

Macro-Economic Newsletter

July 2016



Growth

Brazil

After Brazil's first quarter 2016 GDP surprised on the upside with a contraction of 0.3% quarter-on-quarter (from -1.6% and -1.3% in the third and fourth quarters of 2015 respectively) Brazil's economy contracted more than anticipated in May as Brazil contends with the worst recession in many years. The Brazil Central Bank stated that the economic activity index (proxy for GDP), declined by 0.5% in May from April's 0.07% increase. This reinforces analysts' views that GDP will perform worse in Q2 than in the previous quarter. However, the second half of 2016 is expected to see improvement due to better consumer and business sentiment as a result of the change in government in May 2016 and appreciation of the currency since the start of the year.

Bloomberg 14 July 2016; NKC 14 July 2016

Chile

Chile has cut its forecast growth for the year from 2% in March to a current growth forecast of 1.75%. The unemployment rate is at a five year high. Debt is likely to be funded through sovereign wealth fund resources.

Bloomberg 11th July

Mexico

Whilst GDP in Q1 2016 was up 0.8% on previous quarter owing to more robust industrial activity. Q2 forecasts are not looking so promising with monetary and fiscal policy tightening as a result of the market volatility post Brexit.

Reuters 29th April/ Oxford Economics 5th July

South Africa

The South African economy grew 1.3% in 2015 down from 1.6% in 2014. GDP growth turned negative in the first quarter of 2016 by 0.2% year-on-year and by 1.2% quarter-on-quarter. The economy is struggling with the impact of 2015's severe drought and a slump in the mining sector.

EIU

South East Asia

Positive news from manufacturing and services has helped Singapore grow GDP at a faster rate in Q2, growing by 2.2% year on year, rising from 2.1% in Q1. There are concerns that this growth rate will not be sustained owing to the vulnerability of Singapore to external economic pressures. In Indonesia, growth is expected to be between 4.9% and 5% in Q2 2016 from 4.92% in Q1. Growth in Indonesia in particular is slowing down through lack of improvement in household consumption spending.

Economies 11th July, FT 13th July

China

GDP growth in Q2 was unchanged at 6.7%. The latest figure, beating forecasts of 6.6% was due primarily to focused and intense government stimulus measures that heightened demand for factory output as well as an ongoing healthy property market. Factory gate deflation eased for the sixth month in a row in June and exports declined less than analysts forecast.

FT 15th July, Bloomberg 15th July

India

Indian credit ratings agency, Crisil predicts a GDP growth of 7.9% for 2016-17. This will be achieved by a prudent fiscal policy and ramping up infrastructure investment. The approach being taken is to focus on "quality" in determining what is being spent and also in repairing the existing financial system.

Times of India 11th July

Tunisia

Tunisia's economy grew by only 1% year-on-year in the first quarter of 2016 due to contractions in the agriculture and energy sectors. In addition, fear over terrorism continues to hamper the economy and the expectation is that economic growth will slow further over the remainder of 2016.

EIU

Egypt

Egypt's GDP is showing signs of recovery, rising from 2.2% in fiscal year 2013/2014 to 4.2% in fiscal year 2014/2015. Signs of recovery have been ascribed by the Ministry of Finance to implementation of new national projects, including the development of Suez Canal area and road networks. However, the tourism sector is still facing challenges, which has negatively impacted GDP growth and Egypt's foreign currency revenues.

Daily News Egypt 2 July 2016

Kenya

Kenya recorded the highest first quarter economic growth in five years, due to good weather, improved security, continuing investment in public infrastructure and a rebound of the tourism sector. The economy expanded by 5.9% in the first three months of 2016, compared to 5% over the same period last year. The expansion is attributed to expansion in all sectors of the economy.

Reuters 30 June 2016

Nigeria

GDP growth for 2016 is expected to be 0.4%, following a slowdown from 6.3% in 2014 to 2.7% in 2015 due to lower oil prices. There is a very real concern that Nigeria will experience a recession (defined as two consecutive quarters of negative growth) as the economy contracted by 0.36% year-on-year in the first quarter and that the second quarter is likely to record very low or negative growth. However, the last two quarters are expected to see some improvement due to the end of the currency peg and marginally higher oil production as negotiations continue with the militants in the Delta region.

NKC; EIU July 2016



Source: EIU & Oxford Economics (for Indonesia)

Inflation

Brazil

Brazil's annual rate of inflation fell in June to the lowest in a year as transport costs receded. Consumer prices as measured by the benchmark IPCA index rose 8.8% year-on-year in June, the lowest rate since May 2015 and down from an increase of 9.3% the previous month. Food prices slowed in June after rising more than expected in recent months but were still the leading driver of inflation in Brazil.

