Outlook for 2015
Oil, inflation and interests rates will influence the course

1. Introduction and Summary

Economic and financial market forecasts have again proven to be unreliable. Yet everybody wants it. It is as if analysts become blind to the fact that some events and behaviour just can't be predicted – not even with "clever" mathematical methods aimed at predicting risk, uncertainty and company returns. For instance these methods failed to foresee an oil price of $56 per barrel at the end of 2014. Ditto an unforeseen strike of 5 months in South Africa's platinum mining sector. Yet both these events had massive impacts on the performances of the South African and world economies and markets in 2014.

So, what to do if forecasts are unreliable? Well, focus on things that (from experience) are more certain to happen, the consequences thereof - and then do regular reviews of the state of affairs.

By applying these simple principles, our economic and share market forecasts for 2014 largely reflected the actual situation – as is confirmed by the following two abstracts from our Q4 2013 report:

> *"Economic growth should therefore underperform rather than achieve the 2.8% expected by the International Monetary Fund. Our own forecast suggests an economic growth rate of 2.2% for 2014. This more pessimistic growth rate is informed by more labour strikes, higher interest rates, capacity constraints, the somewhat negative impact of monetary stimulus tapering in the USA on capital flows to South Africa, a weaker rand exchange rate contributing not only to export growth, but also to a higher import value and inflation pressure, e-tolling in Gauteng subtracting from consumers' spending power, as well as moderate growth in consumer credit (due to interest rates having a larger impact than expected by the authorities)".*

"... the South African economy's economic growth rate will be impacted by higher interest rates, a still weak exchange rate, possible credit rating downgrade and disruptions in the form of the national election, capacity shortages, as well as a volatile share market due mostly to the impact of the USA's withdrawal of monetary stimulus and labour strikes. Given that the South African share market is a bit expensive, volatility provides an opportunity for a correction. However, as the JSE ALSI also performs according to international events as well as expectations in 2015, a slow process to normality should occur - and as the economy should perform somewhat better in 2015, the ALSI may still rise to around 50 000 points".

So, the above shows that we were relatively close with our predictions by focusing on things that are more certain to happen. For instance, we expected the JSE All Share Index to reach the 50 000 level and it ended the year at 49 770 points. And the South African economy indeed performed weaker than the 2.8% expected by the authorities. However, the expected growth rate of 1.5% is also weaker than our own forecast of 2.2%. This is mostly because we did not expect a labour strike of five months in the platinum sector - even though we did expect large disruptions in the form of a labour strikes. Table 1 below provides a summary of the changes in some financial indicators during 2014, showing investments in property being the star performer with a return of 26.64%:

Table 1: Performance of some market indicators during 2014

Indicator	2013/12/31	2014/12/31	% change
SA Rand/US $	10.44	11.57	-10.82
SA Rand/GB Pound	17.38	17.98	-3.42
SA Rand/Euro	14.43	14.03	2.76
US$/Euro	1.37	1.21	11.71
Euro/US$	0.7276	0.8242	-13.27
Gold	1 205.90	1 195.50	-0.86
Platinum	1 373.00	1 210.32	-11.85
Oil	107.94	56.14	-47.99
Repo rate	5.00	5.75	15.00
JSE ALSI	46 256.23	49 770.60	7.60
SAPY (Property Total Return Index)	1395.5	1767.31	26.64
ALBI (Bonds Total Return Index)	436.66	481.07	10.17
USA: Dow Jones	16 576.66	17 823.07	7.52
USA: S&P 500	1 848.36	2 058.90	11.86
UK: FTSE 100	6 650.57	6 566.09	1.08
Germany: Dax	9 552.16	9 805.55	4.49
France: CAC 40	4 295.95	4 272.75	2.19
Japan: Nikkei 25	16 291.31	17 450.77	7.17
Hong Kong: Hang Seng	23 306.39	23 605.04	2.92
China: Shanghai	2 115.98	3 234.68	26.79

Another aspect to contemplate when analysing economies and financial markets, is to consider base rates and reference points. In this context, South Africa experienced a number of large numerical adjustments that changed the composition of the economy - following the five yearly adjustments to its National Accounts as effected by Statistics South Africa (Stats SA) and the South African Reserve Bank (SARB),

Although South Africa's economy now looks remarkably different from the one we got used to over the past five years, it is international economic and financial factors that will again impose themselves on the country's economic progress in 2015. However, the adjustments and domestic factors will also impact the economy's performance in 2015.

- These adjustments - that flows from better measurement methods, compliance with the prescriptions of the System of National Accounts and changing the base year of the National Accounts from 2005 to 2010 – will in itself enforce changes to the way investment decisions are to be made.
- The impact thereof combined with international economic, political and military developments, as well as the decisions of prominent South African role players such as the government, labour unions, business, political parties and the South African Reserve Bank (who developed an inclination to make it difficult rather than easy for the country to progress) need to be monitored carefully in 2015 for purposes of investment decisions.
- This report will therefore focus on the mentioned three issues. It starts with current and expected international economic developments and the impact on South Africa, the major changes in the composition of the South African economy as a result of the mentioned adjustments and concludes with current and expected domestic economic developments.

