

Alliance Midmed Medical Scheme



Monthly Consulting Report

31 May 2018

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

valuations

month	valuation (R)
May 2018	44,613,429
April 2018	40,128,015
February 2018	39,787,315
May 2017	37,630,030
May 2016	32,970,942
May 2015	31,286,353
May 2013	26,230,834

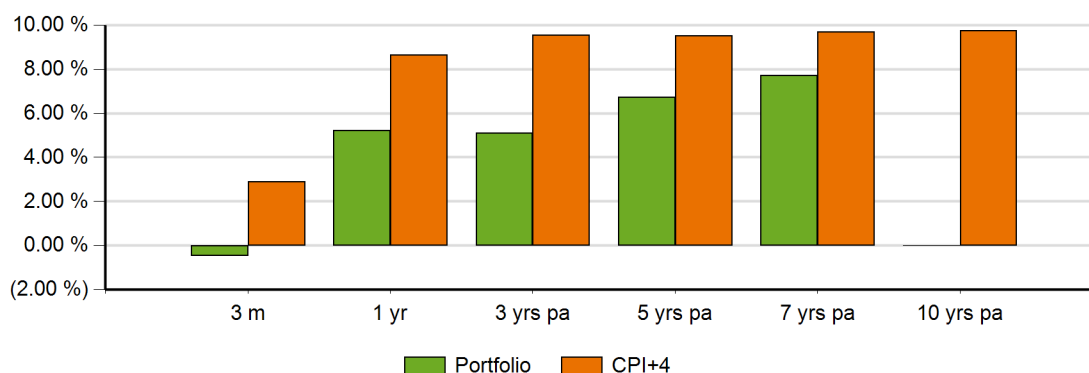
underlying investments

investment	valuation (R)
Income Fund	5,012,512
Absolute Return Fund	21,840,349
Medical Schemes Portfolio	17,760,568
total	44,613,429

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	Prudential Portfolio Managers - Absolute Return Fund	purchases	10,000,000
30-Nov-2012	Prescient Management Co. Ltd - Positive Return Fund	sales	13,843,861
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	-0.47%	5.24%	5.10%	6.73%	7.73%	
CPI+4	2.90%	8.66%	9.55%	9.53%	9.71%	9.76%

STANLIB - Income Fund

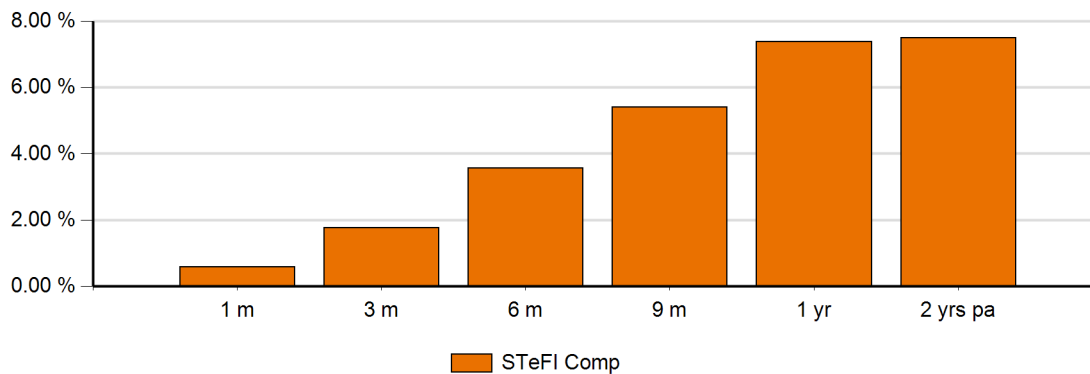
valuations

month	valuation (R)
May 2018	5,012,512
April 2018	0
February 2018	0
May 2017	0
May 2016	0
May 2015	0
May 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						
STeFI Comp	0.59%	1.79%	3.58%	5.43%	7.39%	7.52%