Reuters

Chile

Inflation for June came in above expectations, rising 0.4% in June, compared to 0.2% in May putting annual inflation at 4.2%, slightly over target range. Transport was the highest contributor to inflationary rise. Clothing, footwear and telecommunications saw a decrease.

Business News 8th July

Mexico

Inflation increased 2.54% from a year earlier, slightly lower than the 2.60% reported in May. There is a concern over the weakness of the Peso and how this will increase the costs of imports and thus push up the prices of consumer items and ultimately inflation.

Bloomberg 7th July

China

China's CPI growth slowed in June, to 1.9% year on year, compared to 2% in May. This is likely to be reversed in the coming months as flooding in the southern provinces has disrupted food supplies, particularly vegetables and other staples.

FT 11th July

India

Retail inflation rose marginally to 5.77% in June as a result of higher food prices. This is above the rate RBI had set for next March of 5% and makes it unlikely that there will be further interest rates cuts in the short term.

Barrons Asia 12th July

Egypt

In June, Egypt's annual core inflation climbed to the highest level in seven years as the country struggles with a foreign currency crisis. Annual core inflation, which excludes volatile items such as food, increased 12.4% in June, up from 12.2% percent in May and the highest since February 2009. Headline inflation increased to 13.97% from 12.3% in May. Food and beverage prices climbed 33.6% year-on-year, reflecting the usual increases during the month of Ramadan.

Bloomberg

Tunisia

In Tunisia, inflation rose for a third consecutive month, to 3.9% in June 2016. The increase was due to the acceleration in food and beverage prices from 2.9% in May to 3.7% year-on-year in June. In addition, housing and household energy prices also increased from 4.8% to 7%, as a direct impact of regulation of drinking water and sanitation prices.

Zawya 7 July 2016

Kenya

In Kenya, June marked the first increase in inflation following five consecutive months of disinflation. Inflation rose by 5.8% year-on-year in June after a 5% year-on-year increase in May. This increase was largely driven by the food and non-alcoholic beverages sector, with the latter rising by 8.9% year-in-year during the month.

Oxford Economics/ NKC

Nigeria

Year-on-year inflation rose to the highest level in six years, from 13.7% in April to 15.6% in May. Inflation is expected to increase in 2016 to an average of 14.9%, with major drivers being higher costs of electricity, transport and food.

