MARKET COMMENTARY

The month of August saw Chinese markets plummet to -12.03%, despite government efforts to stabilise the situation. This was largely due to raised investor concerns over larger companies exiting China, following the stock rout, and ultimately slowing economic growth. Global markets felt the ripple effects of the events in China, with German and U.S markets sinking to -9.28% and -6.56% respectively. Locally, the JSE followed suit, closing at -5.32%, with the Rand tumbling to a record low as the slowing Chinese economy threatened commodity prices. The Brazilian market however, closed firmer at 0.07% due to gains in the Basic Materials, Real Estate and Financial sectors, at the tail-end of the month.

PWM ADVISORS

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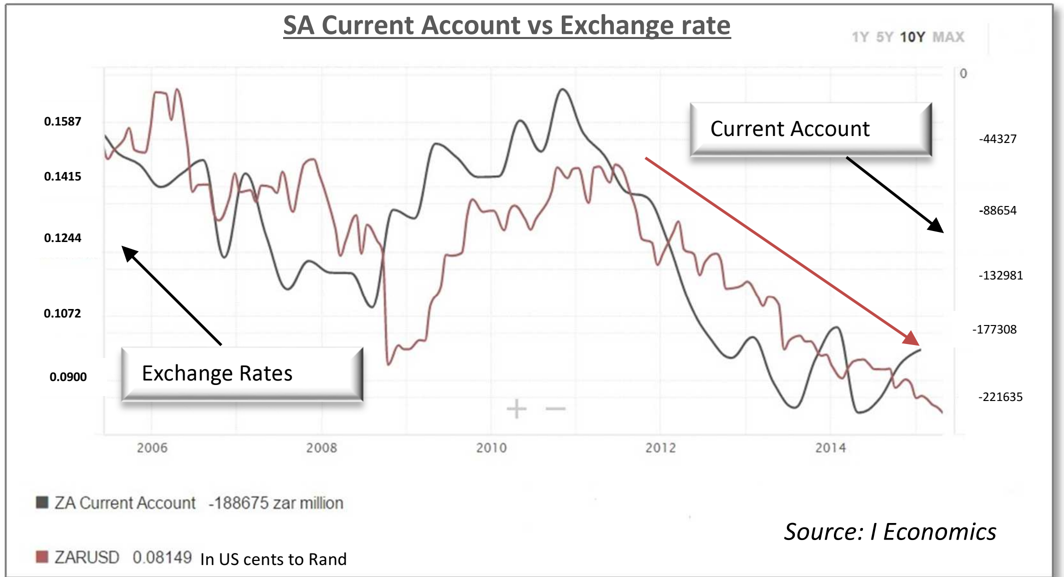
YEAR TO DATE: 31 AUGUST 2015

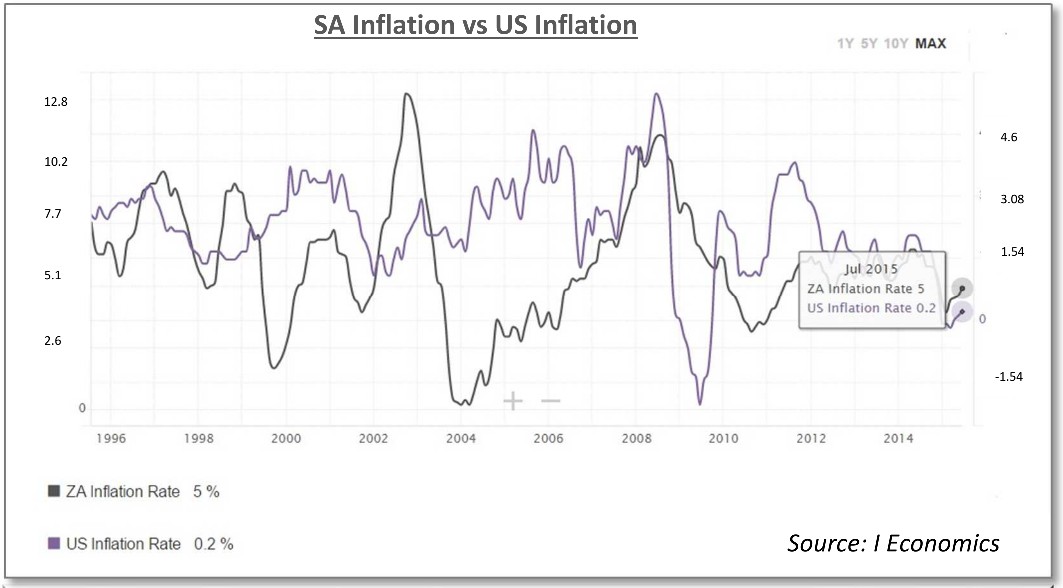
SA	• 2.41%	CASH	• 2.75%
PROPERTY	• 12.34%	BONDS	• 4.31%
INDIA	• -4.42%	RUSSIA	• 24.30%
CHINA	• -8.20%	BRAZIL	•-3.89%
INDONESIA	•-13.72%	GERMANY	•4.63%
LONDON	• -0.13%	USA	•-7.27%

WHERE TO NOW FOR THE RAND?

