Alliance Midmed Medical Scheme

Monthly Consulting Report

30 June 2018

Old Mutual Wealth TAS, No1 Mutual Place, 2nd Floor, 107 Rivonia Road, 2196
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portfolio summary

valuations

month	valuation (R)
June 2018	45,219,319
May 2018	44,613,429
March 2018	39,354,467
June 2017	37,068,705
June 2016	32,837,523
June 2015	31,165,974
June 2013	25,578,260

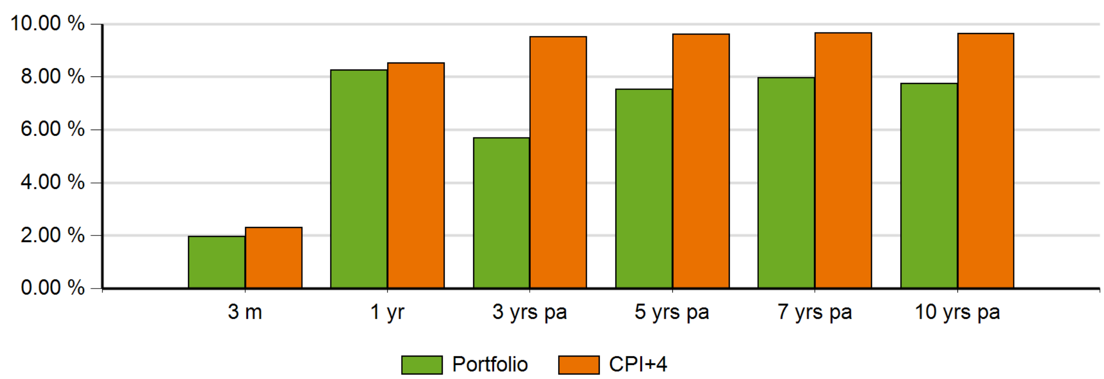
underlying investments

investment	valuation (R)
Income Fund	5,042,466
Absolute Return Fund	22,240,006
Medical Schemes Portfolio	17,936,847
total	45,219,319

transaction history

traded	fund	transaction type	value (R)
18-May-2018	STANLIB - Income Fund	purchases	5,000,000
18-Oct-2016	Prudential Portfolio Managers - Absolute Return Fund	purchases	1,000,000
13-Sep-2016	Prudential Portfolio Managers - Absolute Return Fund	purchases	1,000,000
24-Aug-2016	Prudential Portfolio Managers - Absolute Return Fund	purchases	1,000,000
04-Dec-2015	Prudential Portfolio Managers - Absolute Return Fund	purchases	2,000,000
02-Dec-2015	Coronation - Medical Schemes Portfolio	sales	2,000,000
30-Nov-2012	Prescient Management Co. Ltd - Positive Return Fund	sales	13,843,861
30-Nov-2012	Prudential Portfolio Managers - Absolute Return Fund	purchases	10,000,000
25-Aug-2011	Coronation - Medical Schemes Portfolio	purchases	12,000,000
19-Aug-2011	STANLIB - Medical Investment Fund	sales	11,905,790

performance analysis



The CPI figures are lagged by one month as they were calculated before the current inflation rate was released.

	3 m	1 yr	3 yrs pa	5 yrs pa	7 yrs pa	10 yrs pa
Portfolio	1.99%	8.28%	5.71%	7.56%	7.99%	7.77%
CPI+4	2.32%	8.54%	9.54%	9.63%	9.68%	9.66%

