IJG SECURITIES

ECONOMIC OUTLOOK

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Outturn of 2016

In this document last year, we mentioned that 2015 was the year that tears in the fabric of the Namibian economy started to emerge. We expected these to widen in 2016 and this is precisely what has happened. While external factors were largely to blame for causing the economic slowdown, an unwillingness to recognize these factors and plan accordingly exacerbated these economic headwinds. Pro-cyclical monetary and fiscal policy effectively ramped up the business cycle and now that Namibia is in need of such stimulus, many of the avenues previously available have been exhausted.

South Africa is expected to have grown by 0.3% in 2016 (IMF Jan 2017 update), with the latest update revising expected growth upwards for the first time during the year. Stagnant growth in Africa's most industrialised economy spill over through the strong trade links with Namibia. Political turmoil rippled through the state and fears of a credit ratings downgrade saw investors with investment grade mandates pack their bags. However, the ratings downgrade that seemed inevitable in January 2016 never came to pass. Neither did the political order change despite President Zuma's alleged attempts at state capture, and labour unrest so prevalent in 2015 was largely absent in 2016. The threat of multiple rate hikes in the US did little to prevent the Rand from strengthening by more than 12% towards year end either, albeit still undervalued. In fact, despite the political headwinds, a sliver of optimism regarding the South African economy began to emerge towards the end of 2016.

World economic growth is expected to have slowed marginally to 3.1% in 2016 from 3.2% in 2015, as per the IMF. While developed economies continue to lag those of emerging markets, the IMF noted in January that developed market growth surprised to the upside in 2016, and that the reverse was true for emerging markets. Manufacturing output in developed markets gained some momentum as domestic demand inched upward. Growth rates for the Euro Area, Japan and the UK were revised upward in the IMF's October outlook update, while that of the US moderated slightly. The US economy experienced a weak start to 2016 but managed to gain momentum through the year and leading up to the elections, which saw Donald Trump become the 45th president. Domestic demand held up better than expected in the British economy despite the Brexit referendum initiating the United Kingdom's exit from the European Union. Across the waters in Japan, historical growth revisions point to an economy that has been performing better than previously anticipated.

Emerging markets and developing economies were plagued by idiosyncratic factors and performed slightly worse than anticipated. Growth in this group of countries remains a driver of overall worldwide economic growth although performance has been varied across countries. China continues to grow rapidly and this growth has not slowed as much as expected. The IMF revised China's growth rate up to 6.5% for 2016 supported by continued government stimulus. Asian markets in general are set to have performed well in 2016. This is in stark contrast to South American economies such as Brazil and Argentina which struggled during the year and are largely expected to post recessions in 2016.

Our expectations are for Namibia to have been in recession in 2016. After years of stimulus and pro-cyclical policy measures the economy began to overheat in 2015. A contraction off of the high base set up that point was always going to be a likely event. Quarterly GDP figures showed consecutive contractions in Q2 and Q3 of last year and serve to reinforce our expectations.

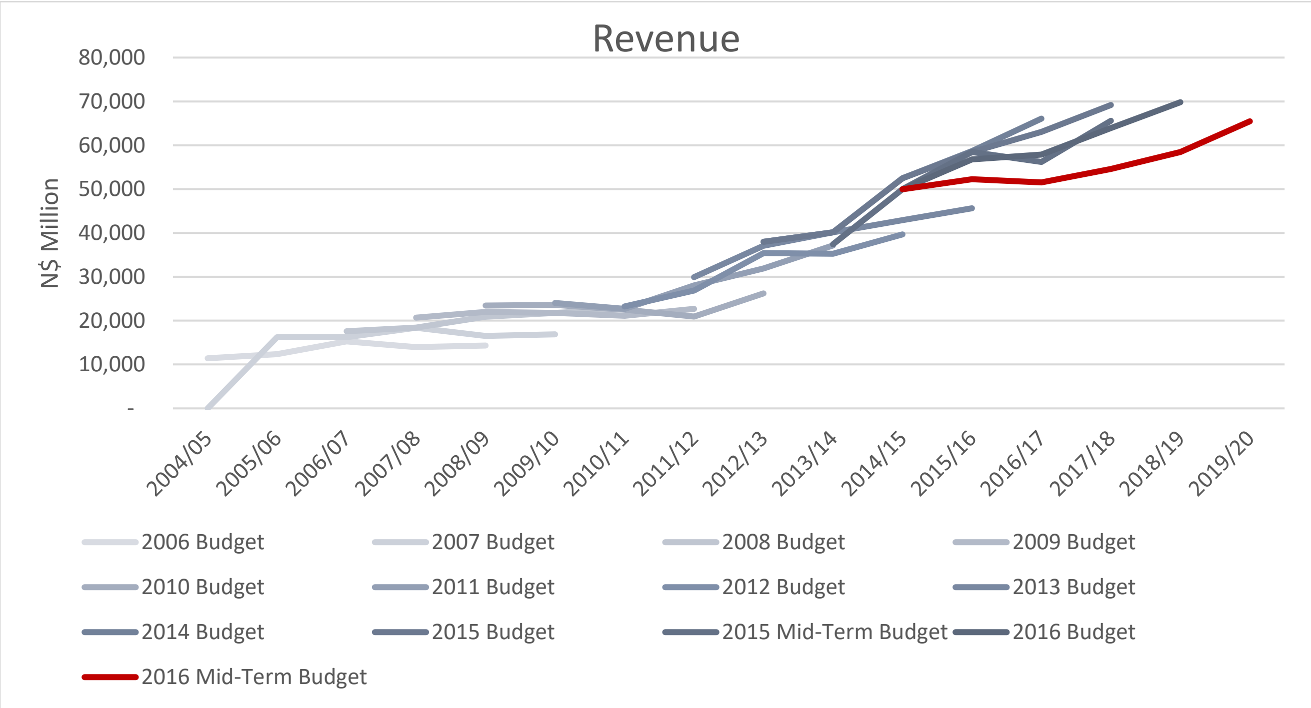
Key Themes for 2017

Fiscal position of Government

With the tabling of the mid-term budget in October last year the ministry of finance started to close the taps after running expansive policy for the first half of the decade. For years the ministry has been running budget deficits and forecasting consolidation in later years which never came. Budgets become more and more expansive, growing more rapidly than revenue in recent years. As a result, large deficits were run in 2014/15 and 2015/16, funded by domestic and foreign debt issuance. Government's debt to GDP ratio increased from 23.7% in 2014/15 to over 40% at present, surpassing the 35% prudential limit. The 2015/16 budget document projected debt to GDP to average 31.5% over the MTEF, a figure that is unlikely to transpire as we move towards the final year in those projections. The 2017/18 budget to be tabled in March will be crucial in pointing the way forward from here. Namibia is now in need of stimulus and many of the stimulus measures available to government have been exhausted in prelude to 2017.

Revenue

In FY2015/16, total revenue amounted to N$52.22 billion, representing a 4.6% growth from N$49.97 billion collected in FY2014/15. However, this was a major reduction when compared to the February budget estimates of N$58.44 billion, reflecting weaknesses in projected nominal GDP growth and related overstatements in budgeted revenue estimates, especially in respect of Personal Income Tax. After years of exceptional growth in government revenue this growth normalized abruptly in 2015/16, missing forecasts by a significant margin.



Source: Ministry of Finance, IJG Securities

Total revenue for FY2016/17 is estimated to decline to N$51.51 billion, from N$52.22 billion recorded in FY2015/16. Over the MTEF, revenue growth is projected to average 8.3%, increasing to N$54.60 billion in FY2017/18 and reach approximately N$65.47 billion by FY2019/20. As a proportion of GDP, revenue is estimated to slow to 32.5% in FY2016/17, from 35.5% in FY2015/16 and hover around 32.5% over the next MTEF. The result of these more modest revenue collection forecasts should be that government plays a smaller role in the Namibian economy going forward. This should also lead to more modest expenditure forecasts which will feed through into a more sustainable debt position and a generally more robust fiscal position.

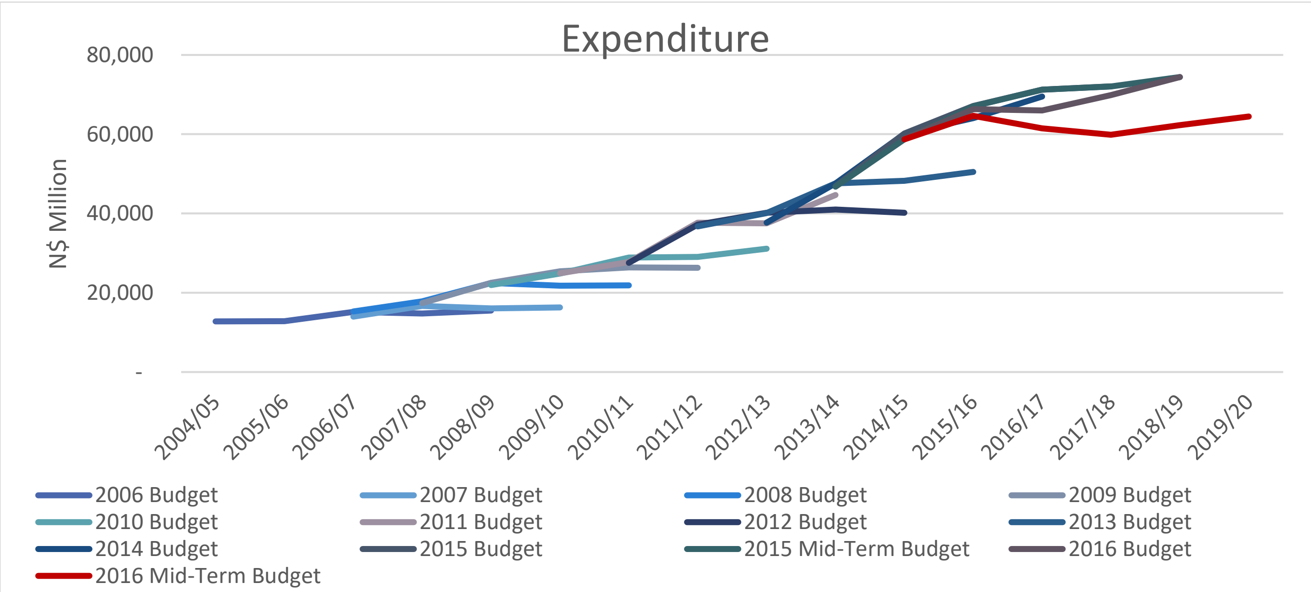
	2015 Mid-Term Budget	Revision	2016 Budget	Revision	2016 Mid-Term Budget	Revision
2014/15	49,968	-4.8%	49,961	0.0%	49,961	0.0%
2015/16	58,442	0.0%	56,765	-2.9%	52,230	-8.0%
2016/17	56,230	-10.8%	57,845	2.9%	51,511	-10.9%
2017/18	65,579	-5.2%	63,915	-2.5%	54,595	-14.6%
2018/19			69,816		58,445	-16.3%

Modest and realistic revenue growth expectations will be crucial this year as the “seven lean years” approach us. Revenue collection in relation to GDP is already among the highest in the region and as a result increasing taxes to fund a largely inefficient and consumptive civil service would lead to a reduction in real wages, placing strain on the economy. Key to righting the ship this year will be to allocate collected revenue more efficiently to projects which will lead to an increase in the productive capacity of the country. We eagerly await the tabling of the 2017/18 budget to obtain a clearer picture of Namibia’s path going forward. Should we see government revenue come under further pressure, fears are that the consolidation in budgeted expenditure will emanate from cuts in the development budget and various infrastructure projects that are now more necessary than ever.

Expenditure

In our review of the mid-term budget we noted that expenditure is expected to total N$61.5 billion in 2016/17 and to decrease to N$59.9 billion in 2017/18, before increasing to N$ 62.3 billion in 2018/19. Expenditure cuts of N$10.0 billion are budgeted in the 2017/18 year while another N$12.12 billion can be expected in 2018/19. The Ministry of Finance is targeting expenditure as a percentage of GDP to drop from 38.8% for this financial year to 31.0% at the end of the MTEF, illustrating a substitution away from Government activity for future economic growth.

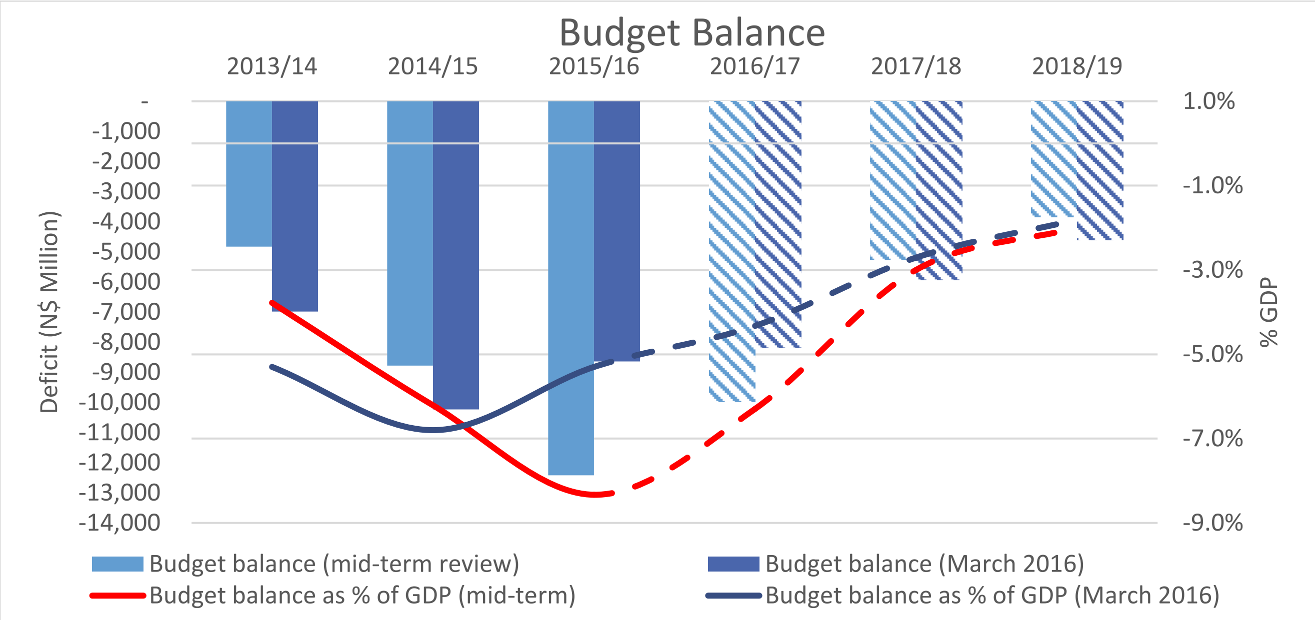
The upcoming budget is likely to echo the sentiments expressed in the mid-term review and we expect a possible further consolidation in the budget. Pro-cyclical expansionary fiscal policy has led to an economy which has overheated and is in much need of consolidation. Part of such a consolidation should be a trimming down of the recurrent expenditure within government, leaving space to pursue much needed infrastructure development. Thus far a large portion (just under 50%) of the budget cuts that have taken place stem from the development budget. This is precisely the opposite of what is necessary in a country which has gone from an infrastructure surplus to an infrastructure deficit over the years. A continued decline in the development budget as a percentage of total expenditure while the recurrent spend continues to grow will be a very undesirable outcome and lead to long term structural damage to the economy.