Against this background the following is expected for 2015:

- Moderately better international economic growth in 2015 compared to 2014;
- A low oil price – perhaps declining to below $40 but then gradually increasing over the latter part of 2015;
- Low international inflation and late interest rate increases in the United States;
- Thus, an overall better international economic environment that will support South African economic growth;
- However, self-inflicting wounds by South Africa such as higher taxes, labour strikes and electricity shortages will reduce the positive impact of the international environment.

These points will be elaborated upon in the next sections.

2. *International Economic Developments and Outlook for 2015*

World economic developments took a dramatic turn during the latter part of 2014 with changes in the oil industry and interest rate decisions in the United States (US) leading the way. These changes will affect international economic growth, consumer price inflation and government policies in 2015. Table 2 provides a summary of international economic estimates expected in 2015 and 2016.

Table 2:International economic projections for 2015 and 2016

	GDP: % change			CPI: % change			Current Account: % of GDP			Fiscal Deficit: % of GDP		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
USA	2.4	3.1	2.9	1.7	1.4	1.9	-2.5	-2.6	-2.6	-2.9	-2.6	-2.8
Japan	1.0	1.4	1.5	2.9	1.6	1.6	0.2	1.5	1.9	-7.1	-6.2	-4.3
Euroland	0.7	1.0	1.2	0.5	0.8	1.4	2.2	2.4	2.5	-2.6	-2.4	-2.4
Germany	1.3	0.9	1.1	0.9	1.3	1.5	7.2	6.6	6.4	0.0	-0.4	-0.7
UK	3.1	2.6	2.4	1.7	1.8	1.9	-4.0	-3.3	-3.1	-4.6	-3.4	-2.1
Australia	3.1	2.8	3.6	2.4	2.0	2.3	-3.0	-3.3	-2.2	-2.5	-1.5	0.0
India	5.5	6.5	6.8	7.5	6.5	7.0	-1.6	-2.5	-2.4	-4.5	-4.2	-0.8
China	7.3	7.2	6.9	2.3	2.7	2.9	3.1	3.5	3.4	-2.1	-2.5	-2.8
Brazil	0.2	0.9	1.6	6.4	6.4	5.9	-4.0	-4.1	-4.5	-4.8	-4.5	-3.7
Russia	0.4	-1.3	0.1	7.6	7.5	6.3	3.0	2.1	1.9	0.5	-3.2	-1.1
World	3.1	3.6	3.7	3.5	3.5	3.7						

As mentioned, late developments in 2014 such as the sharp drop in the Brent oil price from above $100 per barrel early in 2014 to just above $56 per barrel late in December, Russia's dramatic increase of 6.5 percentage points in interest rates to 17% and the US Federal Reserve's decision that interest rates will not be increased until "at least" end April 2015, dominated buy and sell decisions on financial markets.

However, it will also alter the course of the world economy in 2015 – and on balance the drop in the oil price and postponement of interest rate increases may just be what the world needs to make the recovery more sustainable. The following sets out current developments that will set the scene for 2015:

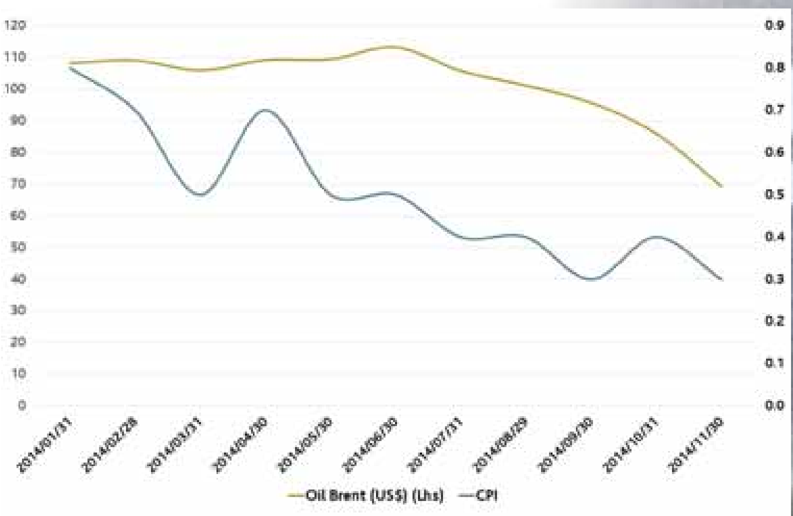
- The US and United Kingdom (UK) remained to be prominent driving forces of global economic growth, but the UK is heading for more austerity;
- Japan is currently in a recession, postponing further increases in the VAT-rate, whilst still reviewing the impact of its monetary stimulus;
- Euroland is struggling ahead against a deflationary background;
- China and Brazil faced growth headwinds, whilst India is recovering;
- In light of Russia's foreign debt liabilities and lower asset value (lower oil price), the big increase in interest rates did not halt currency depreciation and inflation – it will rather plunge the country into recession.
- The Federal Reserve's ending of monetary purchases did not reduce liquidity as the proceeds are reinvested;
- The Euro depreciated due to further monetary easing;
- Food and commodity prices continued to decline with positive impacts on global inflation;
- As such US inflation remained low, postponing interest rate increases to 2015 (if any);
- On the currency front, the US$ continued to strengthen against most currencies, most notably the Euro.

