IMARA
INVESTING
IN AFRICA

Asset Management

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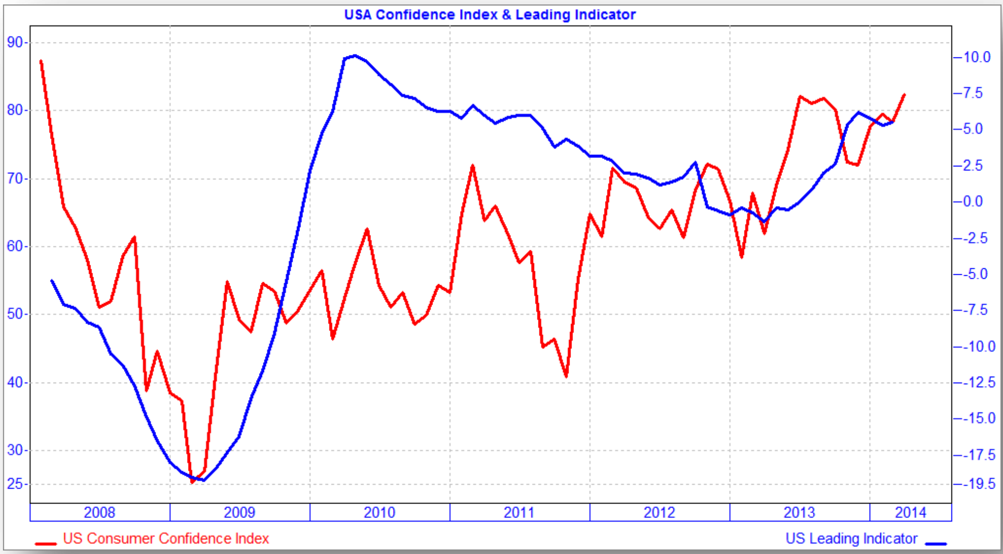
Big picture still the same

International

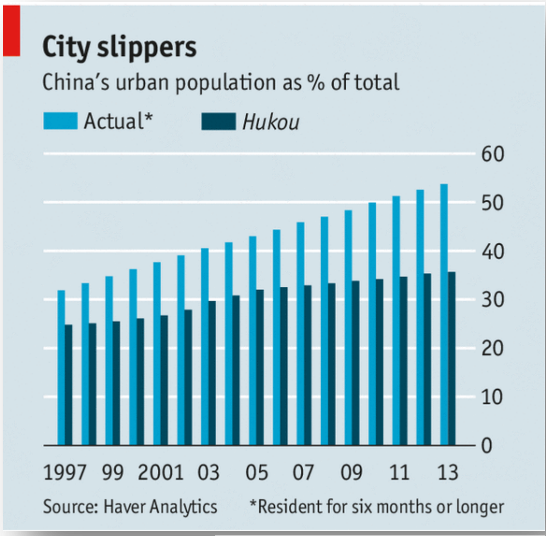
Although Global economic growth patterns remain virtually unchanged, downside risks to markets have increased in certain regions.



US economic data in general continues to indicate that the economic recovery is intact. In fact, so much so, that recent comments by Fed Chair Janet Yellen indicated that the Fed is now more hawkish on the timing of a potential rise in interest rates, or that at least was the interpretation by investment markets. Yellen, in her comments, suggested that the fed funds rate will remain at close to zero "for a considerable time" and that tapering will continue with the expectation that the end of their bond buying programme could be in about six months' time. What spooked markets was her reaction to a question by a journalist. The question was when she expected interest rates to go up, to which she answered, probably 6 months after the end of QE, which means mid-2015. Expectations were for rates to only start moving up in 2016. This was in reaction to a specific question and somewhat contradicts other comments made during the briefing. One important point made was the abolishment of the employment threshold of 6.5% (current rate 6.6%). Furthermore, she stated that any decision on interest rates will be dependent on economic data at the time.

We remain of the opinion that US interest rates will remain low for a considerable time, given that the slow economic recovery is accompanied with low inflationary expectations.

In Europe, deflation remains a real threat and it is widely anticipated that further stimulus may be enacted. According to the Financial Times, Bundesbank chairman Jens Weidman, in a marked turnaround of stance, [who has previously been hawkish on QE] said that a QE programme was not "generally out of the question". He was the only policymaker in the past that rejected any form of QE.