Source: Ministry of Finance, IJG Securities

Budget Balance

The total budget deficit for the 2015/16 fiscal year was N$12.41 billion or 8.3% of GDP versus expectations of 5.3% of GDP from the full year budget released in March 2016. The 2016/17 budget deficit is also forecast to be larger than previously expected as the extent to which revenue is expected to disappoint is in excess of the cuts made to budgeted expenditure. We expect to see further cuts to the budget in order to bring the deficit under control. These cut will provide some space should revenue exceed expectations, but prepare the fiscus for the probability that revenue will disappoint once again due to a negative feedback loop driven by the current economic climate.



Source: Ministry of Finance, IJG Securities

Debt

Namibia's debt to GDP ratio now sits at over 40% by our calculations. This is in excess of the self-imposed prudential limit of 35%. The pace at which this debt has grown is concerning and ultimately unsustainable. The debt burden, or cost of debt, has also increased greatly in the past two years. Carrying the cost of debt is not concerning in a high growth environment where the country's ability to service these debt costs through increased revenues is relatively easy. In a low growth environment however, servicing debt costs becomes a burden as further budget deficits contribute to the growth of these costs while revenue to service these costs stagnates. Thus the cost of debt detracts from the country's ability to fund budgetary items which are important for long term growth.

Outlook

We expect to see further fiscal consolidation in the coming budget. We also expect to see further commitment to reduce government's role in the economy. Of some concern is that the current reduction in the budget, and the shortage of cash experienced toward the end of 2016, will negatively affect revenue to such an extent that Namibia will once again see a large budget deficit in the coming fiscal year. While we feel that it is still possible to raise the funds needed to finance such a deficit, likely through less conventional methods, this will lead to an inflated debt burden which will be a drag on economic growth going forward. Government's financial position thus remains tight and will be for a number of years to come, and political will and support for the current efforts of the finance minister will be key if Namibia is to rebound from this slump.

International ratings

Although South Africa narrowly avoided a downgrade to non-investment grade in 2016, the country is not out of the woods yet and the risk remains that it may be downgraded in 2017. Although our base case scenario is for ratings to remain unchanged, ongoing political turbulence, low economic growth and the threat of weakening institutions are among the top reasons why the investment grade rating may be in jeopardy.

Conflict within the African National Congress has renewed fears that the Minister of Finance Pravin Gordhan's position is at risk. Gordhan, has led efforts to stave off a downgrade while battling with President Jacob Zuma over the management of state-owned companies and the national tax agency. There have been persistent rumours that he may be removed from the portfolio along with speculation of a complete cabinet reshuffle. In our opinion, either of these moves would almost certainly lead to a loss of investor confidence and a ratings downgrade. Indeed, Moody's has recently stated that political infighting could result in a downgrade of South Africa's sovereign credit rating.

The political noise has also been distracting officials from economic policy. The South African economy is expected to expand by 1.1% in 2017, according to the central bank. That will make it difficult to meet the finance ministry's target to narrow the budget deficit to 2.5% of GDP by 2020, from the 4.2% reported in September 2016, and to rein in government debt that's has surpassed the 50% debt-to-GDP mark.

	Fitch	S&P	Moody's	GDP YoY	Debt/GDP	Gov. Budget	Current Account	Inflation rate	Jobless rate	Interest rate
Slovenia	A-	A	Baa3	2.7%	83.2%	-2.9%	6.9%	1.3%	10.4%	0.0%
Spain	BBB+	BBB+	Baa2	3.0%	99.2%	-5.1%	1.5%	3.0%	18.6%	0.0%
Italy	BBB+	BBB-	Baa2	1.0%	132.7%	-2.6%	2.2%	0.9%	12.0%	0.0%
Panama	BBB	BBB		4.8%	39.1%	-3.9%	-6.5%	1.5%	5.6%	0.5%
Colombia	BBB	BBB	Baa2	1.2%	38.0%	-4.0%	-6.5%	5.5%	8.7%	7.5%
Uruguay	BBB-	BBB	Baa2	2.0%	47.8%	-2.1%	-3.6%	8.3%	7.7%	9.3%
Philippines	BBB-	BBB	Baa2	6.6%	45.1%	-0.9%	2.9%	2.7%	4.7%	3.0%
Romania	BBB-	BBB-		4.3%	38.4%	-0.7%	-1.0%	-0.5%	5.5%	1.8%
South Africa	**BBB-**	**BBB-**	**Baa2**	**0.7%**	**50.1%**	-4.2%	**-4.4%**	**6.8%**	**27.1%**	**7.0%**
Hungary	BBB-	BBB-	Baa3	2.2%	75.3%	-1.9%	5.0%	1.8%	4.4%	0.9%
India	BBB-	BBB-	Baa3	7.3%	69.0%	-3.5%	-1.3%	3.4%	4.9%	6.3%
Morocco	BBB-	BBB-	Ba1	1.2%	63.9%	-5.0%	-6.1%	1.8%	9.6%	2.3%
Bulgaria	BBB-	BB+	Baa2	3.4%	29.4%	1.6%	1.2%	0.1%	8.0%	0.0%
Indonesia	BBB-	BB+	Baa3	4.9%	27.0%	-2.5%	-2.1%	3.5%	5.6%	4.8%
Russia	BBB-	BB+	Ba1	-0.4%	17.7%	-2.6%	5.1%	5.0%	5.3%	10.0%
Turkey	BBB-	BB	Ba1	-1.8%	32.9%	-1.2%	-4.5%	9.2%	11.8%	8.0%
Namibia	**BBB-**		**Baa3**	**-1.0%**	**34.0%**	-5.2%	**-8.1%**	**7.3%**	**28.1%**	**7.0%**
Portugal	BB+	BB+	Ba1	1.6%	129.0%	-4.4%	0.7%	0.9%	10.5%	0.0%
Bahrain	BB+	BB-		3.9%	61.9%	-5.0%	3.3%	2.3%	3.7%	1.0%
Brazil	BB	BB	Ba2	-2.9%	69.5%	-8.9%	-1.3%	6.3%	12.0%	13.0%
Croatia	BB	BB	Ba2	2.9%	86.7%	-3.2%	4.2%	0.2%	14.8%	2.5%
Costa Rica	BB	BB-	Ba1	4.0%	62.1%	-5.6%	-4.2%	0.7%	9.7%	1.8%

Source: Trading Economics

The South African budget will be tabled on 22 February and will have to address the critical fiscal issues facing the country, mainly by increasing revenue and cutting down on expenditure. Due to low expected growth, the Minister of Finance made it clear in last year's medium term budget that tax increases will be needed to ensure that government revenue rises by R28 billion for the 2017/18 fiscal year. The obvious candidates for such increases are the "sin taxes" on alcohol, tobacco and soft drinks, but this will not be sufficient and higher personal income and corporate taxes are also expected. As a last resort increases in Value Added Tax may be considered, but this might have a disproportionate effect on the poor and may hamper growth going forward. Should South Africa experience a sovereign ratings downgrade to junk this will affect the Country Ceiling of the Common Monetary Area which includes Namibia, Lesotho, and Swaziland. When Fitch Ratings downgraded South Africa's sovereign rating to BBB-, one notch above junk, it downgraded the Country Ceiling of the Common Monetary Area by two notches to BBB. This is one notch above Namibia's current sovereign rating of BBB-. Thus a further downgrade of South Africa's rating would in all probability drag Namibia's rating down with it. As South Africa is our largest trading partner and the Namibia Dollar is pegged to the Rand we are unlikely to maintain a sovereign credit rating higher than that of South Africa.

The implications of a ratings downgrade to junk differ from country to country but in general are characterised by an outflow of funds and a fall in exchange rate. Brazil and Russia are two perfect examples of the aftermath of a ratings downgrade after both countries were downgraded in 2015. Interest rates increased sharply along with the cost of insuring government debt. Downgraded countries fall out of global bond benchmarks and foreign asset managers who are not confined to a specific country, or who do not have non-investment grade mandates, tend to start unwinding their positions and repatriating their investments. These fund flows out of the downgraded country drive down the value of the currency.

However, Namibia's rating may be at risk irrespective of South African factors. Both Fitch and Moody's revised Namibia's credit risk outlook from stable to negative in 2016. According to Moody's this was largely due to the continuing rise in public debt, implementation risks to fiscal consolidation, high budget deficit and a more vulnerable external position.

The deterioration in the Namibian fiscus is by far the biggest concern. In last year's midterm budget, the large cuts in spending were a gesture of Namibia's commitment to fiscal prudence. Yet during the last few years the rapid accumulation of public debt and the increase in the budget deficit points to uncertainties surrounding the feasibility of this fiscal consolidation. Dependence on revenue from SACU and continuing upwards pressure on the public wage bill may make this task difficult going forward.

We believe South Africa has reacted to the threat of a ratings downgrade just in the nick of time. Given a recovering growth environment and expectations of a narrower budget deficit, our southern neighbour might escape the noose of a ratings downgrade. We believe that Namibia is more likely to be downgraded than South Africa in 2017. The twin deficits and rapid increase in public debt are sure to attract the attention of the ratings agencies and should the budget for the coming fiscal year fail to deliver on promises of reduced deficits and fiscal consolidation, we believe that a sovereign ratings downgrade is inevitable. However, if the budget is sufficiently prudent to bring the deficit in line while not placing too much strain on the economy in the process then a downgrade may be avoided.

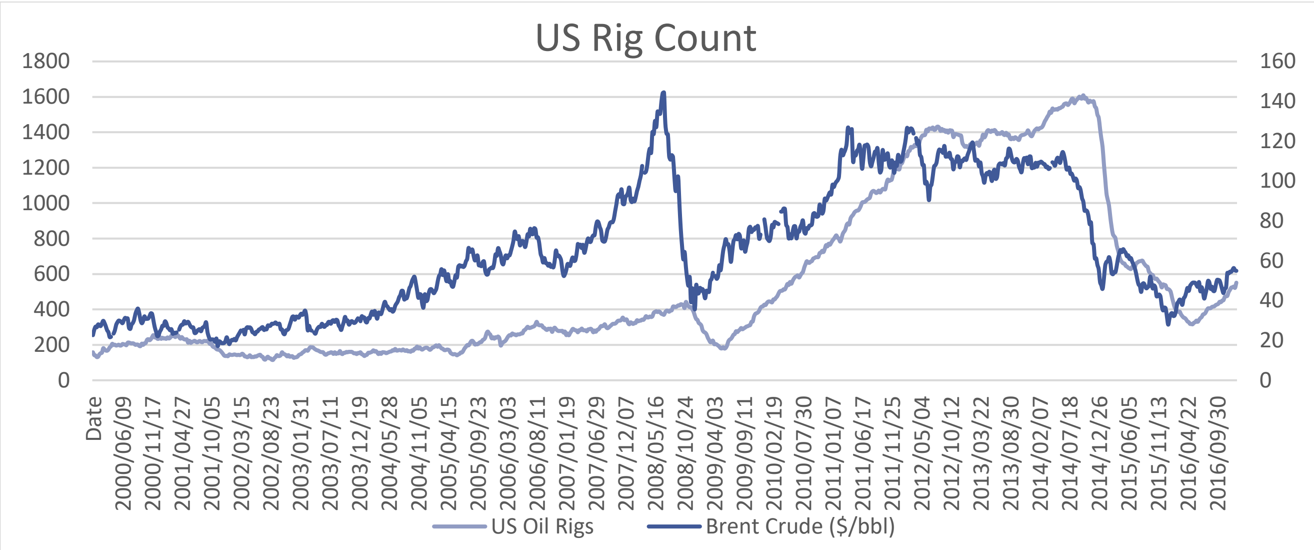
The implication of a Namibian downgrade is less severe than the South African alternative. Very little of the Namibian local currency bonds are foreign owned, thus portfolio flows should be minimal. Furthermore, there will not be a currency implication as we are pegged to the rand. The worrisome consequence will be an increase in the yield of our Eurobonds. The first bond matures in 2021 and Namibia may not have the capacity to repay the US$500 million principle in full and may be forced to roll these USD denominated bonds at an unattractive yield.

Commodity Prices

Oil

2016 was the turning point for oil markets. During 2014 and 2015 OPEC members consistently produced above their mandated production ceilings while at the same time the US experienced a boom in oil production as new shale fracking technology bolstered output. This oversupply was coupled with a fall in demand from a slowing China, which caused a collapse in Brent Crude prices to lows of US$25.76 a barrel.

The year ended on a positive note as Saudi Arabia-led OPEC and non-member countries, primarily Russia, agreed after months of discussion to cut production for the first time since 2008. This pushed prices back to the mid US$50's. Consequently, higher prices have triggered increased production from US shale producers, which acts as a barrier to rising oil prices. As a result of these market dynamics, expectations are for oil prices to remain at current levels of between US$50 - US$60 a barrel.



Source: Bloomberg

USA

Shale producers in the US have undoubtedly increased the short-term price elasticity of supply in the oil market. This type of drilling is not very capital intensive and quick to enter production once set up. Generally, the breakeven level for shale producers is quite low. According to Bloomberg, the average breakeven level for a Texan shale producer is around US$30 but varies widely based on location, equipment and economies of scale and can range from as low as US$23/barrel up to US$59/barrel. As a result, supply is more responsive to price than it is for conventional oil, which has high fixed costs and relatively low variable costs. The emergence of this "swing producer" has the potential to stabilize prices more effectively and quickly than in the past.