The above developments should set a platform for a more balanced and sustainable international economic recovery. The following explains how and why the above developments might just be what the world economy needs to recover sustainably.

The macro expectations for Euroland can be summarised as follow:

- Low food and commodity prices should bolster economic growth in Euroland as it reduces the unit cost of food and commodities (e.g. oil) and make goods more affordable, thereby stimulating demand;
- This will however put further downward pressure on consumer inflation, increasing the risk of deflation that may postpone demand;
- But, the weaker Euro against the US$ (80 E cents/$ end November vs 74 E cents in January 2014) should increase "import inflation" that will to a degree neutralise the downward price pressure caused by low food and commodity prices (see figure 1);
- The weaker Euro (down almost 10% over the year) will also stimulate exports, contributing to better economic growth;
- In addition, further bond purchases by the European Central Bank in 2015 should provide liquidity to keep the financial system running.
- Thus, the demand positive benefits of more exports and lower cost of food and commodity prices should outweigh the demand negative factors caused by lower inflation and commodity prices.

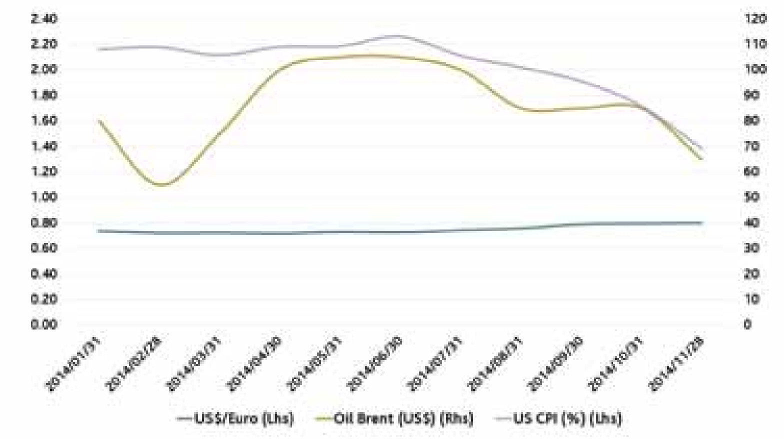
Figure 1: Weaker Euro and lower oil price should bolster European economic growth



As for the US, "inflation-interest rate and currency" developments – some attached to the above mentioned expectations in Euroland – will impact world economic developments in 2015:

- The stronger US$ and lower commodity prices (especially oil) should keep inflation in check (see figure 2);
- Company balance sheets are strong determinants of price setting behaviour. Companies with strong balance sheets tend to set low prices (to gain market share) and those with weak balance sheets set higher prices (to build balance sheets). In the US most large price setting companies are sound and continue to grow their balance sheets, thus also contributing to lower inflation
- Furthermore, research showed that the harm of higher inflation due to late increases in interest rates is smaller than harm of weaker economic growth and employment as a result of early increases in interest rates.
- A growing number of research studies show that inflation in the US will remain low well into 2016 – the probability of low inflation is twice as high as probability of high inflation.
- Low inflation should therefore postpone increases in interest rates and create space for further traction in economic growth during 2015.

Figure 2: Strong dollar and lower oil price contributes to lower CPI in the US



Apart from the above, another important development that took place in 2014 that will affect government policies in 2015, is the economic growth enhancing decision taken by the G20 countries. According to the Brisbane Action Plan (adopted by the G20 countries) a number of measures was adopted that will increase these countries' GDP by an additional 2.1% by 2018. Read together with the audit that the International Monetary Fund commissioned on itself, a more relaxed policy stance can be expected – as the audit found that the IMF too early propagated a return to austerity measures in 2010.

As for commodity prices, the large drop in the oil price might prove to be futile for Opec-countries in the medium to long run:

- The oil price was deemed to have reached a floor at about $110 per barrel. However, investments in shale oil production (in especially the US) would have created an over-supply, also making the US self-sufficient in terms of oil production. This would have had the effect of dropping the floor price to between $60 and $80 per barrel.
- In an attempt to kill off these investments Opec decided to pump more oil in order to create an over-supply with the purpose of reducing the price to levels that will render new investments unprofitable.
- Although many of these investments had already been halted (as they are profitable at an oil price of between $60 and $80 per barrel), many Opec countries with state owned oil companies relying on oil for an income (such as Russia, Nigeria and Venezuela) are suffering fiscal problems. They are either running up fiscal deficits or reducing fiscal surpluses. Those countries running up fiscal deficits will have to increase their borrowing that will negatively affect their credit rating, cost of borrowing, economic growth and cause higher inflation.
- In addition, although the above over-supply actions may halt investments in shale oil for now - which may drive up the price again to $60 - $80 per barrel – new investments in shale oil production will start again when oil prices reach these levels.
- The net effect of the above is that the over-supply will not be maintained for too long due to the fiscal problems it creates for a number of countries, whilst the new floor price for oil might be between $60 and $80 per barrel.

