

Macro-Economic Newsletter

September 2016



Growth

Brazil

Brazil's economy suffered its sixth consecutive decline in Q2 '16, with GDP down by 0.6% compared to the previous quarter. This contraction was due to another large decline in consumer spending. GDP contracted 2.3% q-o-q compared to market expectations of a 2% contraction. Even though the economy is showing some promising early green shoots, conditions remain challenging with high inflation, high unemployment and high interest rates.

Rio Times 31 Aug '16; Econotimes 2 Sep '16

Chile

Gross Domestic Product slowed in Q2 2016 to 1.5% from 1.9% in Q1. Slowdown is primarily due to a contraction in the mining sector owing to declining copper prices. Chile is the world's largest producer of copper. Chile is hopeful for future economic growth as it is expected that recent energy auctions will cut electricity prices by 20% and will add 2.5% to economic growth, owing to productivity increases through lower energy costs.

Wall Street Journal, 18th Aug

Mexico

A slight contraction in GDP for Q2, down 0.2% from previous quarter but up 2.5% over the year. The drop was due primarily to slowing industrial production. Figures were better than expected and analysts expect a pick up in the 2nd half of the year.

Wall Street Journal 22nd Aug

China

Economic growth was very strong in August with industrial production showing 6.3% annual growth, the fastest since March. Stimulus measures introduced earlier in the year have been successful and it is expected that China will meet its GDP target of 6.5% to 7% for full year.

FT 13th Sept

India

GDP growth slowed in the 2nd quarter to 7.1%, down from 7.9% in Q1. In spite of this, India is still the fastest growing major economy in the world. As an oil importer, growth has been sustained by falling energy prices but with oil now at around \$50 a barrel again, the focus will be on keeping inflation in check possibly at the expense of further growth.

FT 31st Aug

Egypt

Egypt's Ministry of Planning released GDP data for the first three quarters of the 2015/16 fiscal year (Jul '15 - Mar '16). Real GDP figures show a stronger year-on-year growth of 4.3% at market prices, but a substantially weaker rate of 2.3% growth at factor cost (which excludes indirect taxation but includes the effects of government subsidies).

EIU 30 Aug '16

Tunisia

Tunisia's economic growth rate was up by 1.4% in Q2 '16, in comparison to the same period last year and 1.2% in the first half of 2016. The uptick is due to a strong improvement in the manufacturing sector. However, GDP growth will not see a marked improvement until there is an increase in EU demand for Tunisian exports as well as a recovery in the tourism sector.

Zawya 17 Aug '16; EIU 16 Aug '16

Kenya

Kenya's economy showed continuing momentum earlier in 2016, with the most recently released GDP number for Q1 '16 at 5.9%. This strong growth figure reflects solid growth across many sectors including recovery in the tourism sector. However, there are concerns around the impact of Kenya's expansionary budget with expenditure set to increase by 23%.

Oxford Economics 20 Aug '16

Nigeria

Nigeria's GDP contracted by 2.06% in Q2 '16, sending the economy into a recession. The non-oil sector suffered a decline due to the impact of the unpegging and subsequent steep depreciation in the naira. In addition, the oil sector remains under pressure due to the continuing lower oil price.

Reuters 31 Aug '16

South Africa

South Africa's economy avoided a technical recession in Q2 after recording seasonally adjusted and annualised growth of 3.3% which surprised the market, where expectations were 2.7% growth. The country is still in the grip of a drought and recovery will be slow, in addition to low commodity prices and political uncertainty among other headwinds.

Business Day 6 Sep '16

South East Asia

GDP growth for Q3 in Singapore is likely to be subdued, down from Q2 growth of 2.2%, primarily due to a declining manufacturing output. Similarly, in Indonesia, the central bank has reduced its GDP forecast from the previous 5 to 5.4% to between 4.9 to 5.3% owing to the spending cuts put in place to keep the deficit in order.

Jakarta Globe 19th Aug, Singapore Business Review 13th Sep, EconoTimes 13th Sep



Source: EIU & Oxford Economics (for Indonesia)

Inflation

Brazil

Brazil's annual inflation grew to 8.97% in August, nearly double the central bank official target of 4.5%. The high inflation number, at a 10-year high, continues to prevent policy makers from instituting an interest rate cut.

Bloomberg Markets 9 Sep '16

Chile

Inflation fell to 3.5% in August, compared with 4% in July, putting inflation within the 2-4% target range and meaning that inflation is now below the benchmark interest rate, raising the possibility of an interest rate cut by year end.