Coronation - Medical Schemes Portfolio

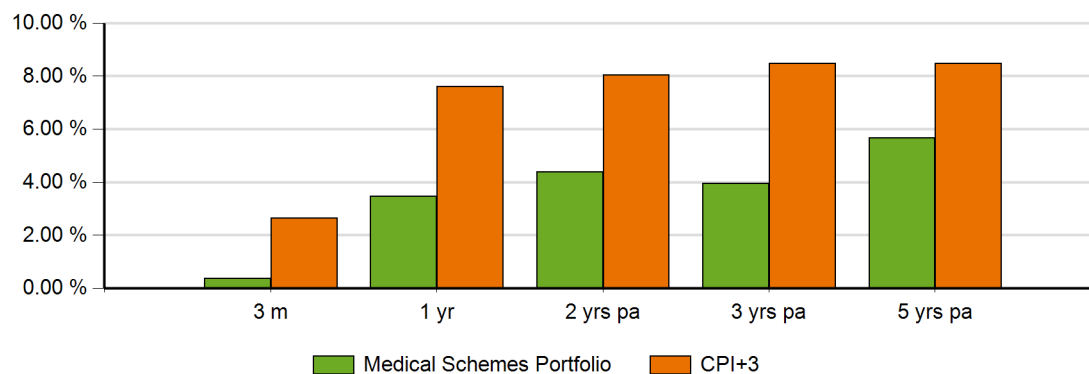
valuations

month	valuation (R)
May 2018	17,760,568
April 2018	17,951,106
February 2018	17,691,344
May 2017	17,163,239
May 2016	16,292,046
May 2015	17,848,435
May 2013	15,219,908

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	0.39%	3.48%	4.41%	3.98%	5.68%
CPI+3	2.66%	7.62%	8.05%	8.50%	8.48%

Prudential Portfolio Managers - Absolute Return Fund

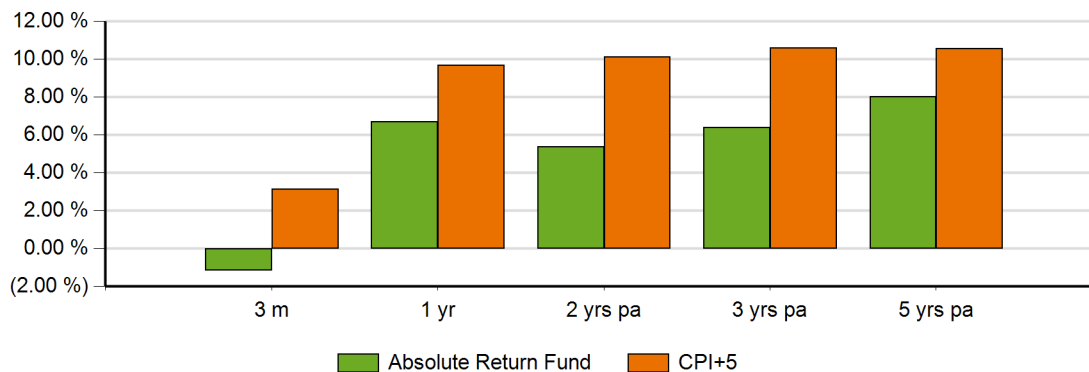
valuations

month	valuation (R)
May 2018	21,840,349
April 2018	22,176,909
February 2018	22,095,971
May 2017	20,466,790
May 2016	16,678,896
May 2015	13,437,918
May 2013	11,010,927

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	-1.16%	6.71%	5.39%	6.41%	8.02%
CPI+5	3.15%	9.70%	10.14%	10.60%	10.58%

Disclaimer:
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Alliance Midmed Medical Scheme - Savings



Treasury Management Report

May 2018

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Alliance Midmed Medical Scheme - Savings

Table of Contents

Portfolio Analysis

Performance Analysis

Cash Flow Summary

Investment Summary

Compliance Analysis

Economic Commentary

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		3,586,740	2,784,833	3,767,094	4,104,124	4,626,152	5,062,954	4,991,228	4,504,348
fixed deposits	26,532,258	27,330,568	27,482,975	27,267,409	26,559,332	25,346,050	24,158,641	22,855,811	21,542,257
weighted totals	26,532,258	30,917,309	30,267,808	31,034,503	30,663,456	29,972,202	29,221,595	27,847,040	26,046,605

average interest earned (R)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
call deposits		19,029	14,695	20,190	22,413	25,664	28,345	27,271	22,935
fixed deposits	178,502	181,013	183,807	181,842	179,513	172,725	164,832	151,542	131,582
weighted totals	178,502	200,043	198,502	202,032	201,926	198,389	193,177	178,812	154,517

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	0.67	3.29	1.99	3.98	8.21	8.25	8.23	7.96	7.26

industry returns (%)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
cash benchmark: STeFI Call Index	0.54	2.75	1.63	3.28	6.76	6.82	7.12	6.77	6.11
STeFI Composite	0.59	3.00	1.79	3.58	7.39	7.47	7.52	7.28	6.67
STeFI 3 Month	0.57	2.87	1.71	3.42	7.04	7.10	7.14	6.91	6.35