OPEC

OPEC and some key non-OPEC producers led by Russia announced plans to reduce their production by 1.8 million barrels a day in the first six months of this year. Saudi Arabia is responsible for about 40% of production cuts and are reducing their output to less than 10 million barrels a day. By leading by example, the Saudis are aiming to encourage other OPEC and non-OPEC members to follow suit, but it is unclear whether their plan will be successful.

Iraq has pledged to cut 210,000 barrels a day to 4.35 million barrels. However, based on export figures it seems that there has been no reduction thus far. Iran, which has only recently had its sanctions lifted, has been exempted from production cuts and are in fact increasing production by 90,000 barrels. Russia claims to have begun their production cuts as well, targeting 300,000 less barrels per day. According to Moscow, reductions have started in early January, by an amount larger than planned. However, according to Bloomberg, the implemented cuts were only 118,000 barrels in January.

It is important to note that OPEC has a long history of noncompliance. OPEC is a textbook example of an international cartel. As a result, the members constantly face a prisoner's dilemma, where each member can get ahead of its peers by breaking agreements. This means that the long run sustainability of any OPEC arrangement is questionable.

Gold

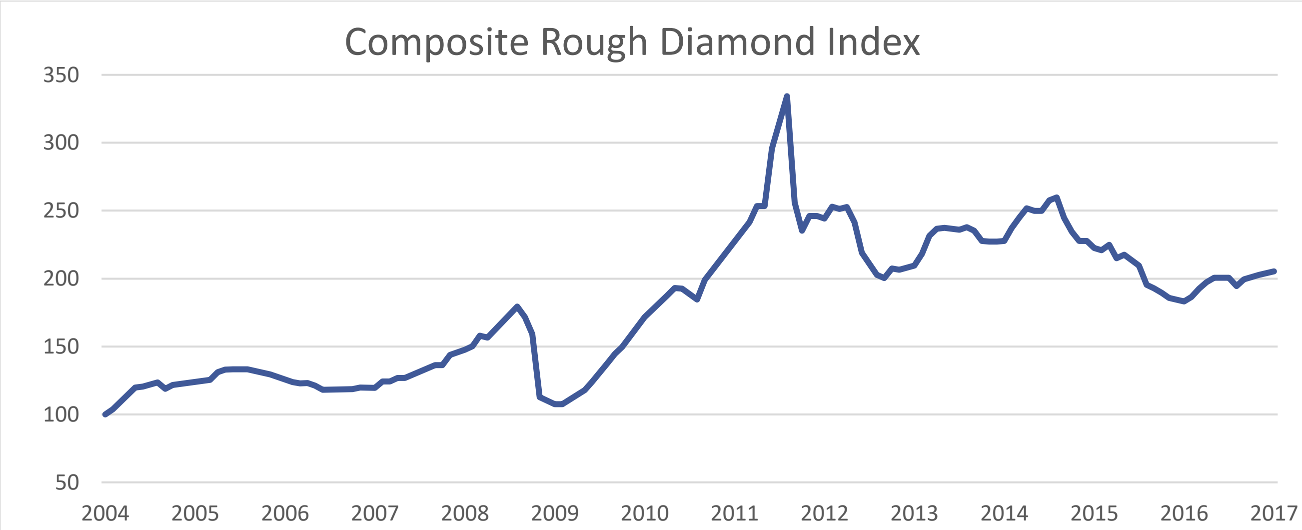
The gold price increased sharply early in 2016 after the equity markets started to show signs of stress and investors headed for the safety of precious metals. However, the rally started to fade quickly after the results of the US presidential election, after which gold gave up more than half of the year's gains. Gold ended the year up 8.6% in 2016, its first positive year since 2012. Although equity markets seem resilient thus far in 2017, gold is up 5.2% year to date.

From a fundamental point of view: the US labour market is tightening, the economy continues to grow, and inflation is topping the Fed's target. This all indicates that the Fed is likely to raise rates as planned this year and set the dollar up to strengthen. These factors are likely to keep the gold price suppressed around the US$1200 level for some time.

However, investor sentiment seems to be the main governing factor of the gold price. Confidence and optimism have been the reason for the recent dip in prices. Favouring the bears, there are a lot of thing to be fearful of in 2017. Firstly, a new US president it about to enter the Oval Office: His policies, while welcomed by Wall Street, are untested, sometimes unclear and sometimes outright frightening. Secondly, it seems Teresa May has her heart set on a "hard Brexit" claiming Britain will quit the EU single market when it leaves the European Union. Finally, the political landscape in Europe is turning more and more to populism, with many nationalist and Eurosceptic parties poised to gain ground in a series of upcoming elections.

Diamonds

The rough diamond price stabilised in 2016 after a major slump in 2015. Rough diamond trading activity recovered strongly in 2016 along with other major commodities and improved demand from China.



Source: Bloomberg

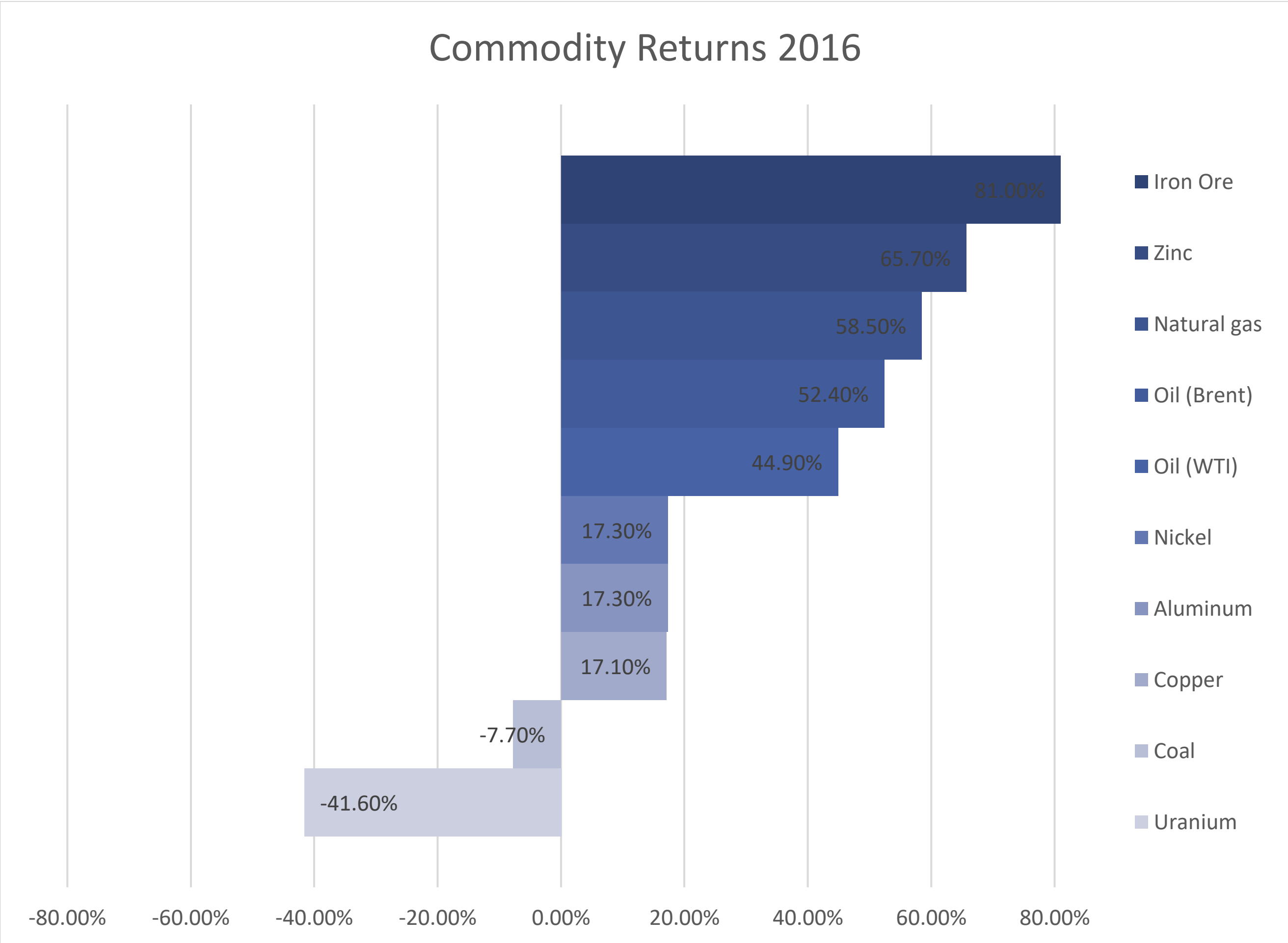
The US is by far the largest market for diamond jewelry, accounting for 30-40% of the market. China and the US are expected to remain the largest markets for diamond jewelry while India is set to become the fastest growing market, and is set to overtake Europe and Japan in terms of size by 2020. The demand and supply balance is to remain tight in the short term, however shortfalls in production are expected as soon as 2020. The supply of rough diamond is set to decline by between 1% and 2% per annum to 2030. This is due to the ageing and depletion of existing mines. However, in the shorter term, diamond production is set to increase from 130 million carats to 150 million carats in 2019 before tapering off.

Diamonds are unquestionably a luxury good, and as a result demand is very cyclical. Recovering economies in Europe and the US, as well as a growing middle class in India, should boost demand for the gems over the short term. There has also been a shift in consumer behaviour. Jewelry manufacturers are quickly realising that millennials are just as avid consumers of diamonds. Although their shopping patterns differ considerably from previous generations, demand is set to grow.

Base Metals

Industrial metal prices posted strong gains in 2016. Among the top performers were iron ore (+81.0%), zinc (+65.7%), aluminium (+17.3%) and copper (+17.1%). The higher prices were supported by stronger demand and a decrease in investment from the major mining companies, constraining supply. Additionally, in another sign of real strength, the Baltic Dry Index more than doubled on a year-on-year basis as dry bulk cargoes moved around the world from producer to consumer.

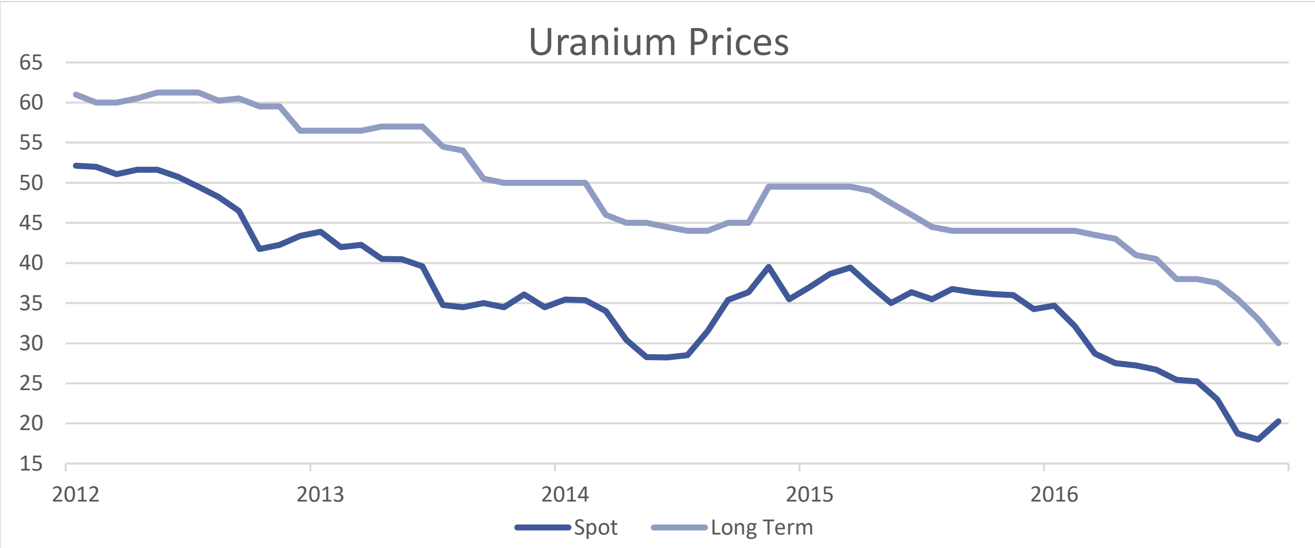
These metals are the essential building blocks of infrastructure and as a result China is currently the largest consumer, implying that the outlook is very dependent on whether China's current stimulus will boost demand for industrial metals. Property demand remains robust, with investment growing at around 6% per annum while the Chinese government is also likely to continue their infrastructure spending as policymakers are determined to meet their targeted GDP growth.



Source: Bloomberg

Furthermore, it seems President Donald Trump is also set to deliver on his promise of a US$1 trillion infrastructure plan. Although details are still scarce, this should be positive for base metal prices. Given these fundamentals, we do not expect the stellar gains seen in 2016 to repeat itself, but believe that these markets are underpinned by strong fundamental demand which should keep prices elevated.

Uranium had a devastating 2016, as the spot price dropped to 12-year lows of US$18.25 per pound, nearly half the US$36.00 spot price witnessed at the end of 2015. According to UX Consulting, long term contract prices fell 57% in 2016. The severe decrease in prices is due to major oversupply, large above ground reserves, and stagnant demand as Japanese reactors are slow to come back online. These prices are well below the estimates of breakeven prices, which are around US$50 for most producers.



Source: Bloomberg

Without a doubt, many uranium companies in the sector have been impacted by the rock bottom prices and supply is starting to be cut. The largest miner of uranium in the world, Cameco announced in April that it would be halting production at its Rabbit Lake mine. Similarly, the local producers have started to scale down. Paladin Energy's Langer Heinrich announced plans to cut production in 2017, citing weak global prices of the commodity, joining an earlier move in this regard by Rio Tinto-owned, Rössing Uranium. However, according to the Chamber of Mines of Namibia, Namibian production of uranium is set to increase in 2017 as the Swakop Uranium Husab Mine, set to become the second largest uranium mines in the world, is expected to start production.