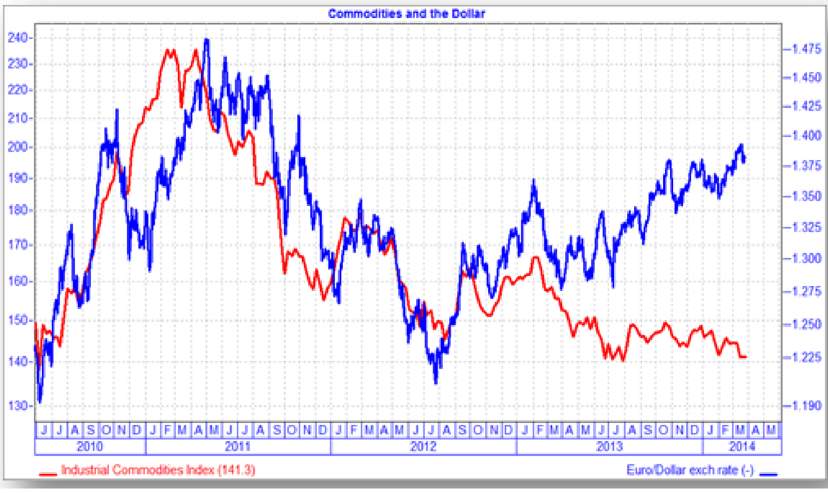
The Economist 22 March 2014

The big issue for markets, particularly commodity markets, remains China. Economic reform is gaining momentum with the aim to shift the economy to a more consumer orientated model and to liberate the banking system; seen by investors as less commodity intensive.

Currently, private consumption contributes 35% to GDP. Historic growth has been mainly driven by fixed investment which has led to excess capacity and high local government debt.

A mitigating factor for commodities is the strong trend in urbanisation and growth in the upper middleclass segment of the population. The government recently unveiled a more "people orientated" urbanisation plan which will increase the need for more serviced and permanent dwellings instead of the current explosion of informal type settlements (called Hukou migrants).We therefore expect that although fixed investment will contribute less to GDP than in the past, it will not decline meaningfully; the government seems to aim at a growth rate of 7.0% to 7.5% to accommodate the flood of rural people and to maintain social and labour stability.

The declared urbanisation target is 60% by 2020. According to Mysteel Weekly, issue 359 March 25, 2014. A bigger urbanization rate leads to expansion in fixed-asset investment and growth in demand for bulk commodities such as steel products. One of the targets in the new urbanisation plan is to grant urban residency to 100 million rural people who have moved to the cities which will give the real estate market a robust boost further supporting demand for steel and other commodities according to Mysteel Weekly.



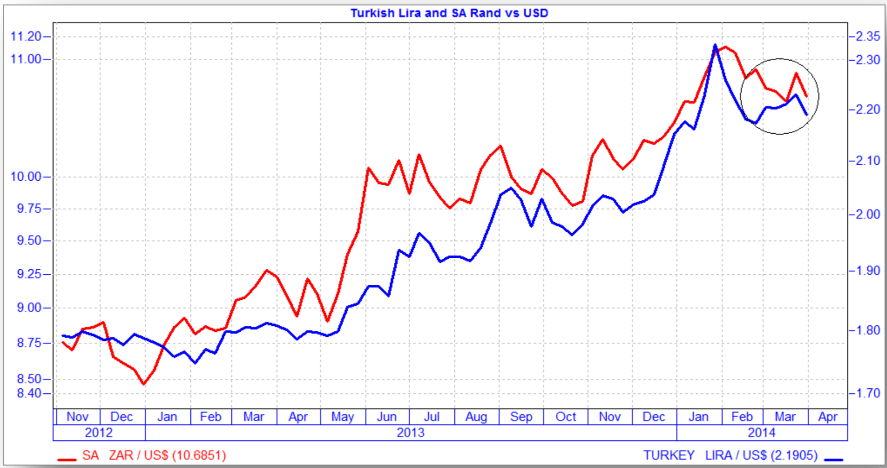
Emerging market currencies and investment markets have stabilised following a meeting by foreign ministers from Russia and Ukraine and now the US secretary of state, which suggests that the Crimean crises might be less of a threat and that tensions in the region may ease. We are keeping a close eye on developments around the crises as an escalation could derail the markets.

On the commodity front, as can be seen in the chart alongside, there has been a widening divergence between the US dollar and The Economist's Industrial Commodities Index (red line). A weakening dollar is usually bullish for commodities (blue line) and the chart is suggesting that in the short term we could see some upward movements in industrial commodities like steel. The divergence is most likely due to expectations that interest rates in the US are going to go up (read dollar strength) and concerns regarding the slowing growth in China. For reasons mentioned above we remain of the opinion that Chinese growth could surprise on the upside and that interest rates in the US will remain low for quite some time. If however rates in the US do increase sooner than expected, dollar strength will likely undermine a recovery in commodity prices.