STANLIB - Income Fund

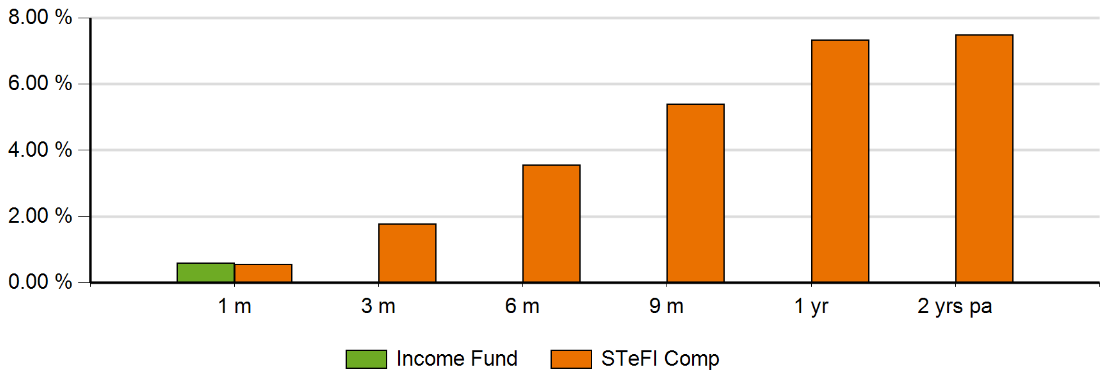
valuations

month	valuation (R)
June 2018	5,042,466
May 2018	5,012,512
March 2018	0
June 2017	0
June 2016	0
June 2015	0
June 2013	0

transaction history

traded	transaction type	value (R)
18-May-2018	purchases	5,000,000

performance analysis



	1 m	3 m	6 m	9 m	1 yr	2 yrs pa
Fund	0.60%					
STeFI Comp	0.55%	1.78%	3.56%	5.41%	7.33%	7.50%

Coronation - Medical Schemes Portfolio

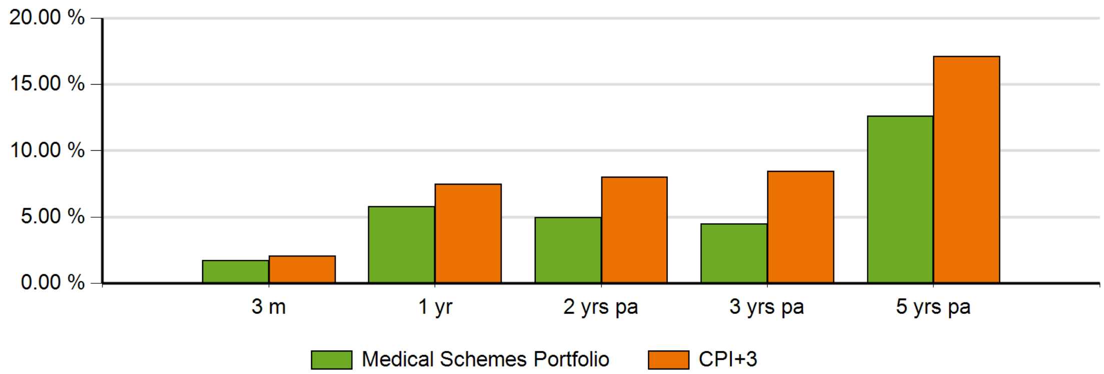
valuations

month	valuation (R)
June 2018	17,936,847
May 2018	17,760,568
March 2018	17,632,831
June 2017	16,953,903
June 2016	16,276,927
June 2015	17,754,831
June 2013	14,925,679

transaction history

traded	transaction type	value (R)
02-Dec-2015	sales	2,000,000
25-Aug-2011	purchases	12,000,000

performance analysis



The CPI figures are lagged by one month as they were calculated before the current inflation rate was released.