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	3,248,000

Investment Summary

fixed deposit maturities	instrument	purchase date	maturity date	cost (R)	maturity value (R)	interest received (R)	rate (%)
Absa Bank Ltd	12 MONTH FTD	30/05/2017	30/05/2018	1,000,000	1,082,000	82,000	8.200
Investec Bank Ltd	12 MONTH FTD	18/05/2017	18/05/2018	2,000,000	2,166,000	166,000	8.300

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	1,062,022	62,022	7.700
Absa Bank Ltd	11 MONTH FTD	25/10/2017	25/09/2018	500,000	523,250	23,250	7.750
Absa Bank Ltd	8 MONTH FTD	29/01/2018	28/09/2018	500,000	512,721	12,721	7.550
Absa Bank Ltd	12 MONTH FTD	02/02/2018	01/02/2019	1,500,000	1,538,512	38,512	7.875
Absa Bank Ltd	12 MONTH FTD	23/02/2018	22/02/2019	500,000	510,471	10,471	7.800
FirstRand Bank Ltd	12 MONTH FTD	21/06/2017	21/06/2018	1,000,000	1,076,562	76,562	8.100
FirstRand Bank Ltd	12 MONTH FTD	21/07/2017	20/07/2018	1,000,000	1,067,747	67,747	7.850
FirstRand Bank Ltd	12 MONTH FTD	31/07/2017	31/07/2018	1,000,000	1,064,134	64,134	7.675
FirstRand Bank Ltd	12 MONTH FTD	06/10/2017	05/10/2018	1,000,000	1,050,534	50,534	7.750
FirstRand Bank Ltd	12 MONTH FTD	01/11/2017	01/11/2018	1,000,000	1,046,901	46,901	8.075
FirstRand Bank Ltd	12 MONTH FTD	06/04/2018	05/04/2019	1,000,000	1,011,852	11,852	7.725
Investec Bank Ltd	12 MONTH FTD	09/06/2017	08/06/2018	1,000,000	1,079,714	79,714	8.150
Investec Bank Ltd	12 MONTH FTD	28/08/2017	28/08/2018	1,000,000	1,058,436	58,436	7.700

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	9 MONTH FTD	29/01/2018	29/10/2018	500,000	512,890	12,890	7.650
Investec Bank Ltd	12 MONTH FTD	29/11/2017	29/11/2018	1,000,000	1,042,093	42,093	8.350
Investec Bank Ltd	12 MONTH FTD	11/01/2018	11/01/2019	1,000,000	1,031,097	31,097	8.050
Investec Bank Ltd	12 MONTH FTD	12/01/2018	11/01/2019	1,000,000	1,030,877	30,877	8.050
Investec Bank Ltd	12 MONTH FTD	09/02/2018	08/02/2019	1,000,000	1,024,548	24,548	8.000
Investec Bank Ltd	12 MONTH FTD	29/03/2018	29/03/2019	500,000	506,812	6,812	7.770
Nedbank Ltd	12 MONTH FTD	19/07/2017	19/07/2018	500,000	535,065	35,065	8.075
Nedbank Ltd	12 MONTH FTD	25/10/2017	25/10/2018	500,000	523,475	23,475	7.825
Nedbank Ltd	12 MONTH FTD	13/12/2017	13/12/2018	1,000,000	1,038,425	38,425	8.250
Nedbank Ltd	12 MONTH FTD	09/03/2018	08/03/2019	2,000,000	2,035,901	35,901	7.800
The Standard Bank of South Africa Ltd	12 MONTH FTD	22/09/2017	21/09/2018	1,000,000	1,053,162	53,162	7.700
The Standard Bank of South Africa Ltd	12 MONTH FTD	21/12/2017	21/12/2018	1,000,000	1,035,507	35,507	8.000
The Standard Bank of South Africa Ltd	12 MONTH FTD	16/02/2018	15/02/2019	500,000	511,291	11,291	7.850
The Standard Bank of South Africa Ltd	12 MONTH FTD	13/04/2018	12/04/2019	1,000,000	1,010,371	10,371	7.725
total				24,500,000	25,494,369	994,369	

Alliance Midmed Medical Scheme - Savings

Compliance Analysis

	moodys rating	exposure (%)	mandate requirement (%)	market value (R)
Absa Bank Ltd	Aa1.za	16.27	35.00	4,146,125.35
FirstRand Bank Ltd	Aaa.za	24.78	35.00	6,316,437.00
Investec Bank Ltd	Aa1.za	28.58	35.00	7,284,931.64
Nedbank Ltd	Aa1.za	16.21	35.00	4,131,995.20
The Standard Bank of South Africa Ltd	Aa1.za	14.16	35.00	3,609,580.81
Total funds as at month end				25,489,070.00