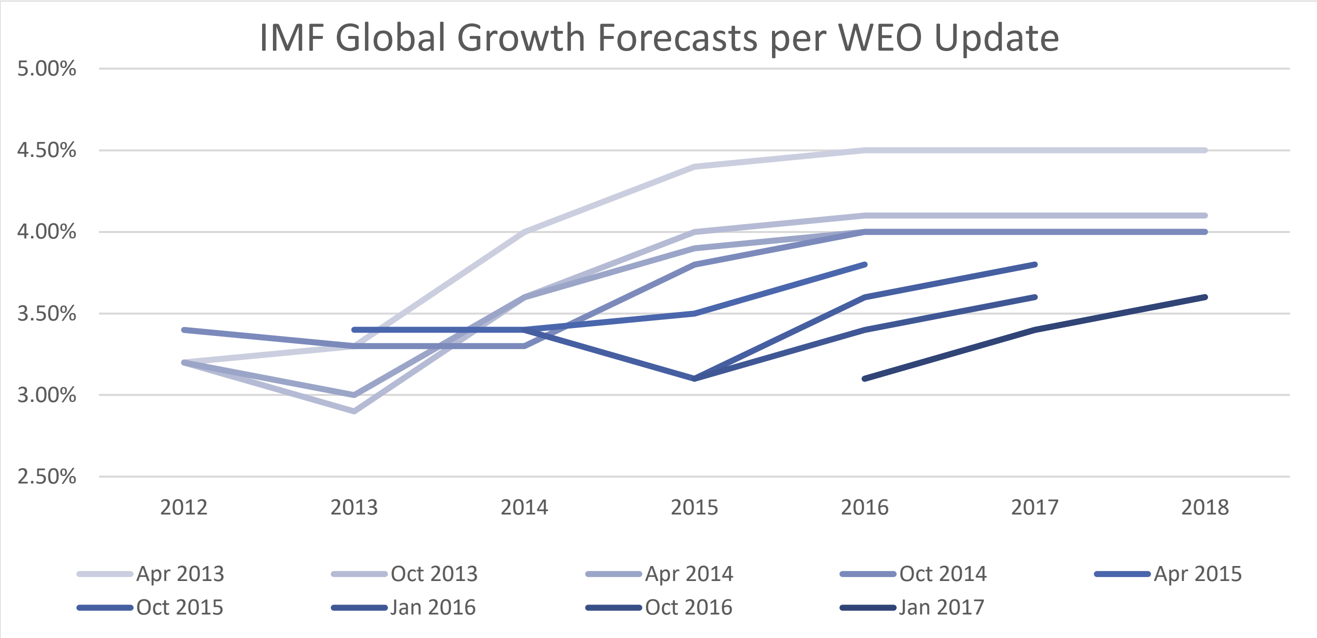
Global Inventories of uranium are at very high levels. Estimates point to six to seven years of supply stockpiled. According to Grant Isaac, CFO of Canadian uranium miner Cameco, there has been a shift in the way uranium is being traded on the global market. More trade is becoming un-covered as utilities are stocking up on uranium while prices are low. The usual long term, five-year contracts are not being entered into, as buyers are not as worried about security of supply as they used to be and producers are unwilling to contract production under breakeven levels.

From a demand perspective, the long-term outlook is promising. Demand is expected to grow significantly in coming years as reactors in Japan start to come back online post-Fukushima. Furthermore, many countries, particularly China and India, have been looking to reduce their carbon footprint and improve their air quality, and are turning to nuclear power to reach this goal. Currently there are 59 nuclear reactors under construction world-wide, 20 of which are located in China, seven in Russia and five in India. Most of these are only expected to come online around 2020.

Despite the current glut, the outlook for uranium price is quite positive, there is a strong consensus in the sector that it'll bounce back, but this might take a few years to achieve. We do not see uranium prices remaining at the irrationally low prices they are currently trading at, and expect some recovery to around US$27-32 by the end of 2017. If nuclear projects commence as scheduled, we expect uranium prices to move much higher over the long-term. By 2020 demand and supply dynamics should have rebalanced to such an extent that prices could reach and level out around US$65 according Dundee Capital Markets.

Global economy

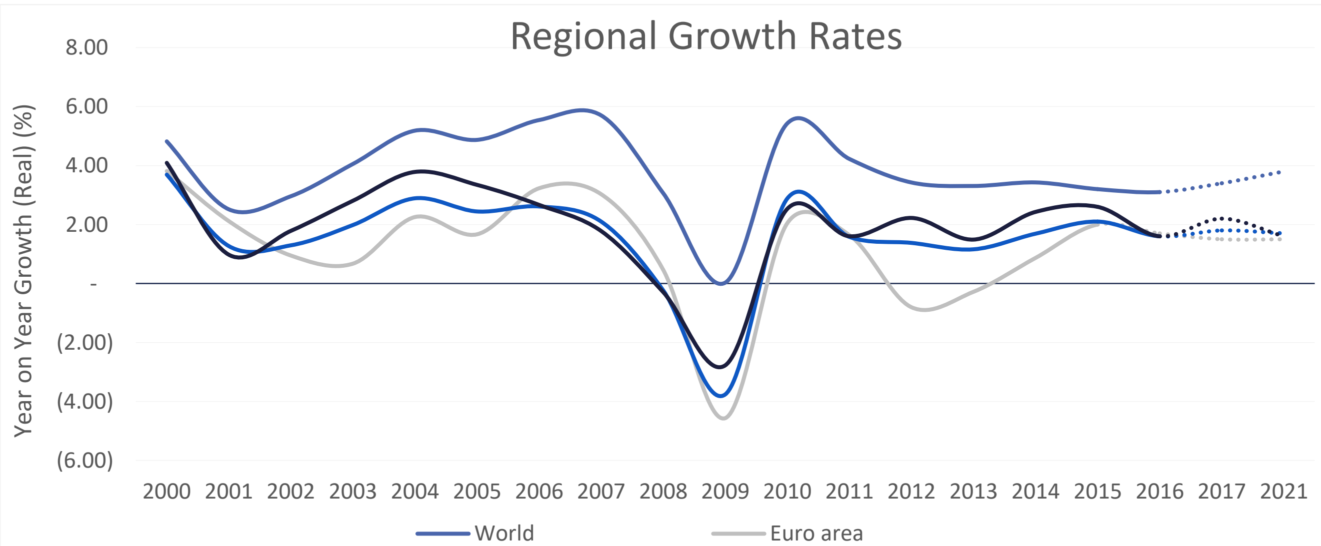
Global growth for 2016 was projected at 3.6% in January 2016 by the International Monetary Fund (IMF) in its World Economic Outlook update. Last year October's update estimated that global growth will come in at a more sedate 3.1% in 2016. Projections for 2017 global growth have also been revised down to 3.4% from 3.6% last year and the latest IMF World Economic Outlook update projects 2018 growth picking up to 3.6%. The trend for the last few years has thus been for global growth estimates to come in below the forecasted figures with growth accelerating in the future. As the graph below indicates, expected increases in the rate of growth have not materialized over the last few years and growth expectations have been revised down with each new update.



Source: IMF, IJG Securities

Developed Markets

The IMF expects developed markets to grow by 1.9% and 2.0% in 2017 and 2018, respectively. However, much uncertainty exists on the growth prospects of developed markets. Growth forecasts for advanced economies are particularly uncertain in light of possible changes in the policy stance of the United States under the Trump administration. The forecast by the IMF also reflects a more subdued outlook for advanced economies given the fact that the UK voted in favour of leaving the European Union in June last year.



Source: IMF, IJG Securities

United States of America

The election of Donald Trump as president of the US will fundamentally change the economic, financial and security policies employed by the US, and these variations will have a significant impact on economic performance across the globe. The defining feature of Trump's economic approach is likely to be a rebalancing of the policy mix away from the exclusive reliance on easy monetary policy towards a more balanced reliance on deregulation of economic activity, supported by an expansionary fiscal policy as a means to kick-start the US economy. Incidentally, this is the same policy rebalancing that has been recommended for the Eurozone for a number of years now. This strategy could be successful in moving the US economy away from low-growth secular stagnation towards significantly more buoyant performance. Doubling of the growth rate of real GDP in the US over the next two years would not be surprising, nor a further significant move up of equity valuations and a material further appreciation of the US Dollar.

Below expected activity in the second half of 2015 and the first half of 2016 points to some loss in momentum in the US despite a more supportive fiscal stance and a slower projected pace of monetary policy normalization. Job creation has been healthy, the housing market is picking up pace, and consumer spending remains strong. However, a prolonged inventory correction cycle and weak business investment has prompted the IMF to revise their 2016 forecast downward to growth of 1.6%. The weakness in capital spending reflects in part, negative investment sentiment, dollar appreciation, financial turbulence earlier in the year, and heightened policy uncertainty related to the electoral cycle. In 2017, growth is expected to pick up to 2.2%, as the drag from lower energy prices and past appreciation of the US Dollar fades. Medium-term potential growth, projected at 1.8%, will likely be depressed due to an aging population and a continuation of the recent trend of low total factor productivity growth.

Eurozone

The Euro area recovery is expected to proceed at a slightly lower pace in 2016 and 2017, relative to 2015. Low oil prices, a modest fiscal expansion in 2016, and easy monetary policy will support growth, while weaker investor confidence on account of uncertainty following the Brexit vote will weigh on activity. Growth for the area as a whole is projected to decline slightly to 1.7% in 2016 and 1.5% in 2017. In Germany, growth is forecast to pick up this year to 1.7%, before softening to 1.4% in 2017. In France, growth is expected to stabilize at 1.3% in 2016 and 2017. In Spain, growth is expected to remain broadly stable in 2016 and moderate from 3.1% to 2.2% in 2017. In Italy growth is projected to notch up slightly from 0.8% in 2016 to 0.9% in 2017. Medium-term potential growth in the euro area is projected at 1.4%, weighed on by unfavourable demographics; high unemployment, political uncertainty, banking systems that are restrained from expanding credit by onerous regulation, a monetary policy that is geared towards supporting the periphery, and an unsustainable public debt burden in key countries.

United Kingdom

Although the market reaction to the Brexit shock was reassuringly orderly, the ultimate impact remains unclear, as the fate of institutional and trade arrangements between the UK and the EU is uncertain. Adding to the uncertainty is the impact of the referendum results on political sentiment in other EU members, as populist politics gains traction on the continent. In the UK slower growth is expected since the referendum as uncertainty in the aftermath of the Brexit vote weighs on firms' investment and hiring decisions and consumers' purchases of durable goods and housing. The IMF forecasts GDP growth in the UK at 1.8% in 2016 and 1.1% in 2017, based on the assumptions of smooth post-Brexit negotiations and a limited increase in economic barriers. Their Medium-term growth forecasts for the UK have been revised down to 1.9% as greater impediments to trade, migration, and capital flows are expected to erode growth potential.

Japan

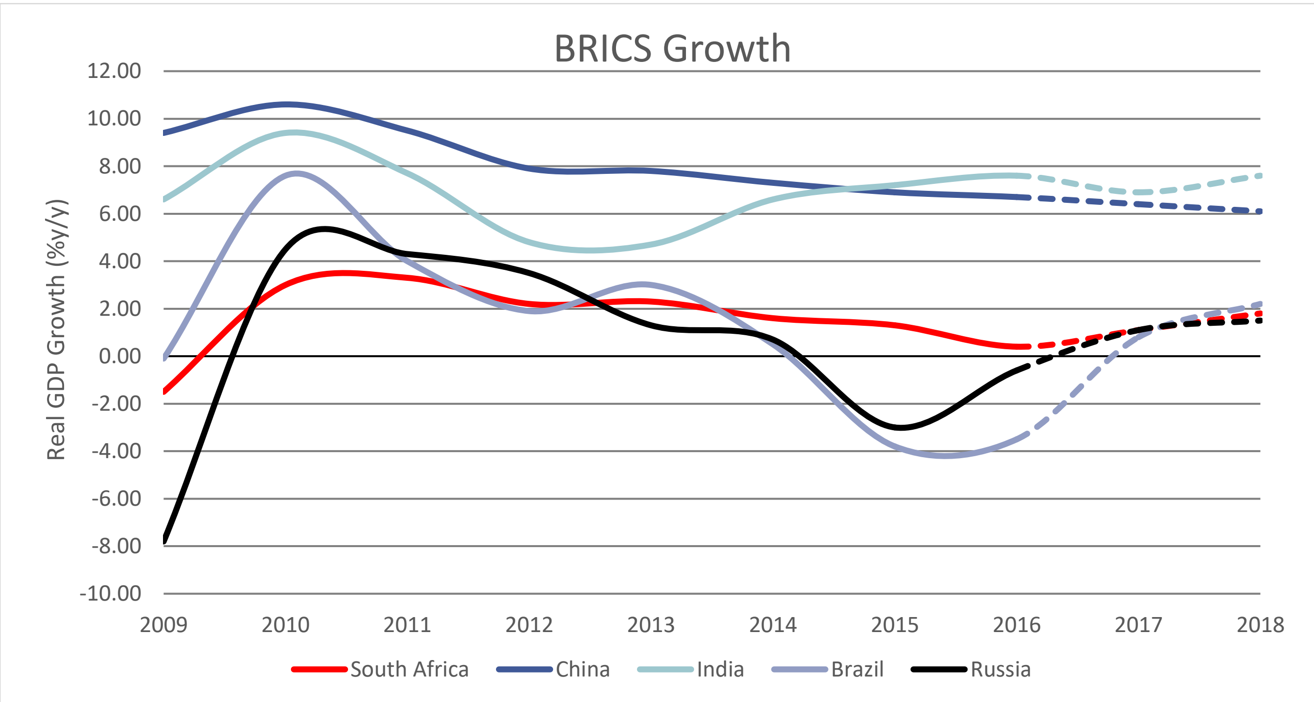
The IMF projects Japan's growth to remain weak at 0.5% in 2016, before rising to 0.6% in 2017. Postponement of the consumption tax hike, the recently announced growth enhancing measures, including the supplementary budget, and additional monetary easing will support private consumption in the near term, offsetting some of the drag from the increase in uncertainty, the recent appreciation of the yen, and weak global growth. Japan's medium-term prospects remain weak, primarily reflecting a shrinking population. The IMF's forecast for Japan does not reflect the adjustment to the Bank of Japan's monetary policy framework announced in September last year, which includes a zero interest rate target on 10-year government bonds (JGBs) and a commitment to temporarily overshoot the 2% inflation target.

Developing Countries

Emerging markets performed well in 2016 after three consecutive years of negative returns from 2013 to 2015. The year got off to a slow start due to concerns surrounding slowing growth in China and commodity price weakness, but by the end of the year the MSCI Emerging Equity Index returned 11.2% while emerging market bonds gained nearly 10%. Although the US dollar continued to strengthen throughout 2016, especially following the US elections, emerging market currencies did not fare too poorly with the MSCI EM currency index strengthening by 3.48%.