	3 m	1 yr	2 yrs pa	3 yrs pa	5 yrs pa
Fund	1.72%	5.80%	4.98%	4.50%	6.30%
CPI+3	2.07%	7.50%	8.04%	8.49%	8.58%

Prudential Portfolio Managers - Absolute Return Fund

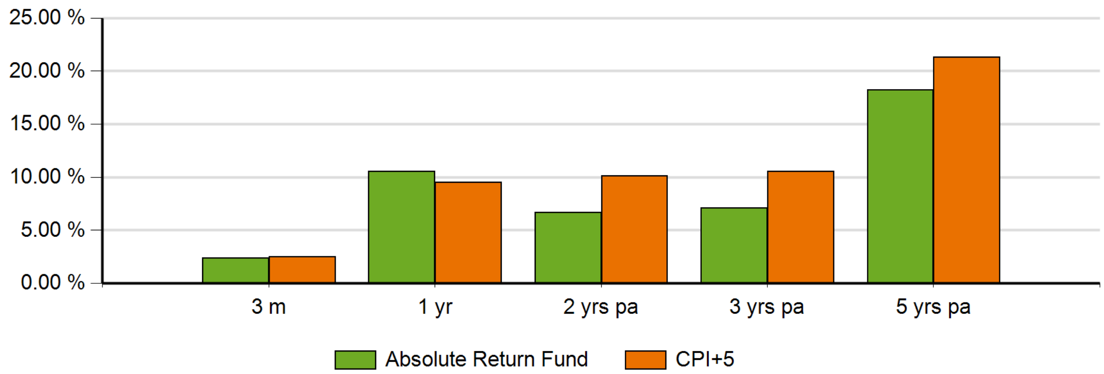
valuations

month	valuation (R)
June 2018	22,240,006
May 2018	21,840,349
March 2018	21,721,637
June 2017	20,114,803
June 2016	16,560,596
June 2015	13,411,143
June 2013	10,652,581

transaction history

traded	transaction type	value (R)
18-Oct-2016	purchases	1,000,000
13-Sep-2016	purchases	1,000,000
24-Aug-2016	purchases	1,000,000
04-Dec-2015	purchases	2,000,000
30-Nov-2012	purchases	10,000,000

performance analysis



The CPI figures are lagged by one month as they were calculated before the current inflation rate was released.

	3 m	1 yr	2 yrs pa	3 yrs pa	5 yrs pa
Fund	2.39%	10.57%	6.73%	7.13%	9.13%
CPI+5	2.56%	9.58%	10.13%	10.59%	10.68%

Alliance Midmed Medical Scheme - Savings

Treasury Management Report

June 2018

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Alliance Midmed Medical Scheme - Savings

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Alliance Midmed Medical Scheme - Savings

Portfolio Analysis

average funds (R)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
call deposits	1,081,277	3,169,163	1,788,548	3,169,163	3,787,556	4,332,962	4,851,365	4,916,418	4,472,466
fixed deposits	23,400,000	26,675,474	25,949,642	26,675,474	26,466,276	25,446,229	24,282,947	22,948,404	21,610,035
weighted totals	24,481,277	29,844,637	27,738,190	29,844,637	30,253,832	29,779,191	29,134,312	27,864,822	26,082,501

average interest earned (R)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
call deposits	569	15,953	7,351	15,953	20,181	23,651	26,927	26,811	22,749
fixed deposits	151,602	176,111	170,878	176,111	178,184	172,594	165,537	152,502	132,700
weighted totals	152,171	192,064	178,229	192,064	198,364	196,245	192,464	179,313	155,449

note: weighted totals are per month

Alliance Midmed Medical Scheme - Savings

Performance Analysis

average investment returns (%)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
weighted totals	0.65	3.95	1.97	3.95	8.19	8.22	8.24	7.99	7.31

industry returns (%)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
cash benchmark: STeFI Call Index	0.50	3.26	1.61	3.26	6.70	6.78	7.10	6.79	6.15
STeFI Composite	0.55	3.56	1.78	3.56	7.33	7.43	7.50	7.28	6.71
STeFI 3 Month	0.53	3.41	1.70	3.41	6.99	7.07	7.12	6.91	6.38