So, the total impact of all the above developments on South Africa during 2015 boils down to the following:

- Stronger world economic growth should stimulate South African exports and South African economic growth.
- This should create a better environment for job creation.
- More production should stimulate profits.
- However, although the weaker rand/US$ exchange rate should also stimulate exports, it will put upward pressure on import prices and consumer price inflation.
- But lower world food and oil prices will, reduce the upward pressure on consumer price inflation, thus reducing the need for higher interest rates.
- Postponement of interest rate increases in the USA to at least after April should also delay interest rate increases in South Africa.
- This should also support economic growth, income and profit earning prospects, as well as job creation.
- In short – stronger economic growth, stable inflation, possible mildly higher interest rates in the US, as well as profit stimulus.

That said, however, South African domestic factors will also affect economic growth, job creation and the choice between shares and bonds and domestic vs international. Before discussing the outlook for the South African economy in 2015, it is necessary to first examine the impact of several adjustments to the national accounts on the composition of the South African economy.

3. Adjustments to the South African Economy

The System of National Accounts is an international agreed upon accounting method that prescribes how countries' macroeconomic accounts and balance sheets should be composed and organised to allow for measurement of economic activity. The South African authorities (Stats SA and SARB) implemented the latest prescriptions of the SNA during the fourth quarter of 2014 (Q4 2014).
These adjustments and improved measurement methods effected some large changes to the structure the South African economy and again underlined the importance of a good knowledge of the SNA in the area of financial markets – as a lack of understanding often leads to misinterpretations of economic performances and wrong decisions by analysts.

RSA MULTI ASSET MANAGERS

Some of the changes include a change of the base year from 2005 to 2010; reclassification of some military expenditure away from government consumption expenditure to gross fixed capital formation; a number of changes in international trade and financial flows; an extension of financial intermediation services indirectly measured (FISIM); and increasing the residential housing (excluding low cost housing) depreciation period from 50 years to 75 years.

The net result of these changes was an increase in the value of nominal gross domestic product (GDP) of R148.9 billion, whilst real GDP increased almost R1 trillion (mostly as it is now expressed in 2010 prices compared to 2005 prices previously). Table 3 reflects the most important changes.

Table 3: Changes in macroeconomic aggregates due to revsions: 2013

R' Million	Old 2013	New 2013	Difference	% change
Gross Domestic Product	3 385 369	3 534 326	148 957	4.40
Gross Operating Income	1 453 480	1 562 314	108 833	7.49
Compensation of Employees	1 576 782	1 610 647	33 865	2.15
Agriculture	72 431	73 458	1 027	1.42
Mining	279 691	284 802	5 111	1.83
Manufacturing	350 345	419 931	69 585	19.86
Electricity	92 154	117 466	25 312	27.47
Construction	113 556	126 435	12 879	11.34
Trade	502 418	471 008	-31 410	-6.25
Transport & Communication	268 782	317 974	49 192	18.30
Finance	652 217	643 166	-9 051	-1.39
Government	518 348	532 122	13 774	2.66
Personal Services	180 320	186 599	6 279	3.48
Household Consumption Expenditure	2 057 898	2 143 323	85 425	4.15
Household Disposable Income	2 057 263	2 091 234	33 971	1.65
Government Consumption Expenditure	752 781	715 959	-36 822	-4.89
Gross Fixed Capital Formation	654 427	708 357	53 930	8.24
Exports	1 054 353	1 094 771	40 418	3.83
Imports	1 149 542	1 175 091	25 549	2.22
Current Account Deficit	197 179	203 531	6 352	3.22
Household Liabilities	1 577 000	1 696 000	119 000	7.55
Household Assets	8 770 000	9 037 000	267 000	3.04
Household Net Wealth	7 193 000	7 340 000	147 000	2.04

The following is a brief summary of the impact of the changes on the nominal levels of macroeconomic aggregates in 2013.

As for income earned from production (either gross income to shareholders or salaries/wages to workers as reflected in the top of table 1):

- The largest adjustment was in terms of the share of income that flowed to shareholders. This was R108.8 billion or 7.49% more than previously estimated and among others means that households received a proportionally larger share of their income from dividends than previously estimated.

The production levels by the different sectors (second part of table 1) showed interesting changes:

- As expected the largest adjustment was in production by the electricity and water sector (27.5%); followed by manufacturing (19.9%) and transport and communication (18.3%).
- Sectors servicing consumers (trade – including wholesale, retail and motor trade – and finance) were adjusted downward.

From the expenditure side (third part of table 1) the following transpired:

- Household consumption expenditure was adjusted upward by R85.4 billion mainly as a result of the FISIM-changes;
- Gross Fixed Capital Formation was 8.2% larger, whilst government consumption expenditure was 4.9% smaller (mainly due to the reclassification of military expenditure).

As for households' balance sheets:

- Debt levels were adjusted upward by 7.6% or R119 billion, whilst the value of assets increased R267 billion (3%).

Note that the above only reflects the nominal changes to the levels of the aggregates and does not reveal information as to their relative shares in the economy. However, as table 4 shows the relative size (market share) of some of the production sectors changed considerably as a result of the mentioned adjustments.

