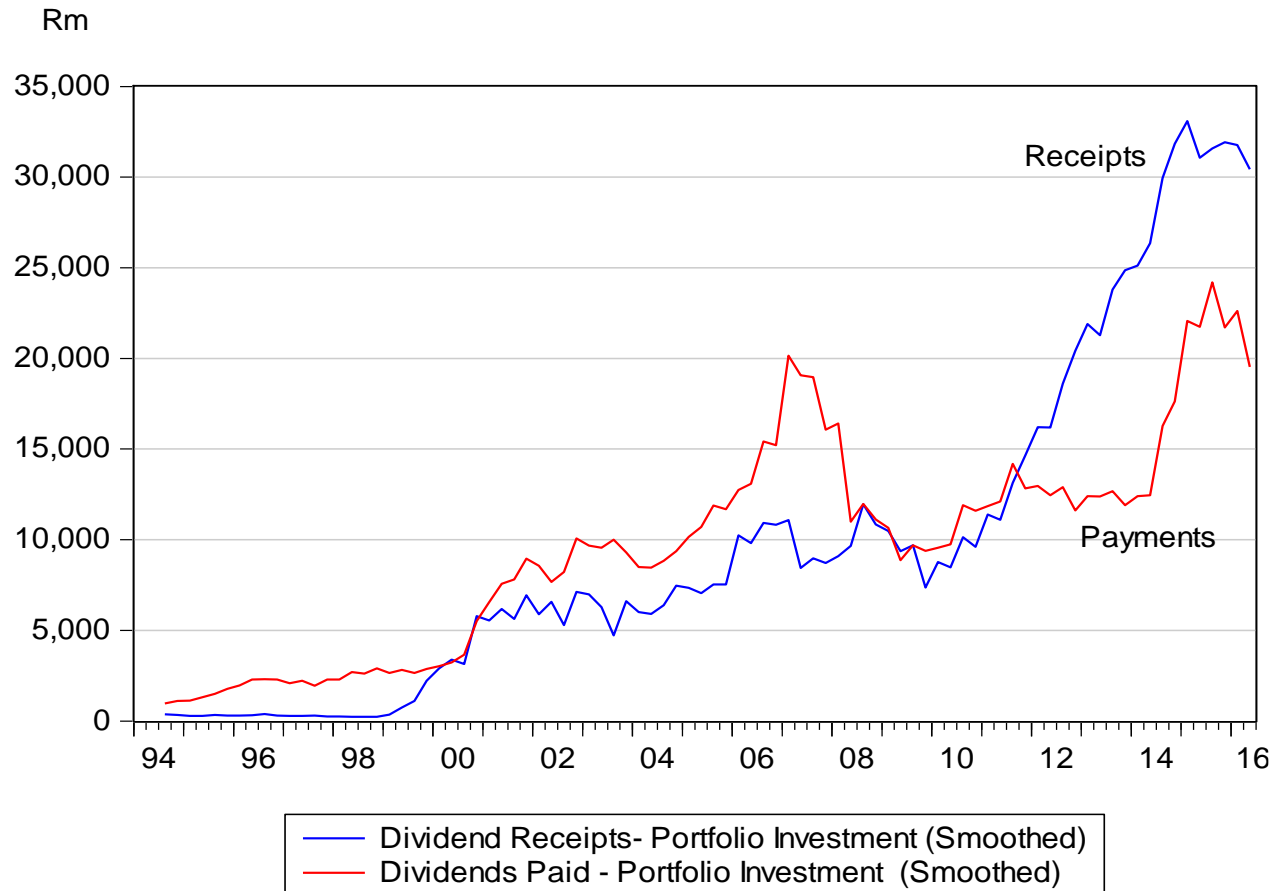
SA Foreign Direct Investment (FDI) – inward and outward