please note: the 18 - 60 months returns are annualized

Alliance Midmed Medical Scheme - Savings

Cash flow Summary

contribution and withdrawals	number	total rand value
withdrawal	2	2,162,845

Investment Summary

fixed deposit maturities	instrument	purchase date	maturity date	cost (R)	maturity value (R)	interest received (R)	rate (%)
FirstRand Bank Ltd	12 MONTH FTD	21/06/2017	21/06/2018	1,000,000	1,081,000	81,000	8.100
Investec Bank Ltd	12 MONTH FTD	09/06/2017	08/06/2018	1,000,000	1,081,277	81,277	8.150

fixed deposit balances	instrument	purchase date	maturity date	cost (R)	current value (R)	accrued interest (R)	rate (%)
Absa Bank Ltd	12 MONTH FTD	11/08/2017	10/08/2018	1,000,000	1,068,351	68,351	7.700
Absa Bank Ltd	11 MONTH FTD	25/10/2017	25/09/2018	500,000	526,435	26,435	7.750
Absa Bank Ltd	8 MONTH FTD	29/01/2018	28/09/2018	500,000	515,824	15,824	7.550
Absa Bank Ltd	12 MONTH FTD	02/02/2018	01/02/2019	1,500,000	1,548,221	48,221	7.875
Absa Bank Ltd	12 MONTH FTD	23/02/2018	22/02/2019	500,000	513,677	13,677	7.800
FirstRand Bank Ltd	12 MONTH FTD	21/07/2017	20/07/2018	1,000,000	1,074,199	74,199	7.850
FirstRand Bank Ltd	12 MONTH FTD	31/07/2017	31/07/2018	1,000,000	1,070,442	70,442	7.675
FirstRand Bank Ltd	12 MONTH FTD	06/10/2017	05/10/2018	1,000,000	1,056,904	56,904	7.750
FirstRand Bank Ltd	12 MONTH FTD	01/11/2017	01/11/2018	1,000,000	1,053,538	53,538	8.075
FirstRand Bank Ltd	12 MONTH FTD	06/04/2018	05/04/2019	1,000,000	1,018,201	18,201	7.725
Investec Bank Ltd	12 MONTH FTD	28/08/2017	28/08/2018	1,000,000	1,064,764	64,764	7.700
Investec Bank Ltd	9 MONTH FTD	29/01/2018	29/10/2018	500,000	516,034	16,034	7.650
Investec Bank Ltd	12 MONTH FTD	29/11/2017	29/11/2018	1,000,000	1,048,956	48,956	8.350

Alliance Midmed Medical Scheme - Savings

fixed deposit balances	instrument	purchase date	maturity date	cost (R)	current value (R)	accrued interest (R)	rate (%)
Investec Bank Ltd	12 MONTH FTD	11/01/2018	11/01/2019	1,000,000	1,037,714	37,714	8.050
Investec Bank Ltd	12 MONTH FTD	12/01/2018	11/01/2019	1,000,000	1,037,493	37,493	8.050
Investec Bank Ltd	12 MONTH FTD	09/02/2018	08/02/2019	1,000,000	1,031,123	31,123	8.000
Investec Bank Ltd	12 MONTH FTD	29/03/2018	29/03/2019	500,000	510,005	10,005	7.770
Nedbank Ltd	12 MONTH FTD	19/07/2017	19/07/2018	500,000	538,384	38,384	8.075
Nedbank Ltd	12 MONTH FTD	25/10/2017	25/10/2018	500,000	526,691	26,691	7.825
Nedbank Ltd	12 MONTH FTD	13/12/2017	13/12/2018	1,000,000	1,045,205	45,205	8.250
Nedbank Ltd	12 MONTH FTD	09/03/2018	08/03/2019	2,000,000	2,048,723	48,723	7.800
The Standard Bank of South Africa Ltd	12 MONTH FTD	22/09/2017	21/09/2018	1,000,000	1,059,490	59,490	7.700
The Standard Bank of South Africa Ltd	12 MONTH FTD	21/12/2017	21/12/2018	1,000,000	1,042,082	42,082	8.000
The Standard Bank of South Africa Ltd	12 MONTH FTD	16/02/2018	15/02/2019	500,000	514,517	14,517	7.850
The Standard Bank of South Africa Ltd	12 MONTH FTD	13/04/2018	12/04/2019	1,000,000	1,016,720	16,720	7.725
total				22,500,000	23,483,694	983,694	