Table 4: Changes in relative size by sector

SECTOR	Old size 2012	New size 2012
Agriculture, forestry and fishing	2.2	2.3
Mining and quarrying	5.2	8.1
Manufacturing	15.3	13.0
Electricity, gas and water	1.8	2.4
Construction	3.0	3.4
Trade	12.3	13.6
Transport, storage and communication	9.0	8.3
Finance, real estate and business services	21.3	19.2
General government services	13.7	14.9
Personal services	5.4	5.4
Total value added	89.2	90.6
Taxes less subsidies on products	10.8	9.4

The following can be deduced from the market shares as reflected in table 2:

- The share of mining increased considerably, whilst that of manufacturing declined sharply;
- Agriculture, electricity, construction, trade and the government also enjoyed increased market share;
- Transport & communication and finance however lost market share relative to the other sectors.

These developments deserve a discussion in itself, but for purposes of this report the focus will be on the changes in the gross operating income/ surplus (GOS) per sector earned by shareholders as it is relevant to the returns on investment by individuals.

Table 5 shows the trend in gross operating income (known as gross operating surplus – GOS) as a percentage of income earned from production (consisting of income earned by workers known as compensation of employees – CoE – and GOS which flows to shareholders), as well as the new GOS after the above mentioned revisions compared to the old GOS before the revisions. A GOS percentage above 50% means that that the proportion of income (operating income before expenses and taxes) from production to shareholders exceeds that earned by workers. Table 5 shows the following:

- For South Africa, some 49.2% of income from production was allocated to shareholders in 2013;
- Analysing GOS over time (2004 to 2013) it is clear that GOS decreased between 2004 and 2013 as in 2004 some 51.7% of income was GOS and 49.3% CoE.
- In six sectors (excluding government and personal services) GOS increased over time;
- It only decreased in the manufacturing and finance sectors (meaning that workers' share increased in these two sectors). The sharp decline in these two sectors is the main reason why GOS for South Africa declined over time;
- However, despite declining over time, GOS in the finances sector was still above 50% (58.9%).
- Accounting for the revisions mentioned above, GOS was higher for South Africa (49.2% compared to 48%);
- It was higher in five sectors compared to the previous estimate;
- It was smaller in the mining, trade and finance sectors.

Table 5: Change in gos over time and due to the five yearly revisions by sector in 2013

	Agriculture, forestry & fishing	Mining & quarrying	Manufac-turing	Electricity, gas & water	Construc-tion	All trade; catering & accommo-dation	Transport, storage & communi-cation	Finance, real estate & business	Total
New GOS 2004	68.1	58.0	54.5	58.6	50.8	56.1	67.5	63.4	51.7
New GOS 2013	68.5	58.5	37.9	72.4	55.7	59.8	70.2	58.9	49.2
New GOS 2013	68.5	58.5	37.9	72.4	55.7	59.8	70.2	58.9	49.2
Old GOS 2013	67.8	60.0	26.4	68.6	54.0	62.9	65.1	61.7	48.0

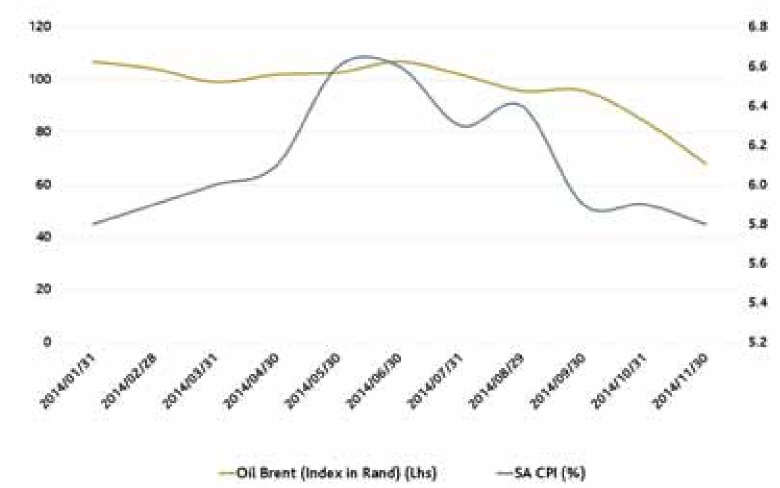
In sum, in four sectors, namely agriculture, electricity, construction and transport & communication the share of GOS both increased over time and was higher than previously estimated. This means that "economy wide" shareholders of companies in these sectors should over time have received a higher income from operations (compared to workers) and this income was higher than previously estimated.

4. South African economic outlook: 2015

Recapping from section 1:

- Stronger world economic growth should act as a stimulant for South African exports thereby supporting domestic economic growth;
- Lower international oil and food prices should reduce local production costs, supporting profit margins and therefore income earned from production;
- It should also reduce import costs, reducing the current account deficit and therefore reduce the pressure on rating agencies to revise South Africa's credit rating downward;
- These lower costs of production (especially from the lower oil price) should also keep consumer price inflation in check, postponing the need for interest rate increases. Figure 3 clearly shows that the decline in the oil price outweighed the weaker R/$ exchange rate (with the rand oil price being 31.9% lower at the end of November compared to the beginning of 2014) and thus contributed to lower consumer price inflation;
- Low inflation and still low interest rates should support investment and household consumption expenditure.