Alliance Midmed Medical Scheme - Savings

Economic Commentary

The SARB kept the repo rate unchanged at 6.5%, in-line with our expectations and the consensus view. The inflation profile remains largely unchanged. The SARB still sees headline inflation for 2018 at 4.9% yoy and at 5.2% yoy in 2019, but has raised its forecast marginally for 2020 (from 5.1% yoy to 5.2% yoy). The MPC statement indicated that the risks to the inflation outlook are again to the upside (previously balanced), largely due to international developments (such as the oil price and a stronger US dollar). Indeed the higher oil price has raised our own forecasted inflation by 10bps to 4.7% for 2018. However, we continue to believe that over the forecast horizon, inflation will surprise marginally to the downside (compared to the SARB).

Growth for 2018 was left unchanged at 1.7%, but revised marginally higher (from 1.5%) to 1.7% for 2019. Next year still sees a negative output gap according to the SARB of -0.4% (from -0.6% previously), but the gap is seen to close at a slightly faster pace. The output gap is seen turning marginally positive in 2020 (0.1%).

Reading the MPC statement, the hurdle for another rate cut is clearly high. However, we would argue that the same goes for a rate hike anytime soon. From comments during Q&A (and also from previous MPC meetings), it is clear that the SARB continues in its quest to anchor inflation expectations closer to the mid-point of the target band. In this regard surveyed inflation expectations are becoming increasingly important. The next BER surveyed inflation expectations are only due on 19 July 2018, which is the date of the next MPC rate decision announcement. The SARB has indicated in the past and again last week, that it believes inflation expectations remain backward looking and that it is not confident that the latest decline in inflation expectations (currently at 5.2% one year ahead) is a trend. As such, the July 2018 meeting is likely to also see the repo rate being left unchanged, in our opinion.

The fact that the SARB still forecasts a negative output gap for this year and next, combined with our view that inflation is likely to surprise the SARB on the downside (which would be consistent with a negative output gap and weak demand-pull pressures), continues to make us believe that the bias for a cut remains greater than the bias for a hike. However, as pointed out, should there be a change in the repo rate, this is unlikely to be before the September or November 2018 MPC meetings, in our view.

SA CPI rose to 4.5% yoy in April, from 3.8% in March (better than consensus). The higher inflation rate was seen almost across the board, as a result of the 1% increase in VAT. However, the main driver of the higher inflation rate in April was a component that is mostly zero-rated – transport inflation surged as a result of the sharp 72c/litre rise in the petrol price in April – further inflationary pressure is likely to emerge in May and June following further fuel price increases.

Other significant upward drivers of inflation in April were food, alcoholic and non-alcohol beverages. Meat prices continued to disinflate, falling to 9% yoy in April (previously 10%) despite the VAT hike. Fruit, sugar, breads and cereal prices remain in deflation, all of which are likely to keep headline inflation contained for some time.

Retailers have not passed the full increase in the VAT rate onto consumers. Disinflationary pressures remain, particularly in the food basket, muting the effect of the increased VAT rate somewhat. Apart from transport inflation which remains an upside risk to inflation, most upside pressures remain fairly contained in our opinion.

We had anticipated 65% of the 1% hike in the VAT rate to be passed onto consumers and headline inflation fully (ie 65bps). This is because about 35% of the inflation basket is zero-rated. Empirical studies in other countries have also shown that 100% of the VAT increase (on the VATable products) is usually passed onto consumers initially. However, in April, we find that at most only 49bps was passed onto consumers in the form of higher prices due to the VAT increase, implying that only 49% of the 1% VAT hike was passed onto consumers (compared to the 65% we initially expected). Although local consumer demand has recovered recently, retailers would have possibly feared a sharp decline in consumption if the full impact of the VAT hike were to be felt by consumers and probably chose to absorb some of this increase.

We expect inflation to remain contained around the 5% level over the medium- to long-term. Should headline inflation continue to surprise to the downside and inflation expectations decline, we believe that the SARB may consider loosening monetary policy further towards year-end.