Compliance Analysis

	moodys rating	exposure (%)	mandate requirement (%)	market value (R)
Absa Bank Ltd	Aa1.za	17.77	35.00	4,171,656.17
FirstRand Bank Ltd	Aaa.za	22.46	35.00	5,272,213.70
Investec Bank Ltd	Aa1.za	26.60	35.00	6,244,778.22
Nedbank Ltd	Aa1.za	17.71	35.00	4,158,132.19
The Standard Bank of South Africa Ltd	Aa1.za	15.47	35.00	3,632,060.27
Total funds as at month end				23,478,840.55

Economic Commentary

SA GDP came out even worse than the worst estimate in the analyst poll in 1Q18. GDP contracted by 2.2% q/q SAAR, from 3.1% growth in the previous quarter, worse than consensus of -0.5%. This was the worst quarterly print since 1Q09.

All industries, sectors and expenditure items deteriorated other than government and personal services. IEC-related planning activities was cited for propping up government spending. The biggest drain on growth in Q1 were the primary and secondary sectors – mining, manufacturing and agriculture. Net exports contracted sharply as a result of a 16.5% q/q decline in exports. Nedbank Group has subsequently revised its growth estimate lower for 2018, to 1.5% for 2018, from 1.8% previously anticipated. 2019 and 2020 growth estimates remains unchanged at 1.9% and 2.4% respectively. Various other growth consensus polls have already been revised lower (for 2018), with Bloomberg consensus now at 1.6% versus 2% growth expected prior to the release of the 1Q18 GDP print.
This print will result in downward revisions to existing GDP estimates by the SARB. The hurdle rate remains high especially given the relatively high base from 2017. To put this into perspective, GDP will have to average at least 1.8% y/y over the next three quarters in order to achieve National Treasury's estimate of 1.5% growth for 2018. We have a very real risk of not achieving this target if consumption and fixed investment does not pick up pace. For fiscal policy, this would imply lower revenue growth rates than initially estimated in February.

For monetary policy, this would imply an output gap that does perhaps not close by 2020 and in fact remains negative for longer. A negative output gap will continue to favour largely accommodative monetary policy, particularly as we still believe inflation may surprise to the downside. This is consistent with our view of very muted demand pull pressures in the local economy.

Although still very early, high-frequency economic data for 2Q18 shows a decline in business confidence, a sharp contraction in retail sales, manufacturing and mining production in April, lower vehicle sales growth in May, while the leading index continues to fall. The trade balance however, improved in May as exports rose. Nonetheless, the extremely low base in 1Q18 may imply an overall better Q2 growth performance.

SA CPI fell to 4.4% y/y in May, from 4.5% in April, better than consensus forecasts of 4.6%. Core inflation also fell to 4.4% y/y in May, indicating that underlying inflationary pressures remain subdued.

Food and non-alcoholic beverage inflation declined more rapidly in May, causing the unexpected decline in headline inflation. Food inflation continued to decelerate, coming in at 3% y/y from 3.7% y/y in April. It is clear that the VAT hike of Apri is still not fully being passed onto consumers and the CPI data suggests weak demand-pull pressures within the domestic economy. This would be consistent with the weak retail sales and credit extension data that we have recently seen. That said, on the back of a weaker rand, higher oil prices and base effects, CPI should move closer to the 5% mark in coming months.

Some inflationary pressures came from prices at restaurants and hotels, clothing and footwear, alcohol and services prices. However these upside pressures were offset by the lower food and beverage inflation outlined above.