Figure 3: Lower rand oil price plays an important role in South Africa's CPI



From section 2, the following can be deduced:

- As the mining sector now comprise a larger share of the economy, positive/negative production developments will have a proportionally larger impact on economic growth. As platinum production should be more, it should support economic growth in 2015;
- Likewise, developments in the manufacturing sector should have a proportionally smaller impact on economic growth. Labour strikes in this sector may therefore have a smaller impact on economic growth;
- In almost all sectors of the economy, the GOS exceeds worker compensation by far – meaning that a small number of shareholders will receive proportionally more income compared to a large number of workers. As these shareholders are also the big spenders in the economy, their consumption expenditure should support economic growth;
- GOS was especially higher in the manufacturing, construction and transport & communications sectors meaning that these sectors should make a larger contribution to dividend payments;
- Consumers are more indebted than previously estimated (debt to disposable income ratio was 79.5% of disposable income in 2013 compared to the previously estimated 75.2%), which means that increases in interest rates (if any) will have a larger impact on their disposable income and on economic growth.

There is another factor that will "artificially" support the economic growth rate in 2015:

- This is the low base of growth registered in 2014, which will have the effect of a small improvement registering a relatively large increase in the growth rate. This may especially be the case in both Q1 and Q2 of 2015 as platinum production may be normal compared to 2014.

So, international economic developments, coupled with the adjustments in the economy and low base of economic growth registered in 2014 should all contribute to an economic growth rate exceeding 3% in 2015.

However, as always, the South African authorities have developed an inclination of reducing the positive spin offs from the international environment. - for example the proposed tax increases in 2015 and the increases in the repo rate in 2014. And labour unions and employers have demonstrated that their negotiation skills are lacking. These two factors may lead to an economic growth rate lower than 3%. Moreover, South Africa's economic growth potential (rate at which acceptable inflation occurs) have been adjusted downward to around 2.5% from 3.5% two years ago and 4.5% pre-2008. We can therefore expect the following to subtract from economic growth in 2015:

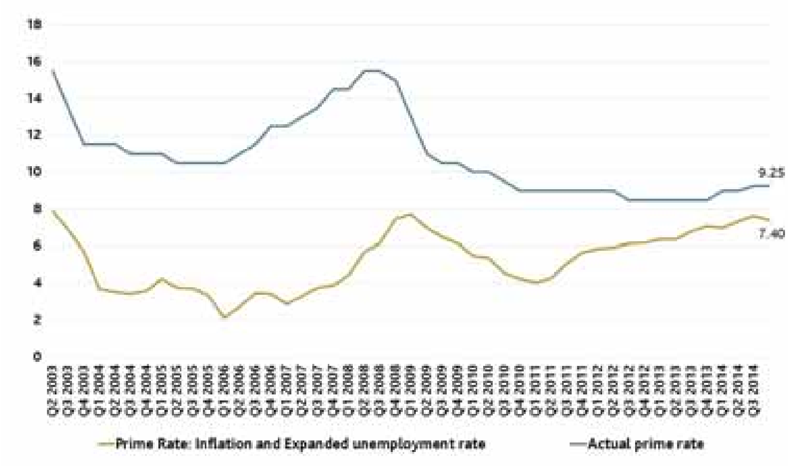
- Higher taxes to finance unaffordable government expenditure;
- Labour strikes (though not as severe as in 2014) will reduce production and therefore income earned, expenditure, saving and investment;
- Insufficient electricity production that will hamper investment and export earnings and contribute to a weaker R/$ exchange rate;
- The probability of higher interest rates to keep possible higher consumer price inflation in 2016 in check.

5. *Conclusion: South African Economic Outlook 2015*

Against this background, the following macroeconomic outlook is expected for South Africa in 2015.

- Economic growth of close to between 2.5% and 3%;
- Average consumer price inflation of 5.6%;
- A current account deficit of 4.4% of GDP;
- Interest rates to possibly increase by 25 basis points in the second half of 2015 – ALTHOUGH IT SHOULDN'T if both the unemployment rate and consumer price inflation are considered. Figure 4 shows the prime rate should currently be 7.4% when both unemployment and consumer price inflation are considered (according to the Rudebusch method);
- A volatile rand exchange rate with a strengthening bias.

Figure 4: Actual prime rate and what it should be if both unemployment and CPI is considered



As for commodity prices the above inferences suggest the following:

- The price of oil is expected to recover gradually to levels around $60 per barrel as the pressure mounts on Opec to reverse their decision;
- A gold price to increase above the critical level of $1 200 per ounce;
- Likewise, stronger world demand should support the platinum price to levels of $1 300 per ounce.