Bloomberg 8th Sep

Mexico

Inflation rose in August to 2.73% over 12 months, driven by energy prices, particularly higher gasoline costs but also university fees. This was also a slight rise on the 2.65% inflation in July. Inflation rates are still below the central bank targeted inflation rate of 3% so interest rates are likely to continue to be held steady.

Reuters 8th Sep

China

China's falling inflation rate is further evidence of a stronger economy. The consumer price index rose 1.3% in August compared to 1.8% in July. Primary reason was slowing food prices as the price of pork rose only 6.4% against the 16.1% increase experienced in July.

Straits Times 10th Sep

India

Inflation is currently at a five month low helped to an extent by smaller food price rises, particularly in the price of pulses, a staple food commodity. The August rate of 5.05% is within the acceptance level of the central bank and raises hopes of an imminent interest rate cut.

Reuters 13th Sep

Egypt

Egypt's inflation rate is at a seven year high, rising to 15.5% in August. The deterioration has been driven by the weakening of the Egyptian pound and rise in electricity prices. Food and beverage prices in particular saw a large increase compared to the previous year. The rising inflation rate comes at a time when Egypt is in the midst of finalising an IMF loan with economic reforms the government has promised to implement, including cuts in spending.

Bloomberg Markets 8 Sep '16

Tunisia

Inflation returned to its gradual upward trajectory in August. The CPI printed 3.8% y-o-y in August, compared to 3.7% y-o-y in July. Growth in the sub-index for food & non-alcoholic beverages (with the largest weight of 28.1% of the overall CPI basket) surprised with a decline of 0.2% to 3.6% y-o-y in August.

NKC 9 Sep '16

Kenya

The inflation rate dropped to 6.26% in August from 6.39% in July on the back of a drop in food & non-alcoholic beverage prices, mitigating increases in fuel prices.

Business Daily 31 Aug '16

Nigeria

Nigeria's inflation rate rose to 17.6% in August from 17.1% in July, the highest seen in 11 years. Currency depreciation has had a severe impact with the economy in recession. The outlook for inflation is not positive.

Bloomberg 16 Sep '16

South Africa

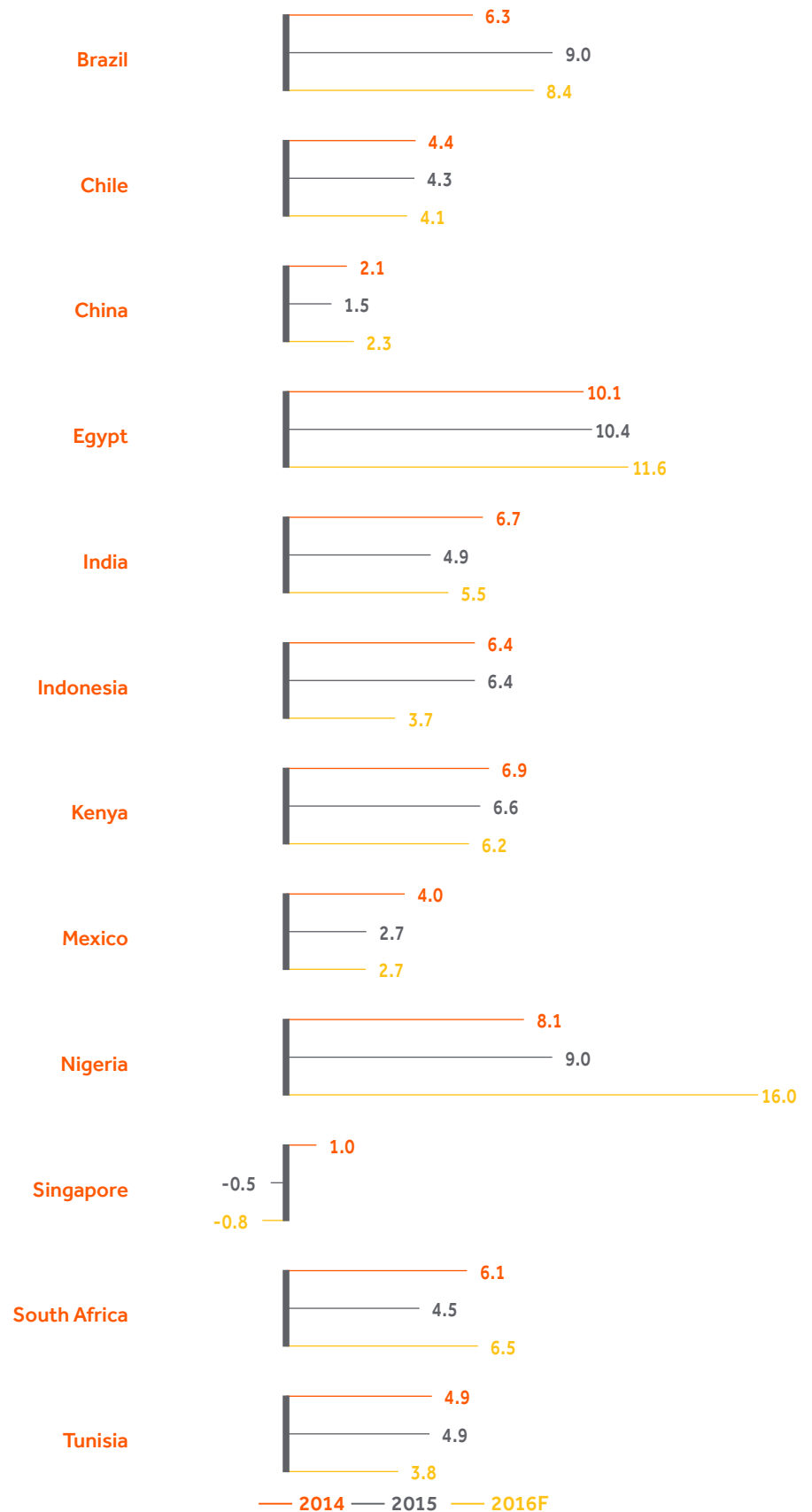
The inflation rate slowed in July to its lowest level this year, to 6% from 6.3% the month before. This positive sign bolsters the case for authorities to end the interest-rate hiking cycle.