Oxford Economics/ NKC

South Africa

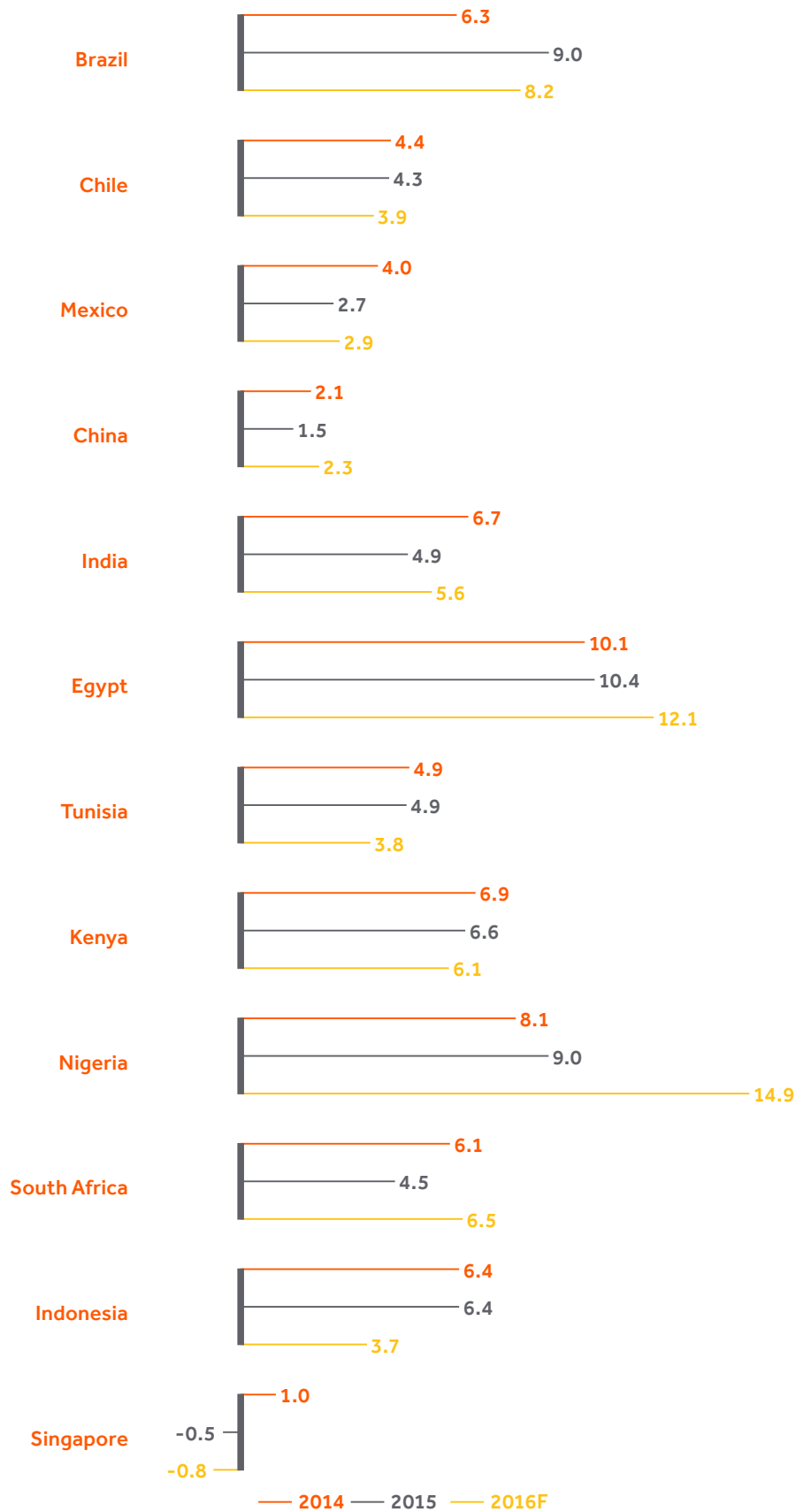
Inflation moderated for three successive months to 6.1% in May 2016, just above its 3% – 6% target range. The South African Reserve Bank kept rates on hold. Inflation is expected to stay at an average of 6% in 2016, due to currency depreciation and higher electricity tariffs.

Oxford Economics/ NKC

South East Asia

Singapore Inflation fell 1.6% in May following a 0.5% slide in April. Primary reasons being lower oil prices and more prudent spending on housing and car purchases. In contrast, inflation in Indonesia rose 3.45% year on year in June, primarily due to rising consumption in the summer months and the holy Islamic Ramadan month.

Business Times 23rd June, Indonesia Investments 1st July



Source: EIU & Oxford Economics (for Indonesia)

Brazil

Brazil's Senate approved the nomination of four central bank board members, who pledged to slow inflation to the official target and stand by a floating exchange rate, while allowing some space to manoeuvre the Brazil real. The new board comes at a time when the real is showing recovery with a rally of some 20% since the start of 2016.

Bloomberg 5 July 2016

Chile

Along with the Brazil real, the Peso has been the region's best performing currency in the last couple of weeks, post Brexit. The Peso is up 6.3% this year, the recent surge proof of the lack of close trade ties with the UK.

Bloomberg 8th July

Mexico

Peso has fallen the most of any currency in the world post Brexit, dropping 2.9% since the referendum. In an attempt to improve sentiment, the central bank has raised its benchmark interest rate by half a percentage point, greater than forecast.

Bloomberg 5th July

China

Positive news on the economy has strengthened the Yuan rising on 15th July to 6.6837 per dollar with no great incentive by authorities to lower or depreciate Yuan value.

Bloomberg 15th July

India

Rupee has risen along with stock exchange over the last 2 weeks owing to good economic news coming out of the USA and also above average monsoon rains. Currency appreciated 0.4% to 67.1350 a dollar. This has reduced its loss this year to 1.5%.

Bloomberg 11th July

Egypt

The governor of the Central Bank of Egypt has indicated that there may be a shift to a flexible, market-based, exchange-rate system. This may indicate that a further devaluation of the Egyptian pound (EGP) may be under consideration. The most recent balance of payments data indicates continued pressure on the supply of foreign exchange. The black market exchange rate is currently above EGP11 to the USD, compared with an official rate of below EGP9 to the USD. The EGP is 11.8% lower since the start of 2016.

EIU

Tunisia

The Tunisian dinar (TND), fell to record lows against the euro and the US dollar. Main causes of faster depreciation are the weakness of economic growth and growing imbalances on the external account. The TND has depreciated 7.4% since the start of 2016.

EIU; Bloomberg

Kenya

The Kenyan shilling (KES) has appreciated 1.1% since the beginning of 2016.