Overall the fiscal heath of emerging markets is improving. Firstly, manufacturing economies are once again running current account surpluses, while commodity-exporting countries are making headway in reducing their deficits after commodity prices rebounded. Secondly, debt-to-GDP ratios of emerging-market countries are generally below those of developed markets, providing a more stable and sustainable fiscal position. Finally, interest-rate differentials between the two groups are wide, giving emerging-market central banks greater flexibility to maneuver. Higher yields in emerging markets are also likely to attract flows as the "hunt for yield" does not exhibit any signs of abating.

Emerging markets should be able to withstand the slow and gradual interest rates hikes signalled by the Fed. At the December FOMC meeting, the dot plot forecast showed three rate hikes of 25bps in 2017. According to the Fed Futures implied probability, the market currently expects only two hikes. These hikes are generally considered a sign of confidence and confirmation of accelerating growth in the US, which should bolster emerging market asset prices. The absence of these hikes would likely be a signal of slowing growth.



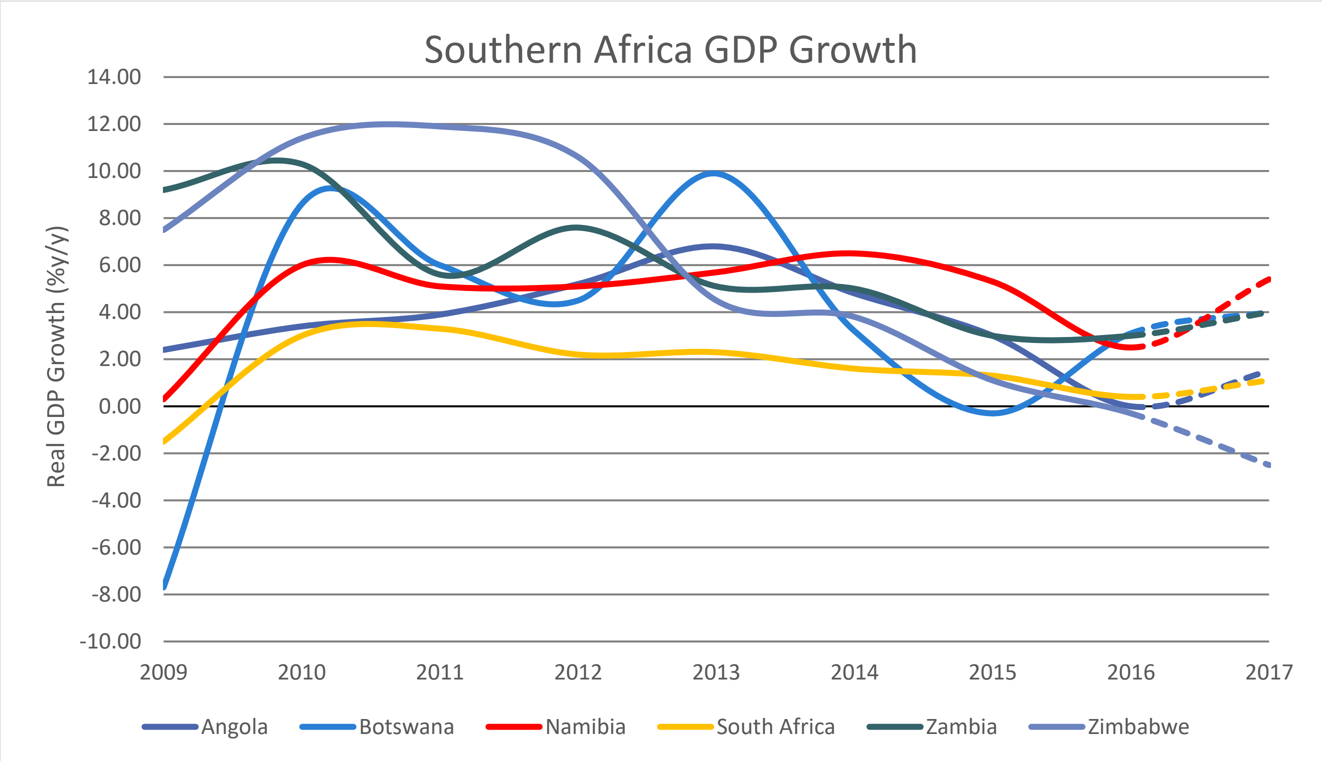
Source: Bloomberg Consensus

GDP growth in a number of emerging market countries have been gaining ground. Although Brazil and Russia posted negative growth in 2016 the recent upswing in the growth trajectories of these two could see further improvement. This should lift the aggregate growth rate of the BRICS nations if the trend continues.

Growth in China has slowed as they transition from their investment based economy to a consumption based one, but it seems to be stabilising around current levels. China posted GDP growth of 6.7% for the first three quarters of 2016 and thus is set to deliver on its target of 6.5% for 2017. However, a large amount of monetary and fiscal stimulus has been used to meet short term growth targets, brings into question the long-term sustainability of this growth path. China has also experienced very high credit growth and a rise in shadow banking. There is a high level of leverage in the system and signs of an uptick in non-performing loans have started to emerge.

Furthermore, China faces an elevated risk of entering a trade war with the US. Since being elected, President Trump has threatened to raise tariffs on Chinese products and accused the country of manipulating their currency. Additionally, the new president has made some suggestive appointments for the positions of National Trade Council Director and US Trade representative, namely Peter Navaro and Robert Lighthizer, two choices based largely on the candidates' history of anti-china rhetoric.

SADC



Source IMF, BoN

With a pickup in commodity prices, GDP growth should strengthen in 2017 for most of the Southern African economies. However, the reliance on resources leave these economies vulnerable to internal and external shocks. This became shockingly apparent over the last two years as commodity prices collapsed, demand for natural resources in China fell and global economic growth slowed.

African countries that saw growth falter are desperately looking for lifelines from the IMF and the African Development Bank. Some of the hardest hit include Mozambique, Zambia and Zimbabwe where debt-to-GDP levels are becoming difficult to manage. These countries will need to make huge fiscal adjustments to qualify for any type of aid.

Angola was also among some of the worst hit as their economy was crippled by the halving of oil prices, a resource from which almost all of the country's foreign exchange earnings are derived. As a result, zero GDP growth is expected in 2017. However, pain is spreading to other areas of the economy as internal fiscal and monetary pressures build up and foreign exchange reserves dwindle. This situation becoming even more of a problem as foreign banks pull out of supplying US Dollars due to noncompliance with anti-money laundering rules.

South Africa had a turbulent 2016, and 2017 seems to be headed in the same direction. Growth for 2017 is expected to improve to 1.1% versus the expected 0.4% for 2016. South Africa will continue to face the same economic and political headwinds. Rising political tensions continue to weigh on investor confidence while succession talks steal attention away from important policy matters. Furthermore, a ratings downgrade has been looming over South Africa's head for a while now, but with growth finally starting to tick up there is an increasing possibility of South Africa avoiding such a downgrade. Coupled with an increase in GDP growth, inflation is also expected to return to the 3-6% target, which means that interest rate increases should be on hold, for now.

As has been the case in the past, Namibia's outlook is connected to that of South Africa. A pause in the rate hiking cycle will give Namibia some room to breathe. The recovery in commodity prices has been a good tailwind in 2016 and should continue to benefit the country going forward. Mining production is expected to increase as the Husab mine comes online, which has the potential to expand mining's direct contribution to GDP from 11.9% 2015 to 17.0% in 2018, according to the Chamber of Mines. Furthermore, the agricultural sector may also post a decent recovery if rainfall continues to improve. However, government debt has been growing at an unsustainable pace and liquidity in the country is tight. These risks should be carefully managed.

Supply side growth

Namibia's growth is expected to have slowed markedly in 2016, off the back of a high base set in previous years, and an unwinding of expansive fiscal and monetary policy, influenced by external pressures, particularly on export earnings. Details of our growth expectations for 2017 are given in the following section.

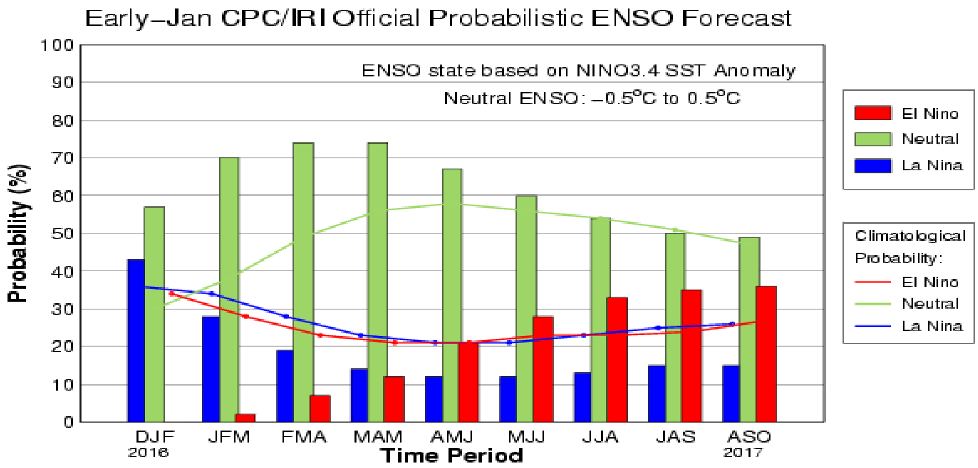
Real GDP Growth Rates	Actual		"Nowcast"		Forecast				
Industry	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Agriculture and forestry	-19.3	11.1	-12.8	-1.6	6.6	-0.2	2.4	2.3	0.0
Livestock farming	-25.5	13.8	-15.3	5.0	7.7	-3.5	0.6	0.3	0.0
Crop farming and forestry	-9.6	7.6	-9.5	-10.0	5.0	5.0	5.0	5.0	0.0
Fishing and fish processing on board	3.0	-2.5	-2.8	1.0	2.9	2.0	2.0	2.0	2.0
Mining and quarrying	2.6	-6.2	7.3	-8.4	30.6	8.1	1.9	0.9	1.1
Diamond mining	10.0	6.2	-7.1	-10.8	24.0	2.6	2.5	0.0	0.0
Uranium mining	-7.0	-9.8	-3.3	8.2	104.6	24.9	0.0	0.0	0.0
Metal ore mining	-25.7	0.6	108.6	-22.5	5.8	0.0	0.0	0.0	0.0
Other mining and quarrying	11.0	-39.4	7.0	6.0	6.0	6.0	6.0	7.0	8.0
Primary industries	**-3.2**	**-1.8**	**0.7**	**-5.5**	**20.8**	**5.6**	**2.0**	**1.3**	**1.0**
Manufacturing	4.6	-2.1	-6.6	2.5	1.3	2.6	0.0	-0.7	-0.4
Meat processing	30.3	-17.2	-9.1	6.2	1.2	0.8	0.3	0.7	0.9
Grain Mill products	12.7	13.7	7.6	-23.9	8.8	1.8	2.3	0.9	-1.1
Other food products	3.4	12.0	-11.7	-1.4	0.0	4.0	-0.5	-0.5	-0.5
Beverages	13.5	-16.5	-3.3	-0.1	2.4	1.2	1.1	1.2	-0.4
Textile and wearing apparel	6.5	-6.9	-12.8	0.0	0.0	0.0	0.0	0.0	0.0
Leather and related products	-7.4	10.7	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Wood and Wood product	3.3	1.6	4.2	-0.8	5.9	2.6	2.6	2.5	2.5
Publishing and Printing	6.6	10.6	5.0	-9.4	0.2	-0.3	1.8	1.1	-0.4
Chemical and related products	4.3	1.2	4.6	0.0	0.0	0.0	0.0	0.0	0.0
Rubber and Plastics products	5.8	5.4	8.5	-12.9	3.2	0.1	1.3	0.7	-0.1
Non-metallic minerals products	3.9	5.6	8.1	-25.7	17.2	0.6	0.6	0.1	-0.8
Basic non-ferrous metals	-4.0	-3.2	-13.7	15.8	-0.5	7.8	-1.6	-4.1	-0.8
Fabricated Metals	5.6	3.7	2.6	-9.1	1.6	1.7	0.9	0.1	-0.4
Diamond processing	-7.4	-11.1	-47.0	117.0	-7.0	0.8	-1.8	-2.9	-2.3
Other manufacturing	8.9	-2.9	-7.5	10.1	-0.6	-3.3	-0.2	0.9	0.5
Electricity and water	-1.5	-3.2	4.0	3.0	3.0	3.0	3.0	3.0	3.0
Construction	28.5	42.9	-4.0	-18.0	-8.0	14.0	6.0	6.0	6.0
Secondary industries	**8.6**	**9.5**	**-4.8**	**-4.3**	**-1.1**	**5.7**	**2.1**	**1.7**	**2.0**
Wholesale and retail trade, repairs	14.4	14.6	2.0	-2.5	-10.0	5.0	5.0	5.0	5.0
Hotels and restaurants	9.2	10.8	8.5	8.5	8.5	6.0	6.0	6.0	6.0
Transport, and communication	6.4	5.9	10.5	-1.1	2.7	4.1	4.3	4.6	4.0
Transport	12.8	3.6	12.7	-5.0	2.0	5.0	5.4	5.8	4.3
Staorage	3.8	5.8	14.1	2.0	5.8	6.2	6.5	6.8	6.9
Post and telecommunications	0.8	8.5	6.4	2.0	2.0	2.0	2.0	2.0	2.0
Financial intermediation	17.9	10.9	6.0	5.0	5.0	5.0	5.0	6.0	7.0
Real estate and business services	4.6	2.9	6.1	1.5	3.0	3.9	3.0	3.4	3.3
Real estate activities	4.9	3.2	4.9	2.1	3.4	3.5	3.0	3.3	3.2
Other business services	4.0	2.3	9.6	0.0	2.0	5.0	2.9	3.8	3.6
Community, social and personal service activities	-9.9	3.5	1.7	1.7	1.7	1.7	1.7	2.7	3.7
Public administration and defence	3.6	-0.9	8.5	-1.5	-7.5	-2.0	0.0	3.2	4.2
Education	3.3	12.0	4.0	3.1	3.1	3.1	3.1	4.1	5.1
Health	9.0	10.2	1.0	1.0	1.0	1.0	1.0	2.0	3.0
Private household with employed persons	-6.7	5.5	2.5	2.5	2.5	2.5	2.5	3.5	4.5
Tertiary industries	**7.2**	**7.7**	**6.0**	**0.7**	**-1.2**	**3.0**	**3.3**	**4.2**	**4.7**
Less: Financial intermediation services indirectly measured	18.8	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
All industries at basic prices	**5.2**	**6.3**	**3.0**	**-1.3**	**2.5**	**3.9**	**2.7**	**3.2**	**3.5**
Taxes less subsidies on products	11.6	8.4	8.5	-4.0	0.0	9.2	9.2	9.2	10.2
GDP at market prices	**5.7**	**6.4**	**3.5**	**-1.5**	**2.1**	**4.4**	**3.3**	**3.8**	**4.2**

Agriculture and forestry

Namibia and most of Southern Africa, have been in the grip of a progressing drought over the last four years. Looking forward, rainfall for 2017 is expected to be favourable over most parts of the country. Therefore, we expect the livestock sector to perform in 2017 in a similar manner to 2014 from a gross value addition perspective. As a consequence of the number of cattle that were slaughtered and exported over the last few years, we expect abnormally low livestock sales figures in 2017, pointing to herd-rebuilding as inventories are depleted. However, the industry will take a couple of years before the national cattle herd has recovered. We forecast a good year for the forestry sub-sector, as normal crop harvests are expected given the favourable rains received so far. That said, we forecast the Agriculture industry to grow by 10.0% in 2017, however, we remain of the belief that our current forecasts are reasonably ambitious and may well see a downside surprise to such.