Bloomberg 24 Aug '16

South East Asia

Singapore saw negative inflation for the 21st straight month in July owing to the effect of cheaper cars and lower energy bills. However, core inflation, not including accommodation and private road transport costs increased by 1%. Indonesian inflation also slowed to 2.79%, the weakest in 7 years, falling below the central bank target thus making the case for further interest rate cuts.

Straits Times 23rd Aug & 2nd Sep



Source: EIU & Oxford Economics (for Indonesia)

Brazil

Recent events have provided modest tailwinds to political and economic stability reflecting the rally the BRL has enjoyed. However, positive sentiment in the wake of Dilma Rousseff's formal impeachment on 31 August could make way for concerns over Brazil's tenuous fiscal position. The Brazil real is currently steady and trading at BRL3.25 to the US\$.

BMI 6 Sep '16; Bloomberg 8 Sep '16

Chile

The fall in copper prices correlates directly with the poor performance of the Chilean Peso. Traders are pricing in the likely impact of an interest rate cut later this year as the economy cools. The Peso is currently trading at a weaker 678.21 to US\$.

Bloomberg 22nd Aug

Mexico

Peso is extremely volatile at present with movements of currency correlating with speculations of a Trump electoral victory in USA. The Peso has weakened by 10% this year throughout this process. Announcements on a potential wall between USA and Mexico and a renegotiation of the terms of the North Atlantic Free Trade Agreement have both impacted on Peso performance.

Wall Street Journal 12th Sep

China

The Yuan is currently a very stable currency, trading at 6.6792 to the US\$ on Sep 13th, reflecting plans for its official inclusion in the Special Drawing Rights basket of the International Monetary Fund next month (October).

South China Morning Post 13th Sep

India

With solid economic growth, the Rupee is a stable currency trading at 66.86 to the US\$ and estimates suggest that the currency will continue to strengthen against the dollar.

The Hindu 12th Sep

Egypt

The EGP is trading at an almost record low in the parallel market. With reserves to cover only three months of imports in addition to a widening current account deficit, the pressure is increasing to devalue the currency to help alleviate a US\$ shortage which prompted the government to seek assistance from the IMF. Plans are afoot to bring Egypt's currency woes to an end within a short time frame, as part of its plan to implement economic reforms, this according to quotes by President al Sisi published in the press. The currency is currently trading at 8.89 to the US\$.

Bloomberg 23 Aug '16

Tunisia

The Tunisian dinar has lost further ground against the Euro although the currency gained against the US\$. Political uncertainty and Tunisia's weak external position still remain as risks. The TND is trading at 2.21 to the US\$.

EIU; African Manager 19 Aug '16

Kenya

The Kenyan shilling has remained stable in 2016 and is trading at 101.15 to the US\$.

Nigeria

The Nigerian naira has lost a third of its value since removing its peg to the US\$ in June, with it experiencing extreme volatility. It is now trading at NGN315.15 to the US\$. The dollar is still selling at a significant premium in the parallel market and liquidity has not improved substantially. The hope is that as oil prices strengthen in 2017/ 2018 this will prop up reserves and will decrease the pace of depreciation.