Bloomberg

Nigeria

The Central Bank of Nigeria announced that from 20 June, it would allow a market-driven interbank foreign-exchange trading regime. The Nigerian naira (NGN) devalued substantially from NGN197 to NGN282 to the USD by the second day of trading under the new regime. The floating of the NGN is expected to ease the acute shortage of hard currencies. The NGN has depreciated by 29% since the beginning of 2016.

EIU; Bloomberg

South Africa

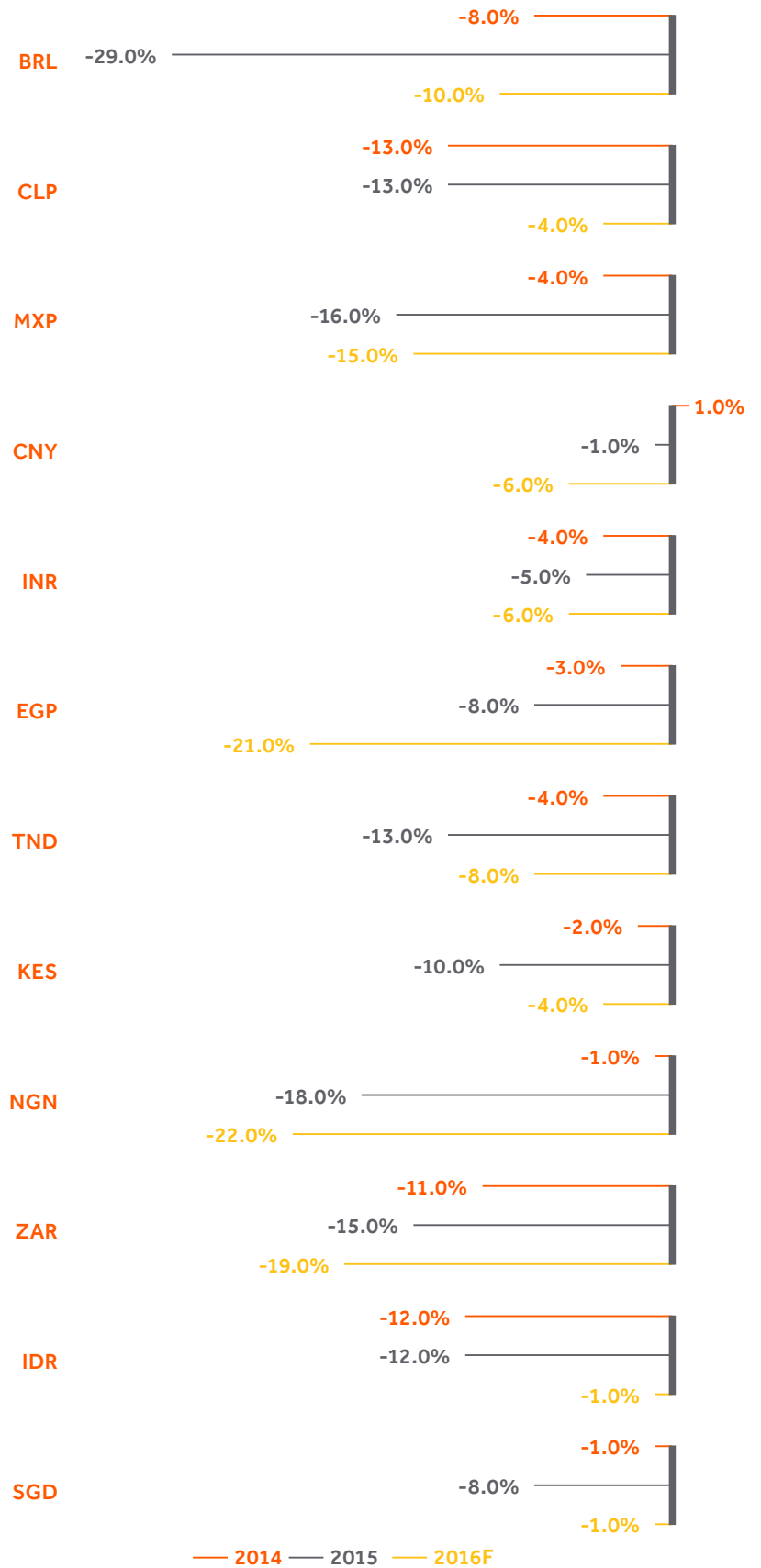
South Africa retained investment grade ratings after concern that Standard & Poor's would downgrade the country by one notch putting South Africa into sub-investment territory with the South African rand (ZAR) reacting positively to this decision. Despite short-term volatility post the Brexit vote, the ZAR quickly recovered ground again. The currency has appreciated 15.4% since the start of 2016. However, the ZAR is expected to remain temperamental.

