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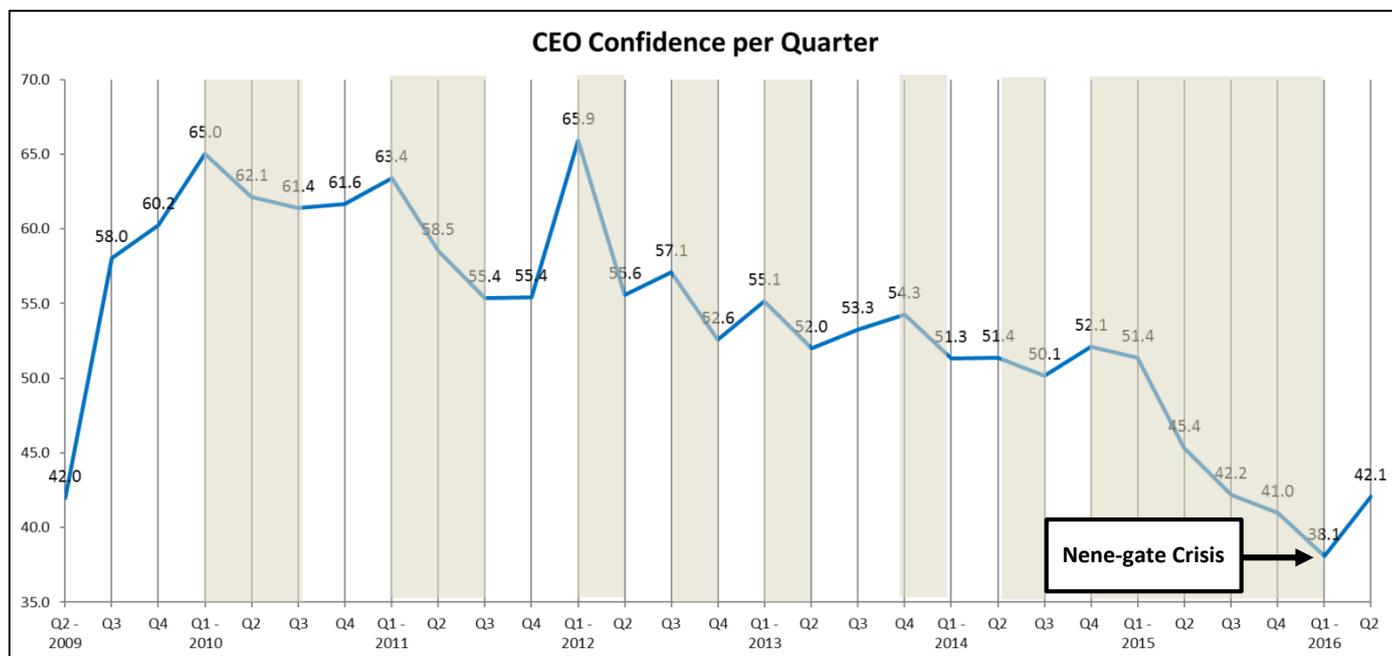
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**The Crisis in CEO Confidence is Behind Us**

The [Merchantec CEO Confidence Index](#) recorded a 10.4% improvement in CEO confidence between Q1 and Q2 of 2016, indicating the first time CEO confidence has increased, rather than decreased, since Q4 2014. The numbers demonstrate that the crisis of confidence experienced in Q1 2016, brought on by Nene-gate, looming downgrade and currency freefall, is behind us. Although CEO confidence increased by 4 points (from 38.1 to 42.1), the index remains below the neutral score line of 50. The overall upturn is supported by an increase in confidence across all six sectors measured, most notably led by the Financial sector.

The Financial sector underwent a dramatic turnaround in confidence between Q1 and Q2 2016, with an overall increase of 68%. In Q1, confidence in the Financial sector suffered especially due to financial and economic uncertainty caused by Nene-gate, but has now normalised, albeit still at a relatively low level. CEOs across the Financial industry believe current economic conditions in South Africa compared to six months ago are better, shown by a confidence increase of 19 points. Their growth expectations for their companies went from 33 to 54 points, while their level of confidence in obtaining debt or equity capital jumped an astounding 27 points between Q1 and Q2 2016.