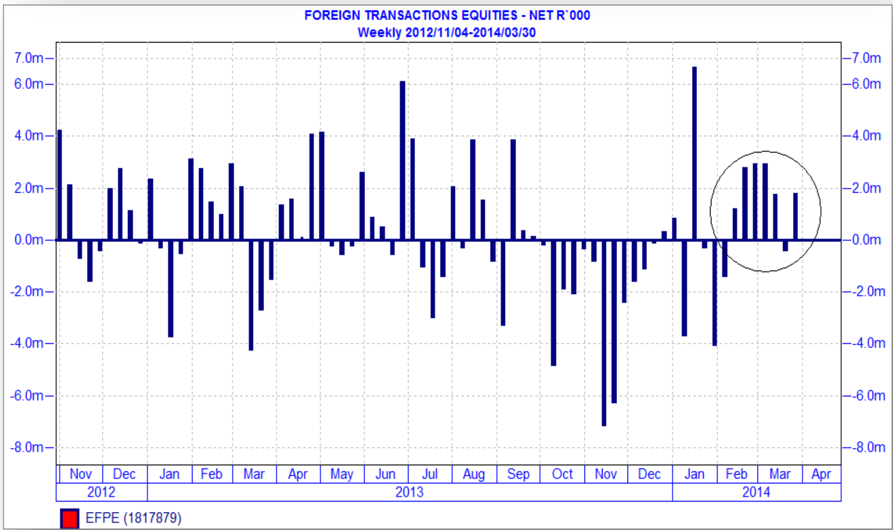
Overall, the big picture of a synchronised global economic recovery remains intact [with strains], the European recovery being the main tail end risk but we feel that authorities could provide more stimulus if the mild recovery falters.

South Africa

Our market remains volatile to international and emerging market events, specifically Chinese economic data alongside other emerging market movements. The good news is that the Rand has strengthened against the Dollar by 6% since reaching an all-time low of R11.30 at the end of February. The positive impact of the still relatively weak Rand on our trade balance could be translated to a strengthening in our currency; alleviating inflationary pressures and, therefore, the need for further interest rate hikes in the short term.



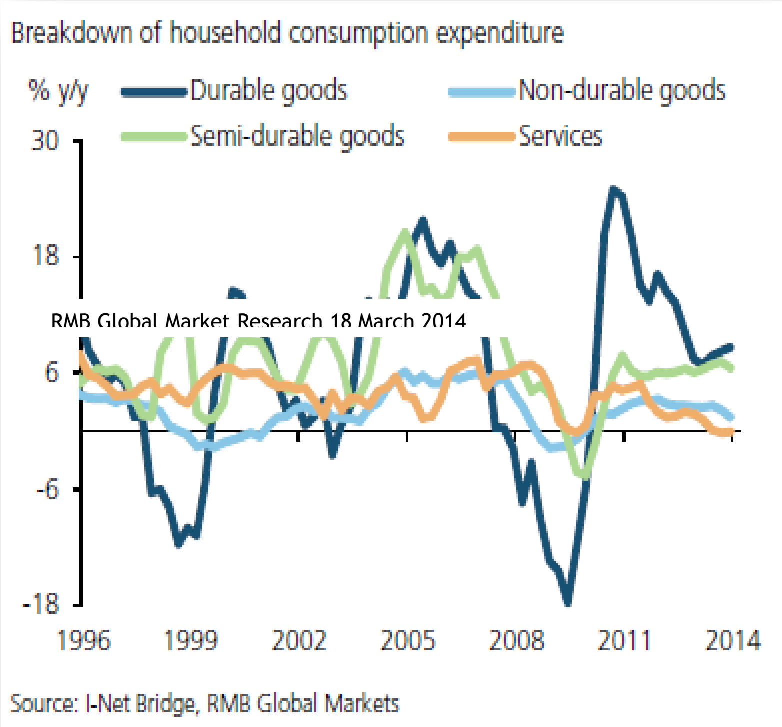
An important recent development is that the Rand has decoupled with some emerging market currencies, in particular with the Turkish Lira (weakened in end Feb but Rand strengthened after another semi crises in Turkey).



We have witnessed renewed inflows into our local equity and bond markets with foreign buying totalling some R16bn in March compared to net selling of R68bn towards the end of last year. The chart alongside indicates net foreign purchases of equities in Rand values.