Weather

Rainfall predictions for this rainy season have improved substantially and early indications showed that the El Niño phenomenon had already dissipated by the middle of June 2016. This made way for neutral to poor La Niña conditions. According to the outlook status released on the 12th of January 2017 by the American Climate Prediction Centre and International Research Institute for Climate and Society, overall, the ocean and atmosphere system remained consistent with a weak La Niña. A transition to ENSO-neutral is expected to occur by February 2017, with ENSO-neutral then continuing through the first half of 2017. The graph below indicates the chance of each outcome for each 3-month period.

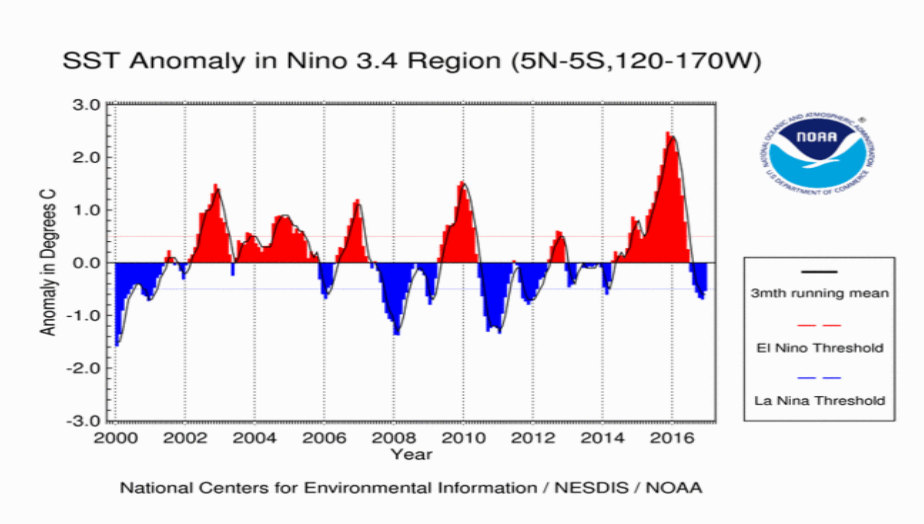


Source: American Climate Prediction Centre and International Research Institute for Climate and Society

La Niña is a coupled ocean-atmosphere phenomenon that is the counterpart of El Niño as part of the broader El Niño Southern Oscillation climate pattern, commonly called ENSO. La Niña is the positive phase of the ENSO and is associated with cooler than average sea surface temperatures in the central and eastern tropical Pacific Ocean, where the El Niño is the warm phase of the ENSO and is associated with a band of warm ocean water.

Usually the probability of a strong La Niña increases after a strong El Niño, like the El Niño that occurred in the 2015/16 rainfall season. The El Niño weather phenomenon of 2015/16 was declared as the strongest of its sort that has been recorded in history, which led to the greatest drought on record in Southern Africa, even exceeded the phenomenon of 1997/98.

Experts say that a La Niña weather phenomenon leads to wetter than normal weather conditions from December to March in Southern Africa. Weather models indicate that a weak La Niña continued during December, with negative sea surface temperature (SST) anomalies continuing across the central and eastern equatorial Pacific. The weekly Niño index values fluctuated during the last month, with the Niño-3 and Niño-3.4 regions hovering near and slightly warmer than -0.5°C.

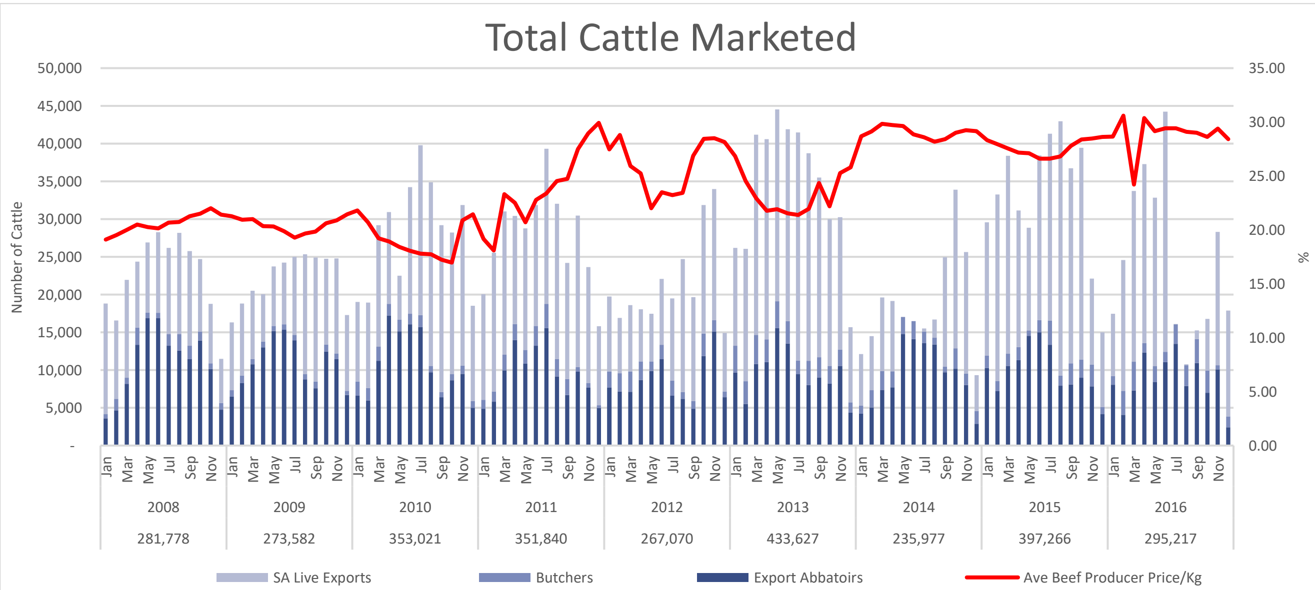


A La Nina weather phenomenon could continue for between one to three years and is coupled with significant variation in timing, intensity and evolution. In general, a normal to above-normal quantity of rain is expected over the summer rainfall area. The season will probably begin a bit later than normal but quite a bit of rain is expected in midsummer. Dam levels ought to have improved in January, although the full impact of the rainy season on dam levels is only expected in April. The cumulative effect of the drought of the past number of years will, however, still have a negative effect on the new season, even if good rains fall.

Beef

Namibia experienced severe drought conditions over the last four years, which led to pastures deteriorating and ground water sources drying up. The poor veld conditions and high feeding costs as a result of the drought, resulted in farmers being forced to reduce livestock numbers.

The consequences of the large number of cattle that were slaughtered and exported to South Africa on the hoof caused a chain reaction on the supply of future stocks. This means the size of the national herd declined following increased marketing; and rebuilding the herd will be a lengthy process, which could take from five to seven years. Subsequent years see less marketing due to livestock numbers being restored, but in Namibia these numbers never reach pre-drought levels as some farms fail and farmers leave the sector, destock or shift to wildlife and tourism as a preferred land use. Thus even multiple good rainy seasons leave the country with less meat production than before the preceding drought.



Source: Namibia Meat Board

South Africa imposed strict import regulations for cattle, sheep and goats from Namibia, Botswana, Lesotho and Swaziland, effective 1 July 2016. However, this was short lived and South Africa commenced with the issuance of less stringent import conditions for livestock intended for direct slaughter in that country.

The weaker exchange rate offers good opportunities to the export market, which has been gaining momentum with US and Chinese markets opening up. Foot and mouth disease is under control and on-farm, biosecurity remains of the utmost importance for Namibia to maintain its status as an export country. This is crucial at a time when exports are important to ensure the competitiveness of the sector.

China will be an exciting market because of a growing demand from the growing middle class, however, exports of Namibian beef to China are hanging in the balance with outbreaks of lumpy skin disease in certain parts of Namibia. Namibia, which announced in 2015 that it was the only country in Africa allowed to export beef to China, including bone-in beef, will not be allowed to export any beef products to China for at least 12 months after an outbreak of the disease, detected in June 2016. Under the agreement signed between Namibia and China it was agreed that beef exports must come from areas south of the Veterinary Cordon Fence that are free of diseases including contagious bovine pleuropneumonia (lung sickness), lumpy skin disease and bovine spongiform encephalopathy (BSE), commonly known as mad cow disease. Lumpy skin disease occurs throughout Africa and it usually occurs during the wet summer and autumn months, when flies are in abundance. As it is stipulated in the agreement, Namibia might never be able to penetrate this market. In order to export to the Chinese markets, the agreement will need to be redesigned with less stringent requirements with regards to disease, especially lumpy skin disease.

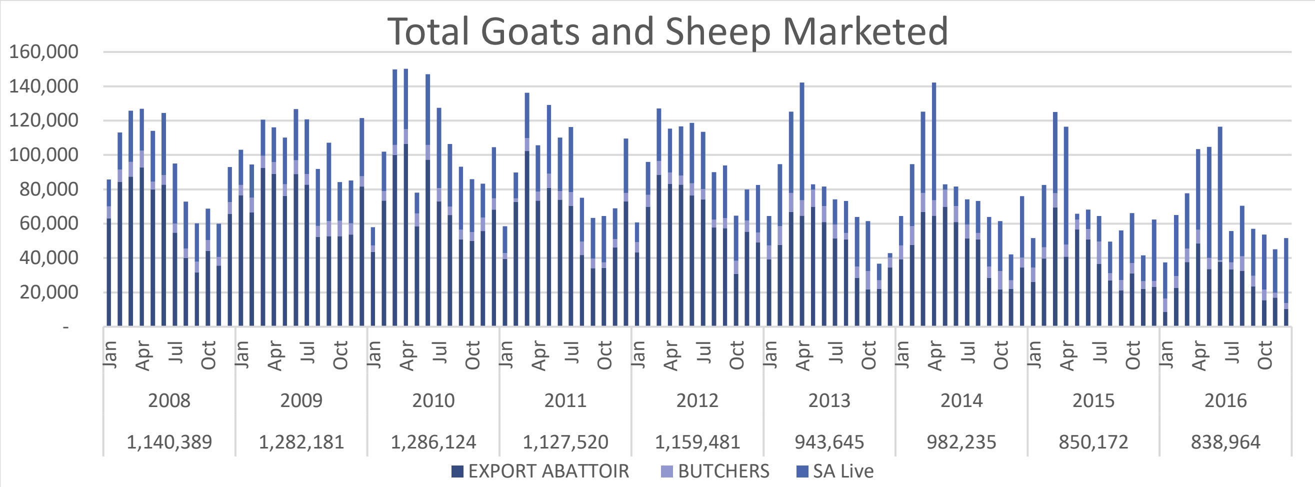
Namibia also became the first African country whose beef qualified for the lucrative export market of the United States of America. Following a final ruling from the US Food Safety and Inspection Service published on 13 July 2016, Namibia was added to the list of countries eligible to export meat and meat products to the US. The decision will see Namibia exporting boneless, not ground, raw beef products such as prime cuts, chuck, blade, and beef trimmings from certified establishments to the US. Namibia is the first African country on the list of only 33 countries worldwide that have been approved to export meat to the US. In its application for approval, Namibia projected that beef exports to the US could reach up to 860,000kg in the first year, increasing to 5.7 million kg within five years. Namibia also received approval to export other meat products in the future by showing that those products meet other applicable US requirements for those products.

Outlook

The prolonged drought resulted in large numbers of cattle being marketed, which should support prices during the herd rebuilding phase. The expected mild La Niña weather conditions during the 2016/17 season will contribute positively to pasture conditions and be beneficial to rebuilding the herd. The weaker currency brings about opportunities for the growing export market. In order to take full advantage of these markets, better technology and management, higher intensification, cultivated production systems, and precision farming will be some of the key drivers to increase output in Namibia.

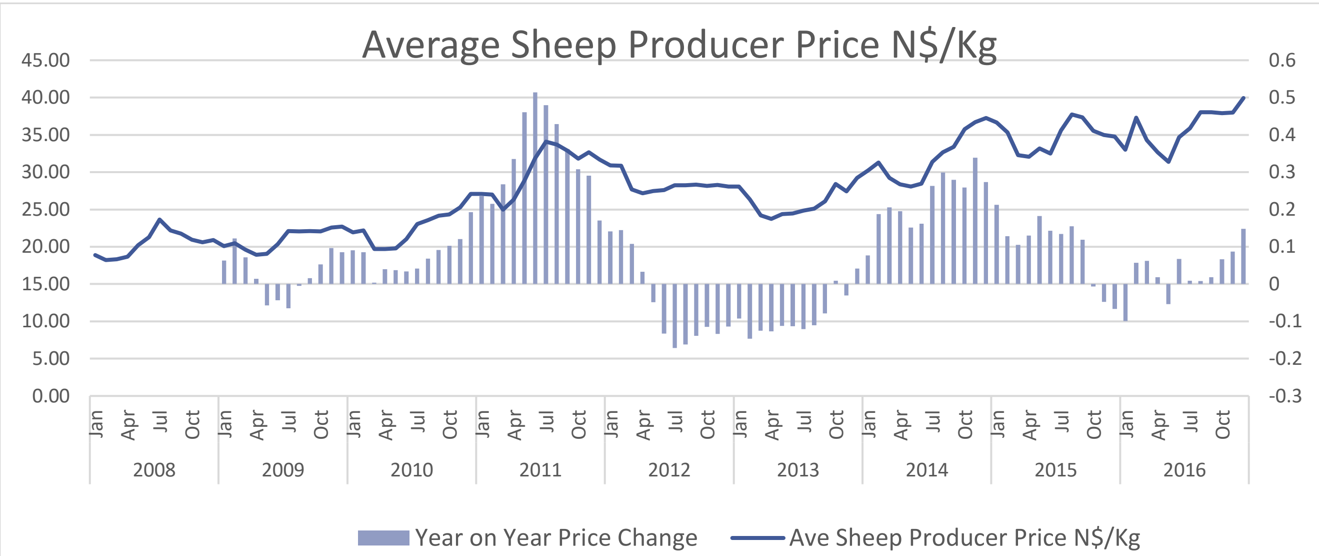
Sheep & Goats

Following the dry conditions over the last few years, more small stock was marketed. However, the extent was not as severe as that of the cattle herd. The local sheep herd has been showing a steady decline in numbers over the past few decades. The drought has contributed to exacerbating this situation, along with other factors such as stock theft, which discourages producers from farming with sheep.