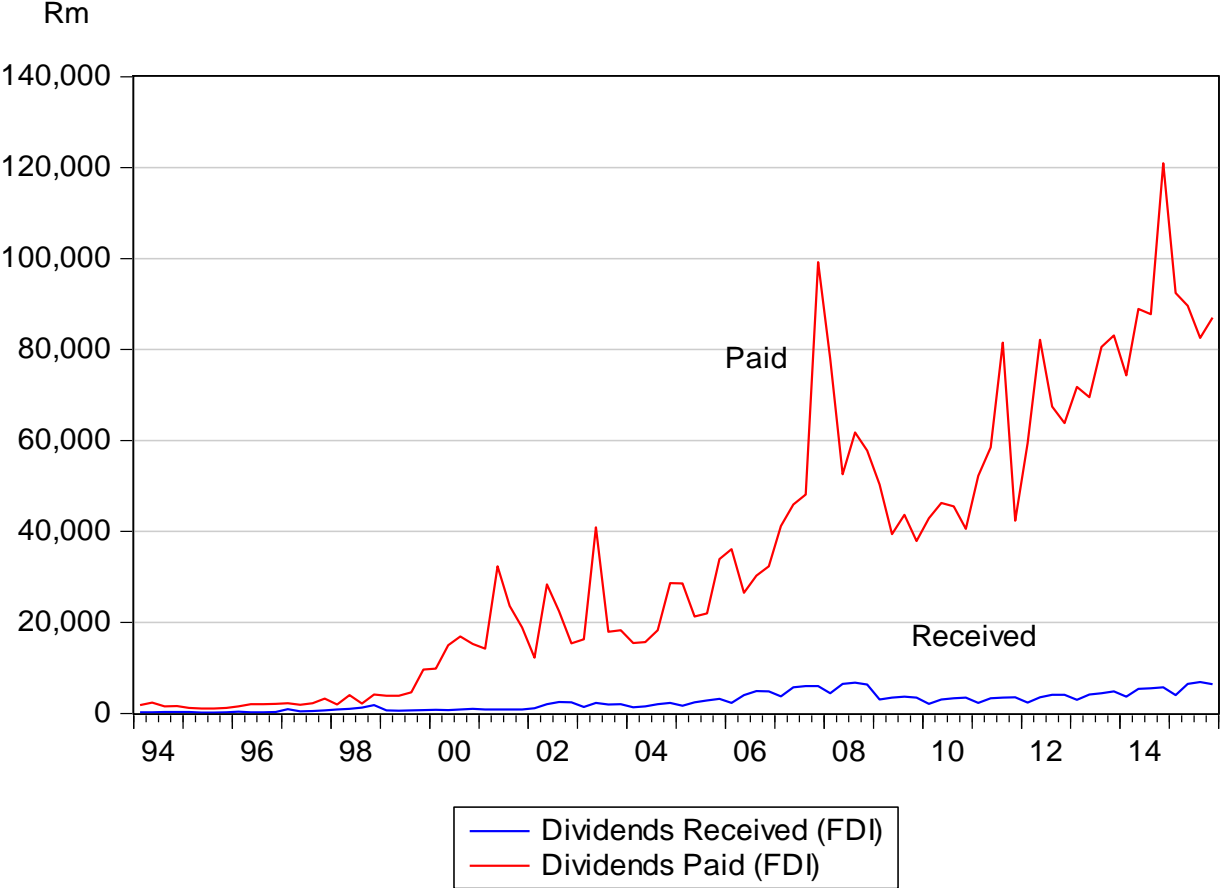
SA portfolio investment – inward and outward



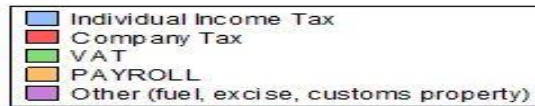
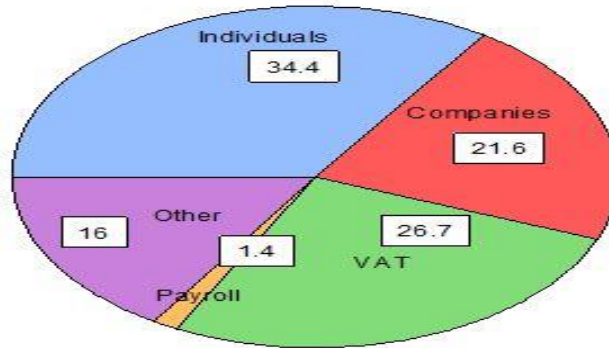
RSA portfolio investment, dividend flows



RSA – Foreign direct investment, dividend flows

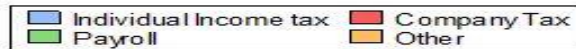
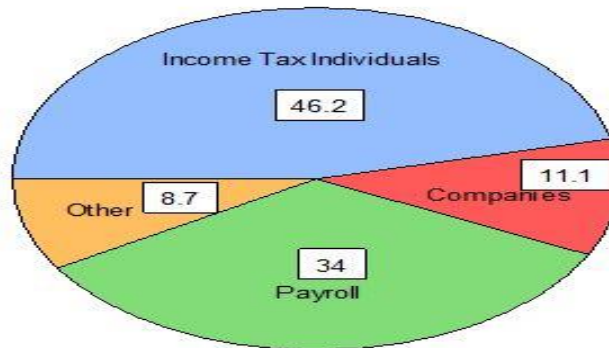


RSA – Percentage Distribution of Tax Revenues 2013-14



Source: Budget Review 2014, Investec Wealth & Investment

US Federal government: Distribution of tax revenues, 2014



Source: US Federal government (Office of Budget and Management), Investec Wealth & Investment