In terms of investments, analyses show:

- The current lower oil price will initially have a negative impact on share markets (but it will bolster economic growth);
- Petrol price savings for motorists will be at least R36 billion – supporting retailers and financial institutions;
- GOS of companies in the construction and transport and communications sectors have the highest correlations with the JSE ALSI in terms of:
  - o Margins;
  - o Real income earned; and
  - o Nominal income earned.
- In terms of price, the mining sector also correlates well with the JSE ALSI.
- The above means that developments affecting construction and transport & communication as well as retail and finance will have a strong impact on the JSE ALSI.
- The analyses suggests that following the 7.6% increase in the JSE Alsi in 2014, the JSE ALSI may increase 13% in 2015, although an increase of 8% is more sustainable.

Thus, in sum the macroeconomic developments suggest that:

- The JSE ALSI may gain further to levels of 54 000 - 56 000 points in 2015;
- Stable inflation and possible higher interest rates will not be positive for bonds, but a stronger rand may support bonds;
- Low interest rates should be cash negative;
- Better performing international economic growth rates should support foreign shares.

Risks to the above outlook include the following:

- The oil price edges back to $90 per barrel early in 2015;
- This would mean higher inflation and possibly an earlier return to interest rate increases;
- Lower economic growth in the US and Euro areas as well as austerity in the UK;
- Faster increases in interest rates;
- Increased terrorism and war related conflicts (e.g. North Korea, Russia, Middle East) – will cause volatility and higher commodity prices;
- More labour strikes in South Africa, coupled with loaded municipal election statements by politicians may affect the credit rating and rand negatively;
- More severe electricity outages in South Africa.

Appendix: Economic and Financial Market Statistics

Table 1: Economic growth: Quarter over Quarter Seasonally Adjusted and Annualised (%)

Quarter	USA	UK	Germany	China	Japan	Australia	Euro area	South Africa
2011/01	-1.30	2.02	4.89	9.70	-7.76	-1.99	2.42	3.73
2011/02	3.20	0.40	0.40	10.81	-3.55	4.89	0.80	2.14
2011/03	1.40	2.42	1.61	9.09	10.81	4.89	0.40	1.05
2011/04	4.90	-0.40	0.40	7.40	1.61	2.42	-1.19	3.14
2012/01	3.70	0.00	2.83	5.72	4.89	5.30	-0.40	1.66
2012/02	1.20	-1.99	-0.40	8.67	-1.19	2.02	-0.80	3.70
2012/03	2.80	2.83	0.80	8.24	-3.55	3.24	-0.40	1.20
2012/04	0.10	-0.80	-1.99	7.82	1.21	2.83	-1.99	1.79
2013/01	1.10	1.61	0.00	6.14	4.06	2.02	-0.80	1.36
2013/02	2.50	3.24	2.83	7.40	3.65	2.42	1.21	3.69
2013/03	4.10	3.24	1.21	9.52	1.21	2.42	0.40	1.20
2013/04	2.60	2.83	1.61	6.98	0.40	3.24	1.21	5.09
2014/01	-2.10	3.00	2.83	6.14	6.56	4.47	0.80	-1.61
2014/02	4.20	3.10	-0.80	8.24	-6.63	2.02	0.00	0.46
2014/03	5.00	3.65	0.40	7.82	-1.99	1.21	0.80	1.45

Table 2: International year over year consumer price inflation rates: % change

Month	USA	UK	Germany	China	Japan	Euro area	South Africa
Apr-13	1.1	2.4	1.5	2.4	-0.7	1.2	5.9
May-13	1.4	2.7	1.5	2.1	-0.3	1.4	5.6
Jun-13	1.8	2.9	1.8	2.7	0.3	1.6	5.5
July-13	2.0	2.8	1.9	2.7	0.7	1.6	6.3
Aug-13	1.5	2.7	1.5	2.6	0.9	1.3	6.4
Sep-13	1.2	2.7	1.4	3.1	1.1	1.1	6.0
Oct-13	1.0	2.2	1.2	3.2	1.1	0.7	5.5
Nov-13	1.2	2.1	1.3	3.0	1.5	0.9	5.3
Dec-13	1.5	2.00	1.4	2.5	1.6	0.8	5.4
Jan-14	1.6	1.90	1.3	2.5	1.4	0.8	5.8
Feb-14	1.1	1.70	1.2	2.0	1.5	0.7	5.9
Mar-14	1.5	1.60	1.0	2.4	1.6	0.5	6.0
Apr-14	2.0	1.80	1.3	1.8	3.4	0.7	6.1
May-14	2.1	1.50	1.0	2.5	3.7	0.5	6.6
Jun-14	2.1	1.90	0.9	2.3	3.6	0.5	6.6
Jul-14	2.0	1.60	0.8	2.3	3.4	0.4	6.3
Aug-14	1.7	1.50	0.8	2.0	3.3	0.4	6.4
Sep-14	1.7	1.20	0.8	1.6	3.2	0.3	5.9
Oct-14	1.7	1.30	0.8	1.6	2.9	0.4	5.9
Nov-14	1.3	1.00	0.6	1.4	-	0.3	5.8