Source: Namibia Meat Board

With mild La Niña weather conditions are expected in the summer of 2016/17, decent rainfall should support producers in rebuilding their herds. The herd-rebuilding process will result in less sheep meat production during the year and hence add provide some support to lamb and mutton prices. Steady price increases have been recorded for meat and lamb prices, with the average sheep producer price up 111% since January 2008, whereas the average beef producer price is only up 40.2% over the same period.



Source: Namibia Meat Board

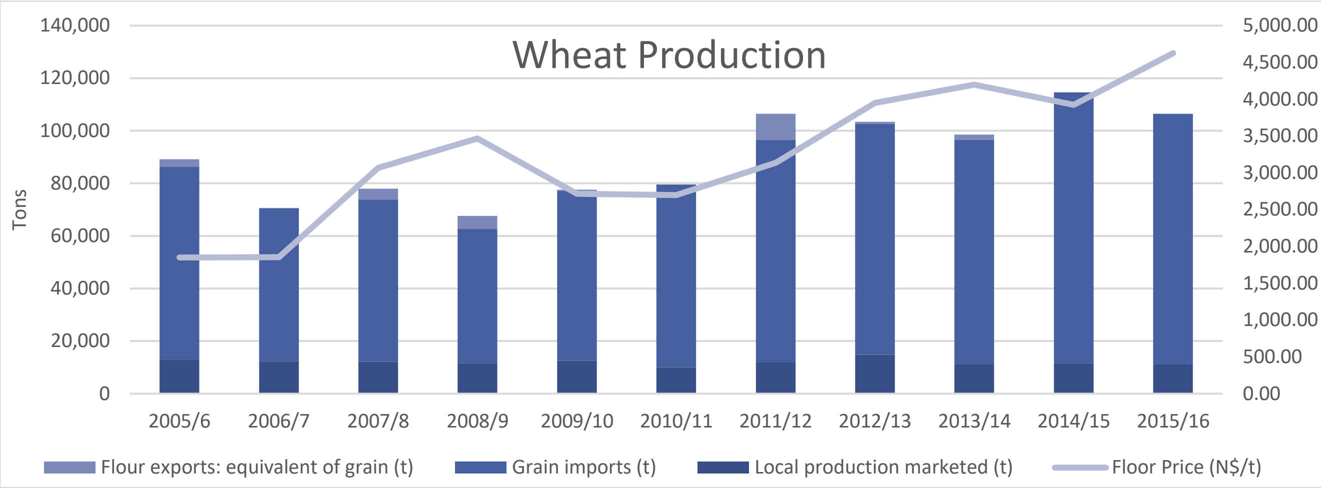
In terms of lamb and mutton products, the spending ability of consumers is the most important price driver. During difficult economic periods, consumers are likely to consume cheaper meat protein such as poultry and pork, and to some extent beef, rather than lamb and mutton. As South Africa is a large importer of Namibian small stock, demand for sheep meat is negatively affected by the recent weaker economic activity, higher food prices following the drought, raised interest rates and the high unemployment rate.

Outlook

Mutton prices are expected to remain supported into the next year as a result of the aftermath of the drought. Producers are expected to start rebuilding their herds, after losing animals during the dry period. The national herd has been declining, and it will take some time for it to return to previous levels. However, if weather conditions deteriorate in summer, encouraging producers to reduce their stock levels still further, resulting in temporary abundant supplies in the market, prices will come under pressure. The South African economy is not expected to rebound aggressively, with the Reserve Bank predicting 1.2% growth for the 2017, which does not bode well for the demand for sheep meat, although this is offset to some extent by deteriorating herd size. The long-term demand prospects remain positive, owing to the growing middle class.

Wheat

As wheat is a winter crop and Namibia only receives summer rainfall, wheat can only be planted under irrigation in Namibia. The harvest of wheat grown under irrigation for 2016 was in line with previous years and remained steady over the last decade, however the hectares planted have declined marginally as some farmers moved away from wheat and planted Lucerne which is less labour intensive and more suitable to the Namibian climate.



Source: Namibian Agronomic Board

Namibia is a net importer of wheat. In the 2015/16 marketing season Namibia imported 95,190 tons of wheat, which have been increasing over the last 10 years as consumption has increased. The floor price for 2016 was R4,624.84 per ton. Over the 2014/15 season the average wheat price was R3,795 per ton and in 2015/16 the average wheat price increased to R4,279 per ton. The increase in the wheat price was a result of the weaker Rand and the effect of drought on the final yields. During 2016 the wheat price reached a record of nearly R5,000 per ton.

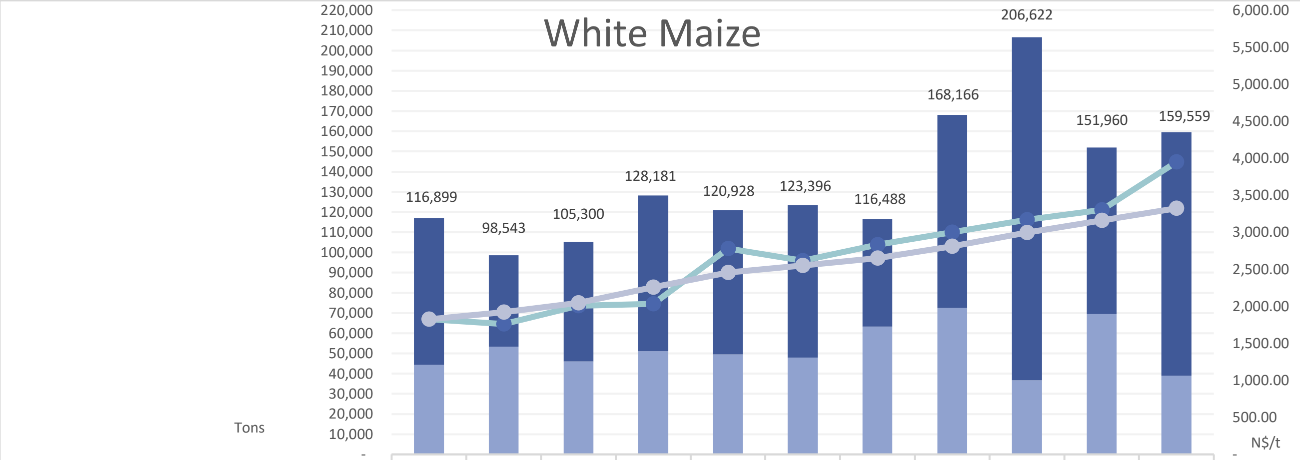
Outlook

The long-term outlook for wheat prices points to a sideways movement in international prices as sufficient amounts of wheat are expected to be produced. In the domestic market, the previous few years have seen a slight decline in wheat-planted areas, however the hectares planted is expected to stabilise at current levels as producers enjoy industry and government support. This support encourages increases in wheat production moving Namibia closer to being self-sufficient in this regard. In Namibia, the production of wheat is expected to increase and imports decline as the completion of projects such as the Neckartal Dam allows for more planting capacity.

White Maize

According to the Namibia Agronomic Board white maize and mahangu remain the most important source of staple food in Namibia. White maize is mostly produced in southern Africa and Mexico for human consumption and under contract in the USA. The rest of the world mainly produces corn, or yellow maize, utilised for animal feed. Although Namibia is still a net importer of the staple grain, local production shows a gradual increase during normal rain-fed circumstances. The grain is produced as both a rain-fed and an irrigated crop.

The main white maize marketing season normally commences on 1 May each year, at which time local millers have to take up local harvest prior to any import permits being issued.



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Imports (-) Exports (t)	72,534	45,247	59,292	76,993	71,362	75,432	53,260	95,730	169,928	82,527	120,659
Local Prodution (t)	44,365	53,296	46,008	51,188	49,566	47,964	63,228	72,436	36,694	69,433	38,900
Domestic consump (t)	116,899	98,543	105,300	128,181	120,928	123,396	116,488	168,166	206,622	151,960	159,559
Reference price (N$/t)	1,824.00	1,760.00	2,006.16	2,030.93	2,780.49	2,614.00	2,831.37	2,998.00	3,169.00	3,302.00	3,948.00
Ref price: Infl adjusted with CPI (N$/t)	1,824.00	1,918.85	2,047.41	2,258.29	2,457.02	2,550.39	2,652.41	2,811.55	2,994.30	3,158.99	3,323.26

Source: Namibian Agronomic Board

In contrast with the previous production season, Namibia had a poor rainfall season and producers only managed to harvest 38,900 tons of white maize compared to 69,433 tons in 2014/15. On average, rain-fed harvests almost equal that grown under irrigation, and sometimes exceed it during good rainfall seasons. However, in the case of a drought, rain-fed harvests collapse, as was witnessed in 2013/14 and 2015/16.

The local price of white maize is based on a SAFEX 5-year average (inflation adjusted) plus a transport differential landed either at a location south or north of Otjiwarongo. The reference price for white maize delivered at mill-door north of Otjiwarongo (5year average = import parity) was N$3,948.00 in 2015/16, up from N$3,302.00 in 2014/15. These prices also include a GMO-free premium of 8% on the SAFEX component of the maize price.

Outlook

With La Niña evolving in the 2016/17 marketing season, white maize prices are expected to return to price levels near import parity. Anticipating that planting will be in line with previous years, total production is expected to recover to more favourable levels, especially that of rain-fed areas.

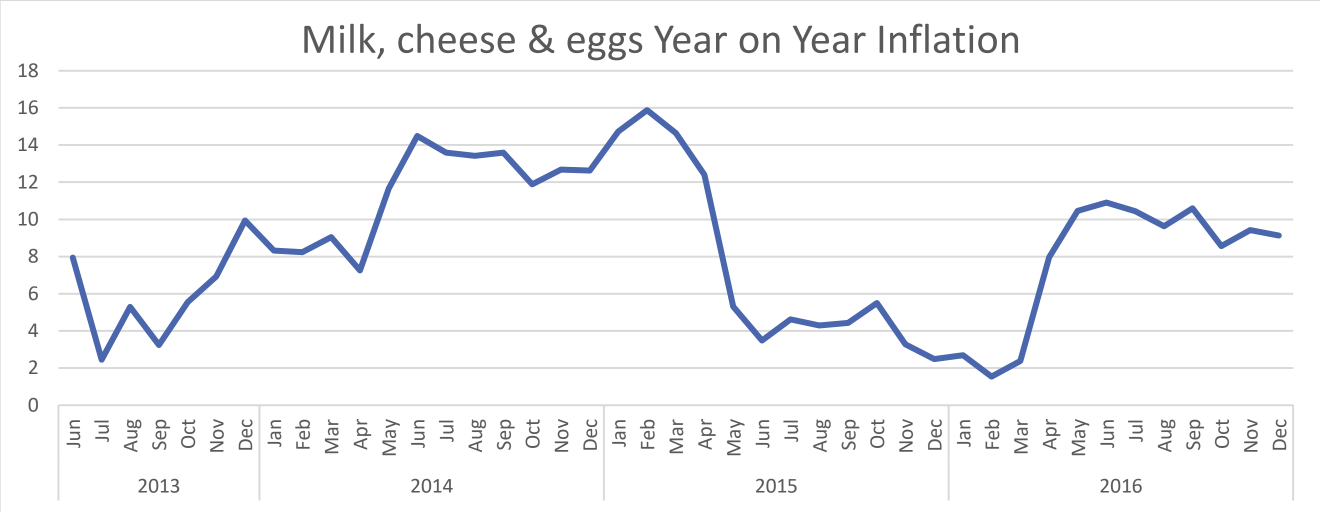
Namibia and South African maize farms are suffering extensive damage from what appears to be an alien caterpillar that destroyed fields in other countries in the region. While the government is yet to verify the pest as the fall armyworm that is native to the Americas and arrived in Africa last year, the caterpillar may pose a serious threat to production of the staple food.

The pest has been reported in a large-scale government irrigation project in the Omusati Region as well as in the northern Limpopo and North West provinces in South Africa. North West and the central Free State province account for the bulk of South Africa’s maize output. Zambia, Malawi and Zimbabwe have already suffered extensive damage to tens of thousands of hectares of mainly corn fields. The arrival of the alien species threatens to hurt maize output as Southern Africa is recovering from its worst drought in over 35 years, even as rainfall improves.

The ministry through the Plant Health Division and the regional extension offices is availing pesticides, spraying machinery and equipment to control the spread of the caterpillars in the affected areas. In addition, the ministry is availing extension staff to assist with the spraying of affected fields.

Poultry

The outlook for the poultry industry is positive for 2017 as the industry still enjoys protection to some extent, however the industry faces many other challenges. The poultry industry faces specific challenges in the short term which includes priority-wise, low-cost imports and high feed costs.



Source: NSA

Import Competition

Poultry producers compete with lower-quality and lower priced broiler meat imports from the EU. Poultry is imported via South Africa from the EU (including the UK) at very competitive prices. The Namibian poultry industry still enjoys protection regarding import limitations. Importation of poultry products into Namibia is only allowed in accordance with an import permit issued by the Ministry of Trade and Industry, and no more than 900 tons of poultry products may be imported into Namibia per month.

EU consumers prefer white breast meat cuts at a premium price to bone-in dark meat cuts. The premium received on white breast meat enables the EU to export bone-in dark meat cuts at very low prices. The South African consumer prefers bone-in dark meat to white meat. Consequently, South Africa is the largest export destination of bone-in dark meat from the EU and ultimately large quantities of the meat finds its way to Namibia

Prices

Low egg prices are dominated by the buying power of the retail sector. While prices in the broiler industry are impacted negatively by lower import parity prices, egg producers are failing to negotiate better prices for eggs from the retail sector. Consequently, the current supply of eggs needs to decline in order for egg prices to rise. The profitability of egg production is under threat due to the extent to which supply has increased.