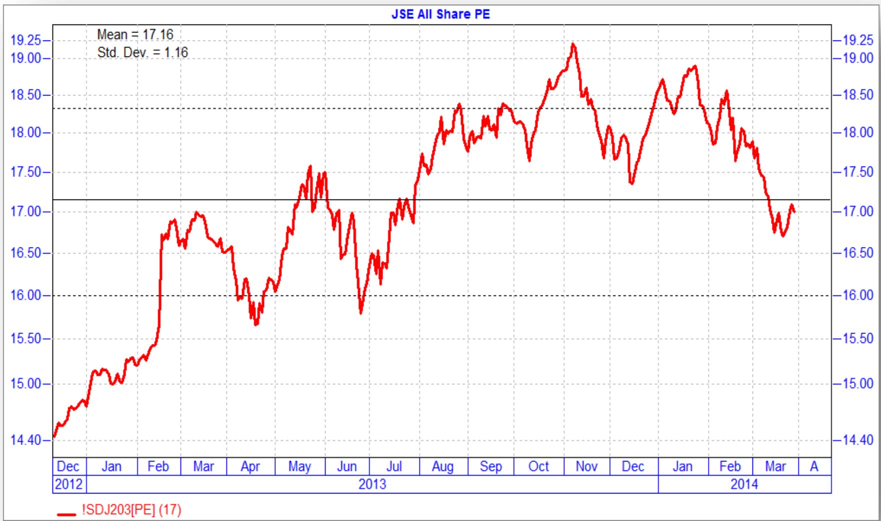
IMARA INVESTING IN AFRICA

On the local economic front, data continues to indicate that growth remains very sluggish with persistent inflationary pressures despite the recent strengthening of the currency. The 38c/l fuel increase in February (and more to come) and drought/ floods in food producing regions are the main drivers of rising inflation in this category. Demand side inflation however remains subdued due to a difficult consumer environment with debt levels elevated.



The latest SARB quarterly bulletin showed that the domestic demand side of the economy weakened in the fourth quarter 2013, slowing to 2.2% growth [2.9%] quarter on quarter. The data is consistent with a slowdown in household spending due to reduced disposable income, no job growth and loss of income due to strike action. We don't anticipate this trend to change soon, sluggish GDP growth in the 2.5-2.7% range is expected in 2014.

Inflation remains sticky due to external factors. With the Rand strengthening, poor economic growth and elections in May, it is likely that there will be no major short-term pressure on interest rates.



The JSE All Share gained 6% from February 2014 after experiencing a 5.5% decline along with other emerging markets in late January. Reported earnings numbers continue to be robust and we expect this trend to continue as the weaker Rand has yet to fully be reflected in company profits: Particularly Rand hedges.

From a valuation perspective, multiples have declined by a fair amount during the current reporting season, with the JSE All Share now trading on a historic Price Earnings Ratio (PE) of 17 xs compared to 19 xs in November 2013. We anticipate the multiple to contract further to around the 14x level over the next two quarters.

In conclusion:

- Global economic growth patterns remain virtually unchanged, although downside risks to markets have increased in certain regions.
- US economic data continues to show that the economic recovery remains intact. Recent comments by Fed Chair Janet Yellen indicated that the Fed is now more hawkish regarding the timing of a potential rise hikes.
- Despite this, we expect US interest rates to remain low for some time and inflation subdued.
- In Europe, deflation remains a real threat and it is widely anticipated that further stimulus may be needed. Bundesbank chairman Jens Weidman, who has been hawkish on QE, said that a QE programme was not "generally out of the question".
- The big issue on the economic front remains China. Economic reform is gaining momentum with the aim to shift the economy to a more consumer orientated model.
- The Chinese government recently unveiled a more "people orientated" urbanisation plan which will increase the need for more serviced and permanent dwellings instead of the current explosion of informal type settlements (called Hukou migrants). We therefore expect fixed investment to continue to play a major role in GDP growth.
- Emerging market currencies and investment markets have stabilised following a meeting by foreign ministers from Russia and Ukraine, now also the US secretary of state, suggesting a potential easing in the Crimean crises. However any escalation could threaten global markets.
- Locally, economic data continues to indicate sluggish growth with persistent inflationary pressures despite the recent strengthening of the Rand.
- Reported earnings numbers continue to be robust and we expect this trend to continue as the weaker currency has yet to fully be reflected in company profits, particularly in Rand hedges.
- From a valuation perspective, SA multiples have decline by a fair amount during the reporting season with the JSE All Share now trading on a historic Price Earnings Ratio (PE) of 17 xs compared to 19 xs in November 2013.
- We expect volatility in our market to remain a feature due to on-going local labour action and possible international events.

Sincerely

Chris Botha

Dave Eliot

STRONG IN NAME. RESOLUTE BY NATURE