Source: Nedbank Capital

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Alliance Midmed Medical Scheme

Treasury Management Report

May 2018

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Table of Contents

Portfolio Analysis

Performance Analysis

Cash Flow Summary

Investment Summary

Compliance Analysis

Economic Commentary

Alliance Midmed Medical Scheme

Portfolio Analysis

average funds (R)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
call deposits	7,451,989	6,706,372	6,543,811	6,564,134	6,814,165	7,507,898	7,433,137	7,368,539	7,030,745
fixed deposits	3,655,172	2,596,173	3,110,506	2,452,952	2,652,730	2,658,462	3,111,543	3,668,528	5,098,037
weighted totals	11,107,161	9,302,546	9,654,317	9,017,085	9,466,895	10,166,359	10,544,681	11,037,066	12,128,782

average interest earned (R)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
call deposits	41,451	36,915	36,436	36,206	38,301	42,830	42,530	40,860	35,781
fixed deposits	18,921	13,648	16,882	12,421	14,442	14,823	17,897	20,363	25,305
weighted totals	60,372	50,563	53,318	48,627	52,743	57,653	60,427	61,222	61,086

note: weighted totals are per month

Alliance Midmed Medical Scheme

Performance Analysis

average investment returns (%)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
weighted totals	0.56	2.79	1.68	3.37	6.98	7.06	7.12	6.89	6.32

industry returns (%)	current month	ytd	3 months	6 months	12 months	18 months	24 months	36 months	60 months
cash benchmark: STeFI Call Index	0.54	2.75	1.63	3.28	6.76	6.82	7.12	6.77	6.11
STeFI Composite	0.59	3.00	1.79	3.58	7.39	7.47	7.52	7.28	6.67
STeFI 3 Month	0.57	2.87	1.71	3.42	7.04	7.10	7.14	6.91	6.35

please note: the 18 - 60 months returns are annualized

Alliance Midmed Medical Scheme

Cash flow Summary

contribution and withdrawals	number	total rand value
contribution	6	12,090,000
withdrawal	13	12,700,000

Investment Summary

call balances	call cost (R)	call accrued int (R)	call total balance (R)	rate (%)
ABSA Bank Ltd	82,537	438	82,975	6.250
FirstRand Bank Ltd	3,467	18	3,485	6.250
Investec Bank Ltd	4,298,416	10,599	4,309,014	6.400
Nedbank Ltd	1,407,180	13,790	1,420,969	7.050
Nedbank Ltd	2,874,917	6,410	2,881,326	6.250
The Standard Bank of South Africa Ltd	3,687,307	10,197	3,697,503	6.300
total	12,353,822	41,451	12,395,273	

Alliance Midmed Medical Scheme

fixed deposit maturities	instrument	purchase date	maturity date	cost (R)	maturity value (R)	interest received (R)	rate (%)
Investec Bank Ltd	14 DAY FTD	18/04/2018	02/05/2018	1,000,000	1,002,512	2,512	6.550
Investec Bank Ltd	14 DAY FTD	02/05/2018	16/05/2018	2,000,000	2,005,025	5,025	6.550
Investec Bank Ltd	14 DAY FTD	09/05/2018	23/05/2018	1,000,000	1,002,512	2,512	6.550
Investec Bank Ltd	14 DAY FTD	16/05/2018	30/05/2018	1,000,000	1,002,512	2,512	6.550
The Standard Bank of South Africa Ltd	14 DAY FTD	02/05/2018	16/05/2018	1,500,000	1,503,725	3,725	6.475
The Standard Bank of South Africa Ltd	14 DAY FTD	09/05/2018	23/05/2018	1,000,000	1,002,484	2,484	6.475
The Standard Bank of South Africa Ltd	14 DAY FTD	16/05/2018	30/05/2018	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	02/05/2018	16/05/2018	2,000,000	2,005,025	5,025	6.55
Investec Bank Ltd	14 DAY FTD	09/05/2018	23/05/2018	1,000,000	1,002,512	2,512	6.55
Investec Bank Ltd	14 DAY FTD	16/05/2018	30/05/2018	1,000,000	1,002,512	2,512	6.55
The Standard Bank of South Africa Ltd	14 DAY FTD	02/05/2018	16/05/2018	1,500,000	1,503,725	3,725	6.48
The Standard Bank of South Africa Ltd	14 DAY FTD	09/05/2018	23/05/2018	1,000,000	1,002,484	2,484	6.48
The Standard Bank of South Africa Ltd	14 DAY FTD	16/05/2018	30/05/2018	1,000,000	1,002,484	2,484	6.48