With recent news being dominated by the Rand's record low performance against the Dollar and other currencies, this newsletter seeks to provide clarity regarding it's performance , the factors that influence its movements, as well as how these factors will influence its the performance going forward. The illustrations below demonstrate how each factor has affected the rand's performance over the past few years.



With S.A's main export being natural resources, the recent fall in precious metal prices and low demand for commodities has resulted in the fall of S.A's trade balance and the depreciation of the Rand. The correlation between the two factors is amazing.



Inflation in South Africa has been much higher than in the US over the past the past 20 years thus, due to this inflation differential, the buying power of the dollar has increased relative to the rand.

The graph to the right demonstrates what the value of the Rand should be, based **purely** on the inflation differential alone and what the current value is, taking into account all the other ***factors*** that influence the Rand.

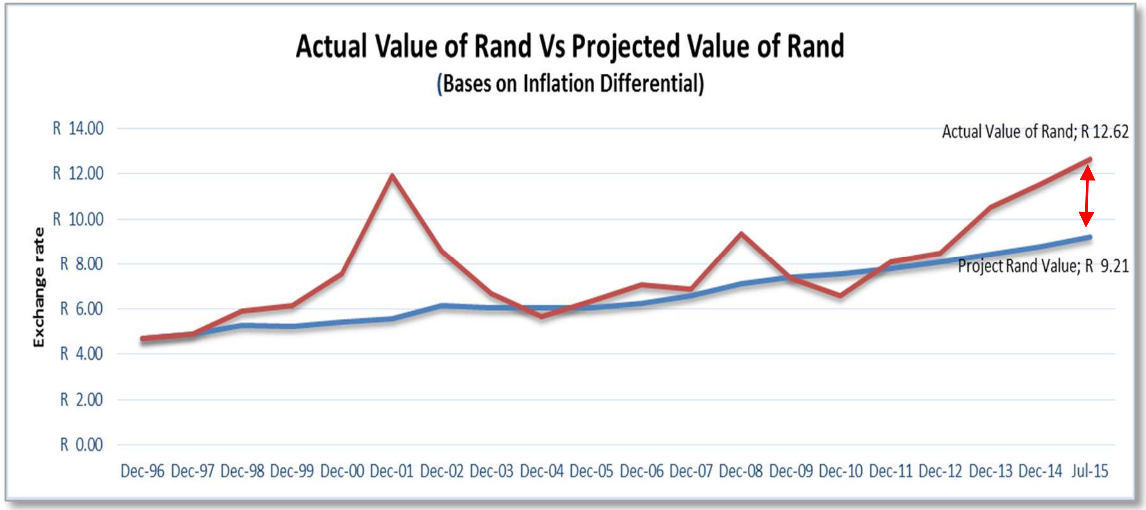
The gap depicted by the red arrow highlights the below mentioned factors which influence the performance of the Rand against the US Dollar (over and above the inflation differential):

❶ Commodity prices in a low price cycle (for a sustained period of time)

❷ **Increasing** current account deficit (due mainly to point 1 above)

❸ Emerging markets sentiment is **negative**

❹ Stronger US Dollar (due to stronger economy and imminent US rate hike)



VERDICT:

The Rand is a currency aligned to commodity prices . Its unusual strength from 2003 to 2008 was due to a strong commoidty cycle underpinned by Chinese demand. Things have changed – the Chinese economy is faltering more than expected , and the Peoples Bank of China's decision to allow the Chinese Remnimbi to depreciate came as quite a shock to world markets.

As South Africans , we should not forget that purely on inflation differentials , the Rand should be at R 10/ to US$. We believe that the Rand is currently being oversold , and is this is typical Rand behaviour as it's a very liquid currency – investors can leave as fast as they came in. We are of the opinion that the Rand will recover this oversold position , and that the NEW Normal is R 12,50 /US $. For the Rand to strengthen to R 11 to the US $ will require a substantial increase in commodity prices , causing trade deficits to get consistently smaller for a long period of time. (see correlation in Graph above). Our hope is therefore pinned on INDIA ! The million dollar question is " Will India's infrastructural expansion , fixed investments (for e.g. the building of 100 Mega cities as part of Modi' plan) be fast enough and large enough to create the next commodity supercycle ? I hope so , and when the Rand does strenghten , I will be sure to invest more offshore as the long term trend is certainly a weaker Rand.

Viren B. Garach