Table 3: South African and International stock exchanges

	USA Dow Jones	UK FTSE100	Germany DAX	France CAC 40	Japan Nikkei 25	China Shanghai	Australia ASX200	SA JSE ALSI
2013/09/30	15129.67	6462.22	8594.40	4143.44	14445.88	2174.66	5217.70	44031.83
2013/10/31	15545.56	6713.43	9033.92	4299.89	14327.94	2141.61	5425.50	45517.56
2013/11/29	16086.41	6774.73	9405.30	4295.21	15661.87	2220.5	5320.05	44975.67
2013/12/31	16576.66	6650.57	9552.16	4295.95	16291.31	2115.98	5352.21	46256.23
2014/01/31	15698.85	6510.44	9306.48	4165.72	14914.31	2033.08	5190.00	45132.10
2014/02/28	16321.71	6809.70	9692.08	4408.08	14841.07	2056.30	5404.82	47328.92
2014/03/31	16457.66	6598.37	9555.10	4391.05	14827.83	2033.30	5394.83	47770.92
2014/04/30	16581.00	6780.12	9603.23	4487.39	14304.11	2026.36	5489.07	48870.10
2014/05/30	16717.17	6884.51	9943.27	4519.57	14632.38	2039.21	5492.55	49632.70
2014/06/30	16 826.60	6 743.93	9833.07	4422.84	15 162.10	2165.12	5395.75	50 945.26
2014/07/31	16563.30	6730.11	9407.48	4246.14	15620.77	2350.25	5632.91	51396.07
2014/08/29	17098.45	6819.75	9470.17	4381.04	15429.59	2338.39	5625.90	50959.02
2014/09/30	17042.90	6622.72	9474.30	4416.24	16173.52	2450.99	5292.81	49336.31
2014/10/31	17390.52	6546.47	9326.87	4233.29	16413.76	2420.18	5526.60	49722.88
2014/11/28	17828.24	6722.62	9980.85	4390.18	17459.85	2682.84	5313.00	49911.37
2014/12/31	17823.07	6566.09	9805.55	4272.75	17450.77	3234.68	5388.60	49770.60

Table 4: Commodity prices

	Gold / South African Rand	Platinum / South African Rand	Oil / South African Rand	Gold / US $	Platinum / US $	Oil / US $
2013/10/31	13610.47	14241.35	1081.86	1352.80	1415.50	107.53
2013/11/29	12744.96	13858.30	1129.30	1253.50	1363.00	111.07
2013/12/31	12589.60	14334.12	1126.89	1205.90	1373.00	107.94
2014/01/31	13845.97	15326.94	1203.02	1244.85	1378.00	108.16
2014/02/28	14274.78	15557.22	1172.49	1326.80	1446.00	108.98
2014/03/31	13536.93	14952.29	1116.42	1284.68	1419.00	105.95
2014/04/30	13596.85	14994.21	1148.19	1292.20	1425.00	109.12
2014/05/31	13226.93	15346.71	1156.79	1251.01	1451.50	109.41
2014/06/30	14107.50	15806.81	1203.21	1327.14	1487.00	113.19
2014/07/31	13733.07	15647.92	1132.02	1282.66	1461.50	105.73
2014/08/31	13734.51	15195.85	1078.70	1287.51	1424.50	101.12
2014/09/30	13629.43	14580.67	1079.50	1207.71	1292.00	95.70
2014/10/31	12947.68	13589.62	948.99	1172.85	1231.00	85.96
2014/11/28	12913.38	13294.00	767.56	1167.10	1201.5	69.40
2014/12/31	13831.94	14003.40	649.54	1195.50	1210.32	56.14

Table 5: Currencies

	SA Rand/US $	SA Rand/GB Pound	SA Rand/Euro	JP Yen/US$	US$/Euro
2013/01/31	8.96	14.21	12.19	91.73	1.3600
2013/02/28	9.03	13.69	11.79	92.62	1.3058
2013/03/28	9.23	14.04	11.84	94.15	1.2800
2013/04/30	8.98	13.95	11.82	97.27	1.3170
2013/05/31	10.03	15.27	13.12	100.49	1.3040
2013/06/28	9.88	15.03	13.08	99.15	1.3010
2013/07/31	9.80	14.94	13.01	98.08	1.3264
2013/08/31	10.28	15.94	13.59	98.19	1.3223
2013/09/30	10.05	16.24	13.60	98.32	1.3483
2013/10/31	10.06	16.15	13.67	98.34	1.3584
2013/11/29	10.17	16.66	13.83	102.41	1.3593
2013/12/31	10.44	17.38	14.43	105.32	1.3743
2014/01/31	11.12	18.28	15.00	102.03	1.3488
2014/02/28	10.76	18.01	14.85	101.81	1.3801
2014/03/31	10.54	17.56	14.51	103.24	1.3775
2014/04/30	10.52	17.76	14.59	102.22	1.3869
2014/05/30	10.57	17.72	14.41	101.79	1.3632
2014/06/30	10.63	18.17	14.55	101.33	1.3700
2014/07/31	10.71	18.08	14.34	102.78	1.3389
2014/08/31	10.67	17.71	14.01	104.09	1.3134
2014/09/11	11.00	17.84	14.01	106.00	1.2633
2014/10/31	11.04	17.65	13.83	112.33	1.2527
2014/11/28	11.06	17.31	13.80	118.65	1.2471
2014/12/31	11.57	17.98	14.03	119.54	1.2133