Between March and June 2018, we have seen the local petrol price rise by more than R2/litre to R15.79/litre currently, as a result of the weaker rand and a higher international oil price. Transport inflation is therefore set to rise, as the current under-recovery in the fuel price stands at 25- cents/litre, implying further petrol price hikes.

However, apart from transport inflation which remains an upside risk to inflation, most upside pressures remain fairly contained in our opinion.

We have incorporated a higher electricity tariff assumption in our inflation model following the recent announcement by NERSA that it will allow only half of Eskom's RCA clawback (ie. R33 billion vs. R66.6 billion applied for, which is 15% instead of 30%). We have assumed a rolling 5% increase in tariffs over and above the 3y MYPD tariff Eskom will be applying for.

As a result, our inflation forecast has risen by 10bps in 2019 and 20bps in 2020, to 5.1% and 5% respectively, but remained unchanged in the current year.

The SARB has recently turned more hawkish, understandably so given a weak rand exchange rate and global trade and geopolitical uncertainty. We now believe that the chance of a further interest rate cut in 2018 has declined given that some of the more dovish members of the MPC have started to sound more hawkish (or less dovish) lately. This does not imply that we foresee hikes in the near future. In fact, we still believe that the bar for cuts is greater than the bar for hikes at this stage, given that inflation is still expected to remain within the target band for quite some time.

In June, the SARB reiterated its cautious position amid high political uncertainty, fiscal deficits and credit rating downgrade risks. The SARB indicated that it sees little scope to ease monetary policy further, unless inflation surprises to the downside. Nonetheless, it believes the current stance is firmly accommodative.

A further risk for the inflation outlook that the SARB watches closely is the rand exchange rate. The Deputy Governor Kuben Naidoo said in June that if the rand remains persistently weak in the next few months, and if this does raise the inflation outlook, then the SARB would be required to raise interest rates (on Bloomberg TV recently).

We believe interest rates will likely be kept unchanged over the next year. While we previously called for a further interest rate cut by the SARB, we think that the chances of a further cut have been reduced by rising geopolitical uncertainty, a weaker rand exchange rate, and an exodus of capital flight from EMs. Despite a favourable inflation profile, aspects such as an elevated public sector 3-year wage settlement, the SARBs willingness to target an explicit target (4.5%) with inflation likely to stay above this level, and further credit rating uncertainty, will likely eliminate the argument for further easing. We believe that it will be prudent to assess the trajectory of the rand exchange rate, the persistence of rand weakness and its ultimate impact on the inflation profile 12 to 18 months out before adjusting interest rates in either direction.

The current loose monetary policy stance is consistent with an economy that is operating below potential. The recent GDP disappointment would imply a wider (more negative) output gap, possibly even closing slower than previously anticipated by the SARB. This supports the notion of an on-going loose monetary policy stance for an extended period of time, in our opinion.

Source: Nedbank Capital

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Treasury Management Report

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Portfolio Analysis

average funds (R)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
call deposits	9,621,776	7,192,273	7,565,879	7,192,273	6,881,984	7,545,248	7,519,038	7,461,456	7,075,857
fixed deposits	1,560,000	2,423,478	2,727,280	2,423,478	2,557,730	2,645,218	2,936,613	3,557,231	4,984,037
weighted totals	11,181,776	9,615,751	10,293,159	9,615,751	9,439,715	10,190,466	10,455,651	11,018,687	12,059,895

average interest earned (R)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
call deposits	51,122	39,283	40,979	39,283	38,345	42,710	42,875	41,491	36,182
fixed deposits	6,970	12,535	13,978	12,535	13,720	14,612	16,764	19,809	24,844
weighted totals	58,092	51,818	54,957	51,818	52,064	57,322	59,639	61,300	61,025

note: weighted totals are per month

Performance Analysis

average investment returns (%)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
weighted totals	0.53	3.34	1.64	3.34	6.93	7.02	7.10	6.91	6.35

industry returns (%)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
cash benchmark: STeFI Call Index	0.50	3.26	1.61	3.26	6.70	6.78	7.10	6.79	6.15
STeFI Composite	0.55	3.56	1.78	3.56	7.33	7.43	7.50	7.28	6.71
STeFI 3 Month	0.53	3.41	1.70	3.41	6.99	7.07	7.12	6.91	6.38

please note: the 18 - 60 months returns are annualized

Cash flow Summary

contribution and withdrawals	number	total rand value
contribution	6	9,590,000
withdrawal	8	6,840,000