Business Day 1 Sep '16; EIU 24 Aug '16

South Africa

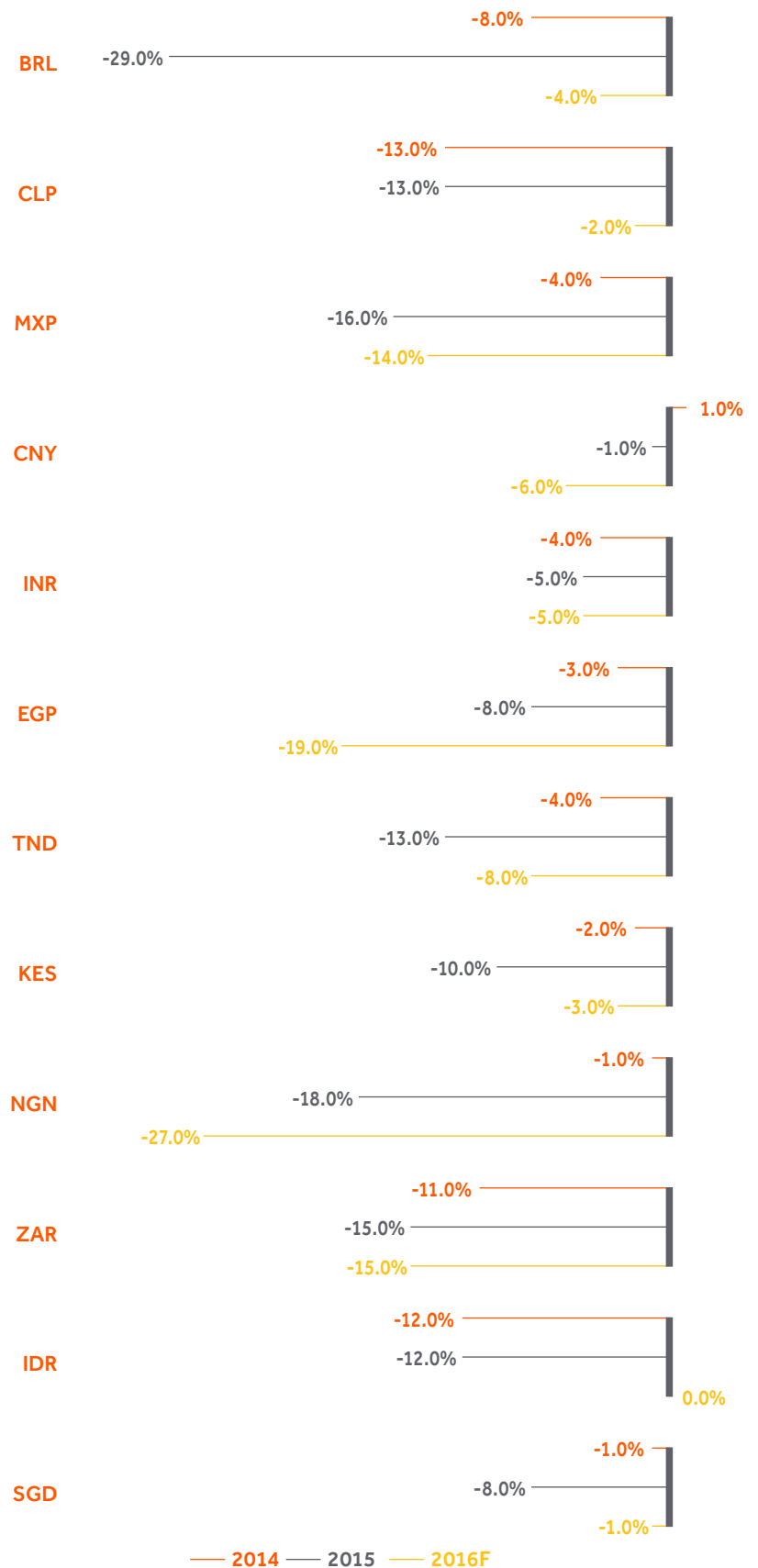
The SA rand (ZAR) made gains after the ANC lost ground in the recent municipal elections, however, these gains were lost when threats of arrest of the finance minister resurfaced in August. The ZAR will remain vulnerable to political and other market events. Talk of a ratings downgrade in December is the next imminent headwind to SA and its currency. The recent ratings downgrades of several state owned enterprises do not auger well for the country's sovereign rating. The ZAR is trading at 14.40 to the US\$.