Alliance Midmed Medical Scheme

Compliance Analysis

	moodys rating	exposure (%)	mandate requirement (%)	market value (R)
Absa Bank Ltd	Aa1.za	0.67	35.00	82,974.86
FirstRand Bank Ltd	Aaa.za	0.03	35.00	3,484.99
Investec Bank Ltd	Aa1.za	34.76	35.00	4,309,014.06
Nedbank Ltd	Aa1.za	34.71	35.00	4,302,295.67
The Standard Bank of South Africa Ltd	Aa1.za	29.83	35.00	3,697,503.33
Total funds as at month end				12,395,272.91

Economic Commentary

The SARB kept the repo rate unchanged at 6.5%, in-line with our expectations and the consensus view. The inflation profile remains largely unchanged. The SARB still sees headline inflation for 2018 at 4.9% yoy and at 5.2% yoy in 2019, but has raised its forecast marginally for 2020 (from 5.1% yoy to 5.2% yoy). The MPC statement indicated that the risks to the inflation outlook are again to the upside (previously balanced), largely due to international developments (such as the oil price and a stronger US dollar). Indeed the higher oil price has raised our own forecasted inflation by 10bps to 4.7% for 2018. However, we continue to believe that over the forecast horizon, inflation will surprise marginally to the downside (compared to the SARB).

Growth for 2018 was left unchanged at 1.7%, but revised marginally higher (from 1.5%) to 1.7% for 2019. Next year still sees a negative output gap according to the SARB of -0.4% (from -0.6% previously), but the gap is seen to close at a slightly faster pace. The output gap is seen turning marginally positive in 2020 (0.1%).

Reading the MPC statement, the hurdle for another rate cut is clearly high. However, we would argue that the same goes for a rate hike anytime soon. From comments during Q&A (and also from previous MPC meetings), it is clear that the SARB continues in its quest to anchor inflation expectations closer to the mid-point of the target band. In this regard surveyed inflation expectations are becoming increasingly important. The next BER surveyed inflation expectations are only due on 19 July 2018, which is the date of the next MPC rate decision announcement. The SARB has indicated in the past and again last week, that it believes inflation expectations remain backward looking and that it is not confident that the latest decline in inflation expectations (currently at 5.2% one year ahead) is a trend. As such, the July 2018 meeting is likely to also see the repo rate being left unchanged, in our opinion.

The fact that the SARB still forecasts a negative output gap for this year and next, combined with our view that inflation is likely to surprise the SARB on the downside (which would be consistent with a negative output gap and weak demand-pull pressures), continues to make us believe that the bias for a cut remains greater than the bias for a hike. However, as pointed out, should there be a change in the repo rate, this is unlikely to be before the September or November 2018 MPC meetings, in our view.

SA CPI rose to 4.5% yoy in April, from 3.8% in March (better than consensus). The higher inflation rate was seen almost across the board, as a result of the 1% increase in VAT. However, the main driver of the higher inflation rate in April was a component that is mostly zero-rated – transport inflation surged as a result of the sharp 72c/litre rise in the petrol price in April – further inflationary pressure is likely to emerge in May and June following further fuel price increases.

Other significant upward drivers of inflation in April were food, alcoholic and non-alcohol beverages. Meat prices continued to disinflate, falling to 9% yoy in April (previously 10%) despite the VAT hike. Fruit, sugar, breads and cereal prices remain in deflation, all of which are likely to keep headline inflation contained for some time.

Retailers have not passed the full increase in the VAT rate onto consumers. Disinflationary pressures remain, particularly in the food basket, muting the effect of the increased VAT rate somewhat. Apart from transport inflation which remains an upside risk to inflation, most upside pressures remain fairly contained in our opinion.

We had anticipated 65% of the 1% hike in the VAT rate to be passed onto consumers and headline inflation fully (ie 65bps). This is because about 35% of the inflation basket is zero-rated. Empirical studies in other countries have also shown that 100% of the VAT increase (on the VATable products) is usually passed onto consumers initially. However, in April, we find that at most only 49bps was passed onto consumers in the form of higher prices due to the VAT increase, implying that only 49% of the 1% VAT hike was passed onto consumers (compared to the 65% we initially expected). Although local consumer demand has recovered recently, retailers would have possibly feared a sharp decline in consumption if the full impact of the VAT hike were to be felt by consumers and probably chose to absorb some of this increase.

We expect inflation to remain contained around the 5% level over the medium- to long-term. Should headline inflation continue to surprise to the downside and inflation expectations decline, we believe that the SARB may consider loosening monetary policy further towards year-end.

Source: Nedbank Capital

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