Investment Summary

call balances	call cost (R)	call accrued int (R)	call total balance (R)	rate (%)
ABSA Bank Ltd	82,975	426	83,401	6.250
FirstRand Bank Ltd	3,485	18	3,503	6.250
Investec Bank Ltd	4,271,526	15,621	4,287,147	6.400
Nedbank Ltd	2,131,326	7,985	2,139,311	6.250
Nedbank Ltd	2,460,969	10,557	2,471,527	7.050
The Standard Bank of South Africa Ltd	5,199,987	16,515	5,216,502	6.300
total	**14,150,269**	**51,122**	**14,201,391**	

fixed deposit maturities	instrument	purchase date	maturity date	cost (R)	maturity value (R)	interest received (R)	rate (%)
Investec Bank Ltd	14 DAY FTD	06/06/2018	20/06/2018	1,000,000	1,002,512	2,512	6.550
The Standard Bank of South Africa Ltd	14 DAY FTD	14/06/2018	28/06/2018	1,000,000	1,002,484	2,484	6.475

fixed deposit purchases	instrument	purchase date	maturity date	cost (R)	current value (R)	accrued interest (R)	rate (%)
Investec Bank Ltd	14 DAY FTD	06/06/2018	20/06/2018	1,000,000	1,002,512	2,512	6.55
Investec Bank Ltd	14 DAY FTD	20/06/2018	04/07/2018	1,000,000	1,001,974	1,974	6.55
The Standard Bank of South Africa Ltd	14 DAY FTD	14/06/2018	28/06/2018	1,000,000	1,002,484	2,484	6.48

fixed deposit balances	instrument	purchase date	maturity date	cost (R)	current value (R)	accrued interest (R)	rate (%)
Investec Bank Ltd	14 DAY FTD	20/06/2018	04/07/2018	1,000,000	1,001,974	1,974	6.550
total				1,000,000	1,001,974	1,974	

Compliance Analysis

	moodys rating	exposure (%)	mandate requirement (%)	market value (R)
Absa Bank Ltd	Aa1.za	0.55	35.00	83,401.10
FirstRand Bank Ltd	Aaa.za	0.02	35.00	3,502.89
Investec Bank Ltd	Aa1.za	34.79	35.00	5,288,941.84
Nedbank Ltd	Aa1.za	30.33	35.00	4,610,837.66
The Standard Bank of South Africa Ltd	Aa1.za	34.31	35.00	5,216,501.95
Total funds as at month end				15,203,185.44

Economic Commentary

SA GDP came out even worse than the worst estimate in the analyst poll in 1Q18. GDP contracted by 2.2% q/q SAAR, from 3.1% growth in the previous quarter, worse than consensus of -0.5%. This was the worst quarterly print since 1Q09.

All industries, sectors and expenditure items deteriorated other than government and personal services. IEC-related planning activities was cited for propping up government spending. The biggest drain on growth in Q1 were the primary and secondary sectors – mining, manufacturing and agriculture. Net exports contracted sharply as a result of a 16.5% q/q decline in exports. Nedbank Group has subsequently revised its growth estimate lower for 2018, to 1.5% for 2018, from 1.8% previously anticipated. 2019 and 2020 growth estimates remains unchanged at 1.9% and 2.4% respectively. Various other growth consensus polls have already been revised lower (for 2018), with Bloomberg consensus now at 1.6% versus 2% growth expected prior to the release of the 1Q18 GDP print.
This print will result in downward revisions to existing GDP estimates by the SARB. The hurdle rate remains high especially given the relatively high base from 2017. To put this into perspective, GDP will have to average at least 1.8% y/y over the next three quarters in order to achieve National Treasury's estimate of 1.5% growth for 2018. We have a very real risk of not achieving this target if consumption and fixed investment does not pick up pace. For fiscal policy, this would imply lower revenue growth rates than initially estimated in February.