Business Day; 702 16 Sep '16

South East Asia

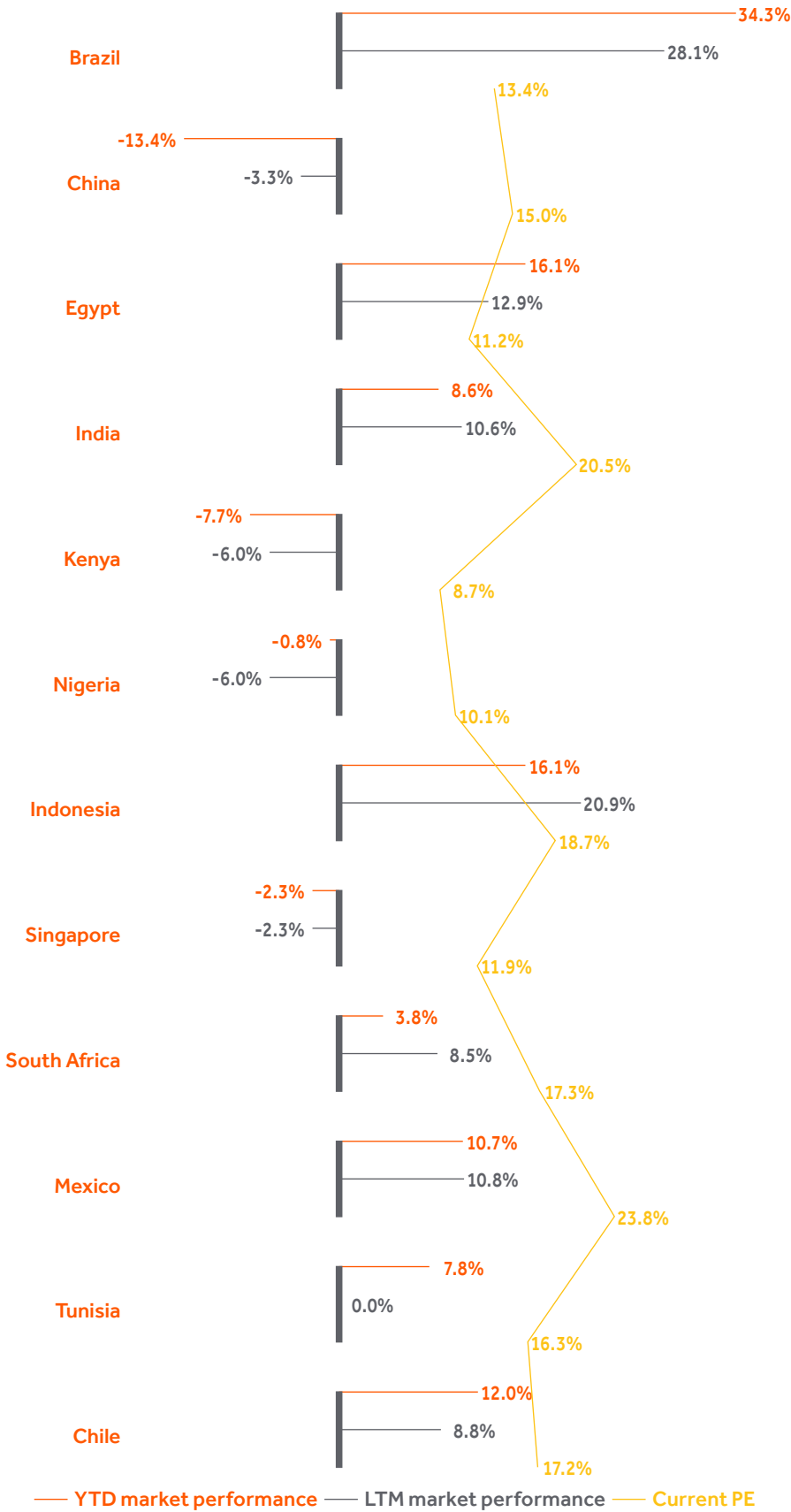
The Singapore dollar is expected to gain strength with the forecast for end of year being 1.38 SGD to US\$, compared with a June forecast of 1.40. Indonesia's central bank will keep the rupiah at the level best determined to support exports. The bank expects the rupiah to be between an average of 13,200-13,500 in 2017. Rupiah is currently at 13,175 (15th Sep).

CNBC 7th Sep, Jakarta Globe 13th Sep



Source: EIU & Oxford Economics (for Indonesia)

Market Performance



Source:Bloomberg