EIU; Bloomberg

South East Asia

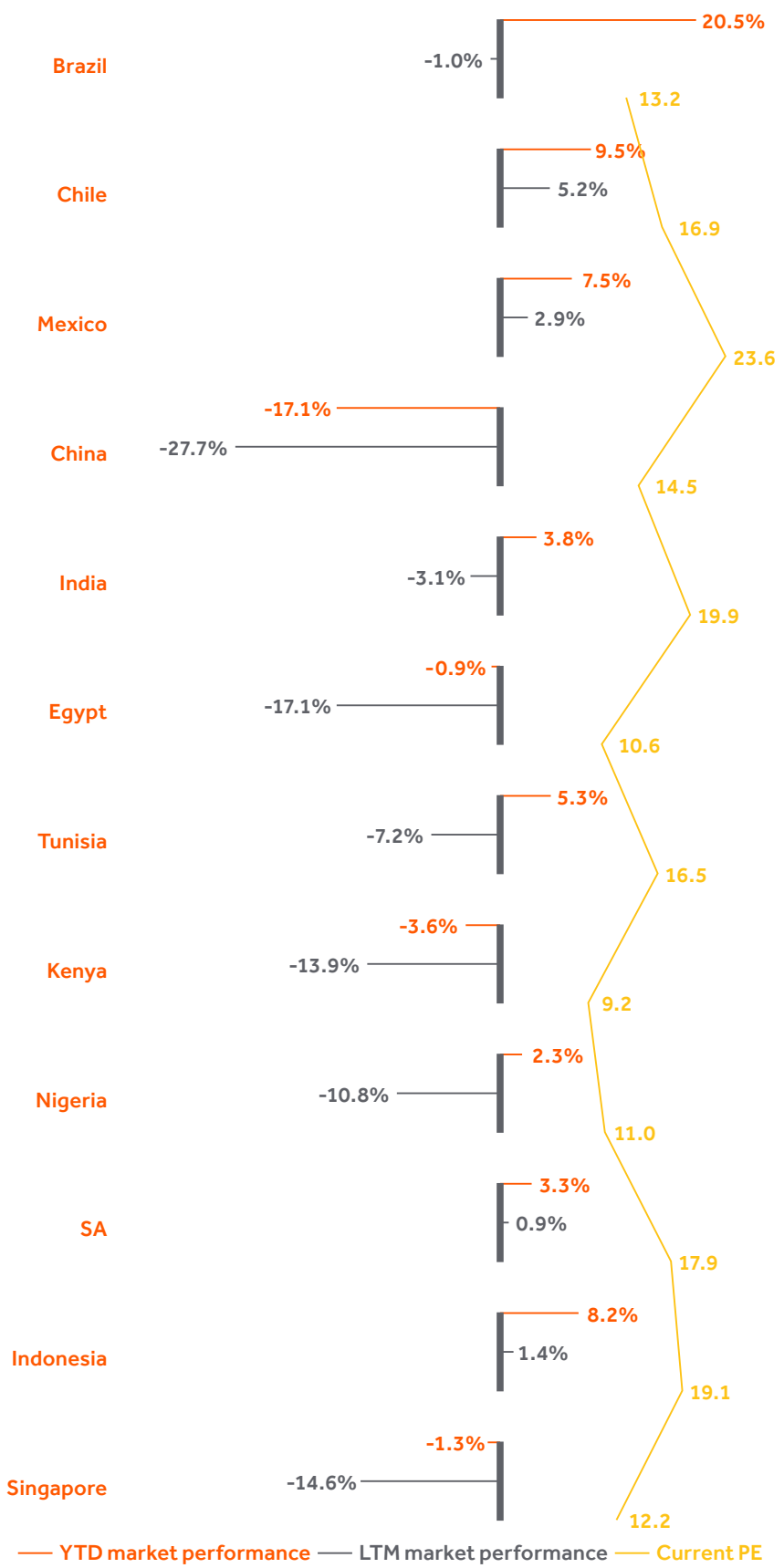
Significant buying of the Singapore dollar since Brexit has increased its strength against its main trading partner currencies with an associated risk to export. On 7th July, SGD had gained 14% against the GBP. Strong likelihood of a MAS (Monetary Authority of Singapore) easing in October.

Straits Times 8th July



Source: EIU & Oxford Economics (for Indonesia)

Market Performance



Source: Bloomberg