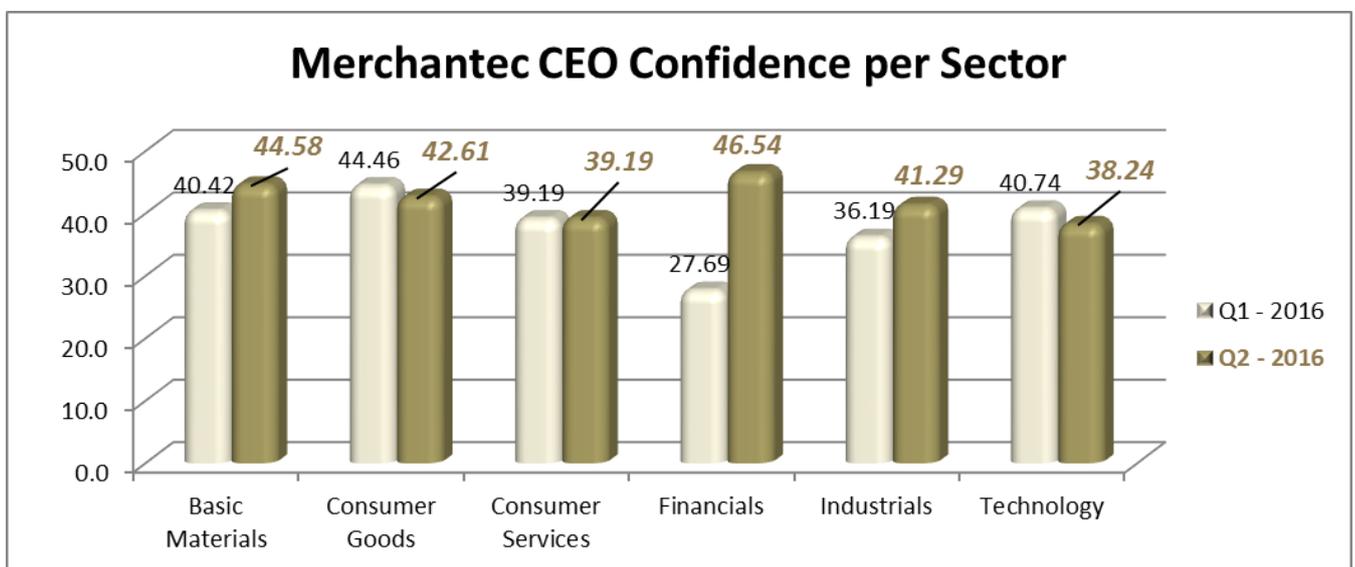
CEOs across all six industry sectors believe current economic conditions in South Africa compared to six months ago are recovering, as indicated by a confidence increase of 13.5%. Overall, industry growth outlook increased by 12.2%. Furthermore, South African CEOs see their ability to secure debt or equity capital as moderately better compared to six months ago. On average, CEOs are expecting growth in their company, industry, and planned levels of investment to increase slightly.



**Basic Materials** significantly increased in confidence by 10.3% to 44.58 points. The increase in overall confidence was driven by increases in contributing individual components, specifically by the 90% increase in industry growth confidence, and the 19% and 12% confidence increases in company growth expectation, and planned investment levels respectively.

**Consumer Services** recorded the same level of overall confidence in Q2 as in Q1, at 39.19 points. The sentiment was primarily driven by a 23.8% increase in confidence relating to more positive economic conditions and an increase in the debt/equity component of 8.2%, while confidence relating to planned level of investment (-8.2%), Industry growth (-7.5%), and Company growth expectations (-3.7%) decreased over the past three months.

**Financials** recorded the largest overall increase (68.1%) in confidence with a score of 46.54 points in Q2 2016. The rise in confidence can be attributed to a 125% increase in confidence relating to economic conditions, a 116.7% increase relating to the debt/equity environment, a 64.7% decrease in confidence relating to expected company growth, and a 52.6% increase in confidence relating to a positive investment outlook.



Over the 3-month period from Q1 to Q2, confidence increased significantly within the Financials sector (68.1%), while the largest decrease was seen in the Technology sector at 6.1%. On average, the confidence index increased by 10.39% for the first time since the 1<sup>st</sup> quarter in 2015 and reached a turning point by breaking a five quarter declining trend. This indicates a positive outlook for the remainder of the year if this trend is to be sustained.

### CEOs See Substantially Higher Interest Rates on the Horizon

Despite the recent announcement by the South African Reserve Bank that interest rates will remain unchanged for 2016, 99% of South African CEOs believe the Monetary Policy Committee (MPC) will raise interest rates by at least 100 basis points by the end of 2017, with 62% of CEOs believing it will rise by *more* than 100 basis points. The Repo rate is currently at 7% and the lending rate is at 10.5%.

CEOs see the looming increase as being determined by inflation, high debt and commodity prices, the possibility of being reduced to junk status, and most significantly, the effect of political leadership and government policies. Some CEOs believe that the MPC needs to be more accommodative, as their industries and companies are implicated by the exchange rate and weakened economy, B-BBEE requirements and high costs of compliance.

ENDS

For a copy of the second quarter 2016 Merchantec CEO Confidence Index Report or for previous quarterly reports, please email Kira Harrison at [kira@merchantec.co.za](mailto:kira@merchantec.co.za) or visit [Merchantec CEO Confidence Index](#) for past results.

#### **More about the Merchantec CEO Confidence Index**

The Merchantec CEO Confidence Index, which consists of five components, collates views from CEOs of top South African companies and therefore provides a leading indicator into how business leaders perceive local market conditions and the economy going forward.

The Merchantec CEO Confidence Index is a copyright report prepared quarterly by Merchantec Capital. The survey collates responses from over 1 000 top CEOs, primarily from the listed environment.

#### **About Merchantec Capital**

Merchantec Capital is one of the largest independent Equity & Debt Sponsor, Research and Corporate Finance Advisory companies in South Africa, with offices in Johannesburg, Cape Town and Windhoek, Namibia.

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