For monetary policy, this would imply an output gap that does perhaps not close by 2020 and in fact remains negative for longer. A negative output gap will continue to favour largely accommodative monetary policy, particularly as we still believe inflation may surprise to the downside. This is consistent with our view of very muted demand pull pressures in the local economy.

Although still very early, high-frequency economic data for 2Q18 shows a decline in business confidence, a sharp contraction in retail sales, manufacturing and mining production in April, lower vehicle sales growth in May, while the leading index continues to fall. The trade balance however, improved in May as exports rose. Nonetheless, the extremely low base in 1Q18 may imply an overall better Q2 growth performance.

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Between March and June 2018, we have seen the local petrol price rise by more than R2/litre to R15.79/litre currently, as a result of the weaker rand and a higher international oil price. Transport inflation is therefore set to rise, as the current under-recovery in the fuel price stands at 25- cents/litre, implying further petrol price hikes.

However, apart from transport inflation which remains an upside risk to inflation, most upside pressures remain fairly contained in our opinion.

We have incorporated a higher electricity tariff assumption in our inflation model following the recent announcement by NERSA that it will allow only half of Eskom's RCA clawback (ie. R33 billion vs. R66.6 billion applied for, which is 15% instead of 30%). We have assumed a rolling 5% increase in tariffs over and above the 3y MYPD tariff Eskom will be applying for.

As a result, our inflation forecast has risen by 10bps in 2019 and 20bps in 2020, to 5.1% and 5% respectively, but remained unchanged in the current year.

The SARB has recently turned more hawkish, understandably so given a weak rand exchange rate and global trade and geopolitical uncertainty. We now believe that the chance of a further interest rate cut in 2018 has declined given that some of the more dovish members of the MPC have started to sound more hawkish (or less dovish) lately. This does not imply that we foresee hikes in the near future. In fact, we still believe that the bar for cuts is greater than the bar for hikes at this stage, given that inflation is still expected to remain within the target band for quite some time.

In June, the SARB reiterated its cautious position amid high political uncertainty, fiscal deficits and credit rating downgrade risks. The SARB indicated that it sees little scope to ease monetary policy further, unless inflation surprises to the downside. Nonetheless, it believes the current stance is firmly accommodative.

A further risk for the inflation outlook that the SARB watches closely is the rand exchange rate. The Deputy Governor Kuben Naidoo said in June that if the rand remains persistently weak in the next few months, and if this does raise the inflation outlook, then the SARB would be required to raise interest rates (on Bloomberg TV recently).

We believe interest rates will likely be kept unchanged over the next year. While we previously called for a further interest rate cut by the SARB, we think that the chances of a further cut have been reduced by rising geopolitical uncertainty, a weaker rand exchange rate, and an exodus of capital flight from EMs. Despite a favourable inflation profile, aspects such as an elevated public sector 3-year wage settlement, the SARBs willingness to target an explicit target (4.5%) with inflation likely to stay above this level, and further credit rating uncertainty, will likely eliminate the argument for further easing. We believe that it will be prudent to assess the trajectory of the rand exchange rate, the persistence of rand weakness and its ultimate impact on the inflation profile 12 to 18 months out before adjusting interest rates in either direction.

The current loose monetary policy stance is consistent with an economy that is operating below potential. The recent GDP disappointment would imply a wider (more negative) output gap, possibly even closing slower than previously anticipated by the SARB. This supports the notion of an on-going loose monetary policy stance for an extended period of time, in our opinion.

Source: Nedbank Capital

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