High feed cost

Broiler feed consists mainly of maize (65%) and soybean (20%). The price of feed increased significantly compared to that in the previous production season. The price of maize and soybean is expected to remain high until stock levels for maize and soybean recover in the next production season. Until then profit margins will remain under pressure. Those producers who have diversified into maize and soybean production, as well as feed processing, should be more sustainable as they will have access to lower-cost maize and soybean for feed. Producers who successfully hedge their price risk well in advance should also experience more favourable margins.

Input costs

The increased cost of fuel, electricity and labour is a concern but the impact is not comparable to the impact of imports and the higher feed costs.

GDP growth and domestic consumption

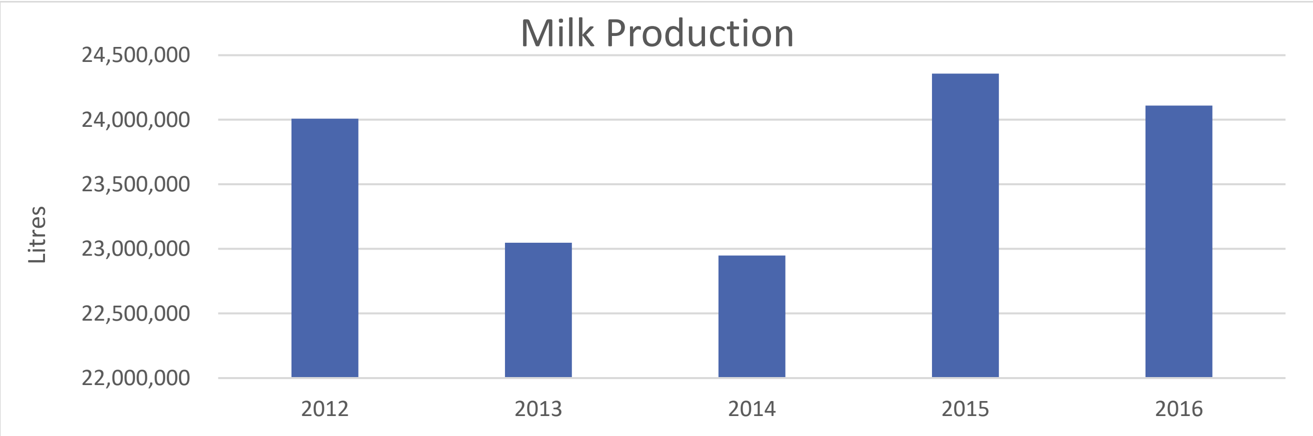
The per capita consumption of broiler meat and eggs in Namibia correlates closely with the GDP growth in Namibia. The current economic climate implies that the demand for poultry meat and eggs will be fairly flat.

Outlook

Plentiful supply of meat will keep poultry prices bearish in the medium term, while increased competition from the EU and future avian flu outbreaks in southern Africa remains a risk for the entire industry in the long-term. Poultry producers in Namibia will continue to experience tight margins until feed supplies start to recover in 2017. The imports of lower-cost poultry products will continue while supply of water could potentially have impact production.

Dairy

Milk production in 2016 was slightly down when compared to the previous year, as producers faced low profit margins and dealt with the drought generated by strong El Niño weather conditions. Producers were also met with lower producer prices, high inflation, and increased production costs, all of which discourage production. Milk production in 2016 totalled 24,110,829 litres, down 1.0% from 2015. Milk production in Namibia is expected to improve in 2017 as a result of favourable weather conditions over most producing areas.



Source: NAU

Other factors such as weaker economic growth do not support the demand for dairy products. Milk production is declining in most producing areas in the world, in response to low milk prices. This is expected to bring the world's milk supply and demand back into balance. Continuous weak demand due to low prices, weak economic growth, and higher milk stocks might hamper prices. A major potential risk to the Namibian milk industry is the sustainability of water supply this year.

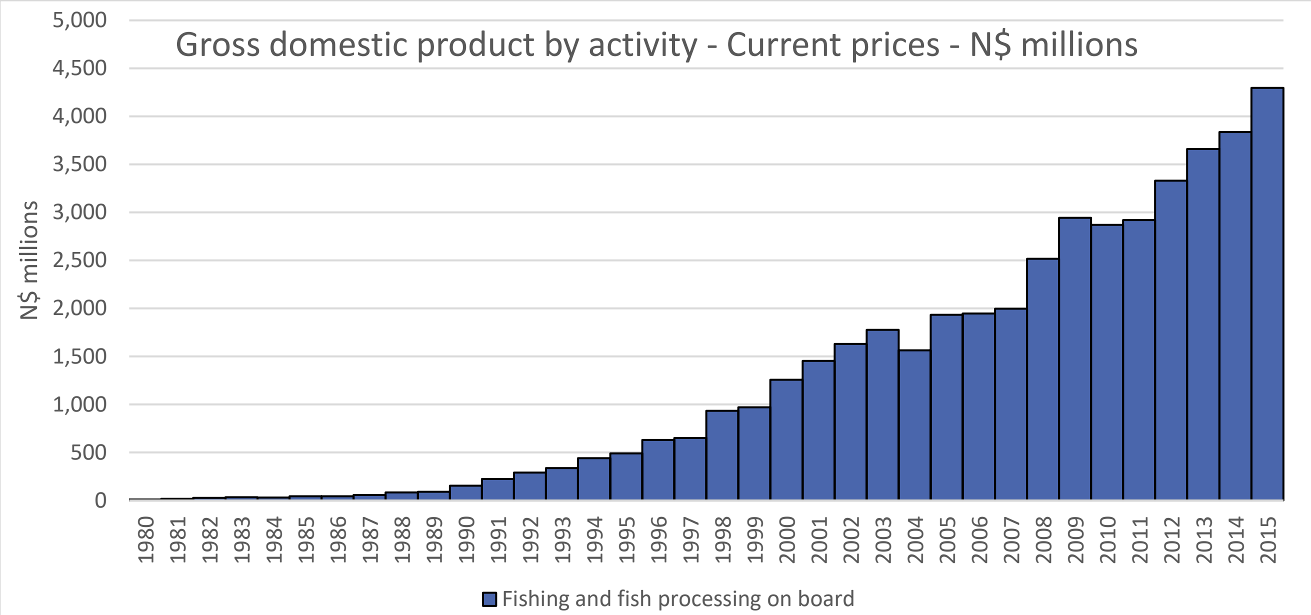
Dairy producers are the ultimate price-takers in agriculture. The limited amount of milk buyers in the dairy industry, lack of sufficient competition by different stakeholders, and the fact that a perishable product cannot be stored to trade later when prices improve, mean that prices are likely to remain under pressure.

Outlook

Producer prices are expected to follow the recent increase in the retail prices for milk to at least a price level where the producer share of the retail price will meet the long-term average of 37%. However, producer prices may lag behind for up to six months before catching up. By that time, from June 2017 onwards, feed prices may start to recover and the profitability of milk production will increase. The local demand for milk will increase further as milk becomes more and more accessible through additional outlets in townships.

Fishing and Fish Processing on Board

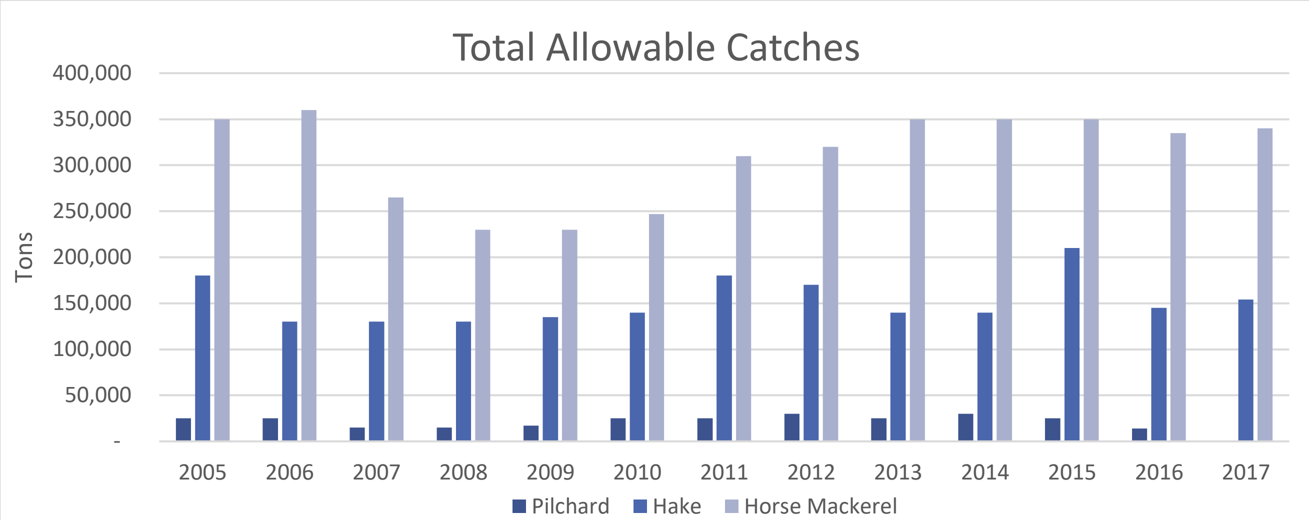
Following a contraction of 2.5% in 2014, the Namibian fishing industry recorded another contraction in real terms in 2015, down 2.8% as landings were down slightly, in particular that of pilchards. 2016 is expected to deliver good results as Total Allowable Catches (TAC) for hake was increased significantly and the industry reported good landings of horse mackerel due to the healthy state of the fish resource.



Source: NSA

The fishing sector's main products are hake and horse mackerel as well as canned pilchards. The TAC for hake was set at 145,000 tons for 2016 fishing seasons, but increased to 154,000 tons for 2017, with the fishing season running from 1 November to 30 September, stalling fishing activities during the spawning period in October. Local fishing companies noted that horse mackerel landings showed good results, and the TAC for horse mackerel was increased to 340,000 tons for 2017 by the Ministry, from 335,000 tons in 2016.

Prospects for pilchards are not positive as pilchard stocks remain of much concern to the industry. The pilchard population was seriously reduced due to negative environmental conditions, known as the Benguela Nino, in 1993 and 1995, and due to massive over-fishing in the period prior to Namibia's independence. This resource has never recovered from this over-fishing, and as such only very minor quota's, just to keep the fishery open and industry players active, are assigned each year. 2015 biomass assessments showed a decrease in pilchard numbers and plankton levels, which is a food source for pilchard. Based on that, the Marine Advisory Council recommended a TAC of 14,000 tons for 2016, down from 25,000 tons in 2015. The Ministry of Fisheries and Marine Resources is yet to announce the pilchard quota for 2017. Given the decrease in TAC and the strain on the pilchard resource, which put the industry and operations under severe pressure, it was not feasible for Walvis Bay's two canneries to both open during last year's pilchard season. Therefore, an agreement was reached between Etosha Fishing and United Fishing Enterprise, whereby Etosha Fishing canned and United Fishing caught the pilchard.



Source: Ministry of Fisheries and Marine Resources

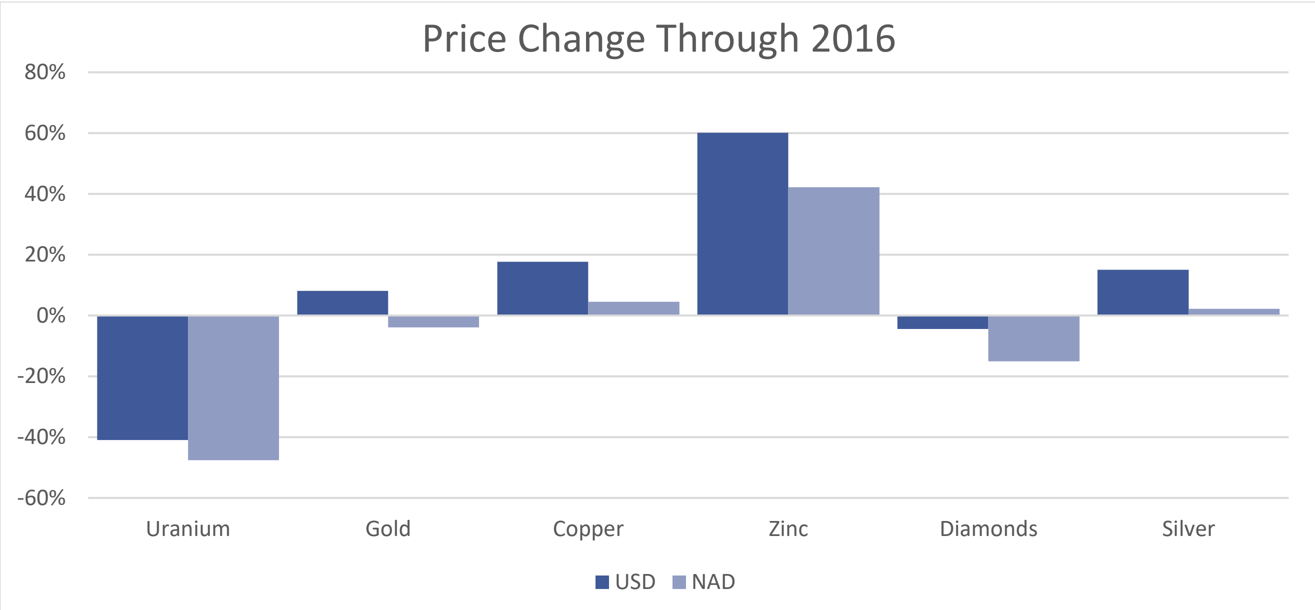
The Namibian fishing industry is currently performing well, with catch rates and fish quality high across most of the marine species. The regulation of October as a no-fishing month in some of the key industries appears to have served the sector well, with a notable improvement in catches following its implementation. Broadly, it appears that the Ministry of Fisheries and Marine Resources has managed the fish stocks well, allocating annual quotas at, or below, the sustainable off take levels.

However, weak demand for fish in the premium market of Europe, and import restrictions on fish imports to Nigeria, continue to dampen prices for hake and horse mackerel. That said, the weaker local currency remains the silver lining for many fishing companies, coupled with the collapse in oil prices, as fuel is one of the largest cost contributors to the industry.

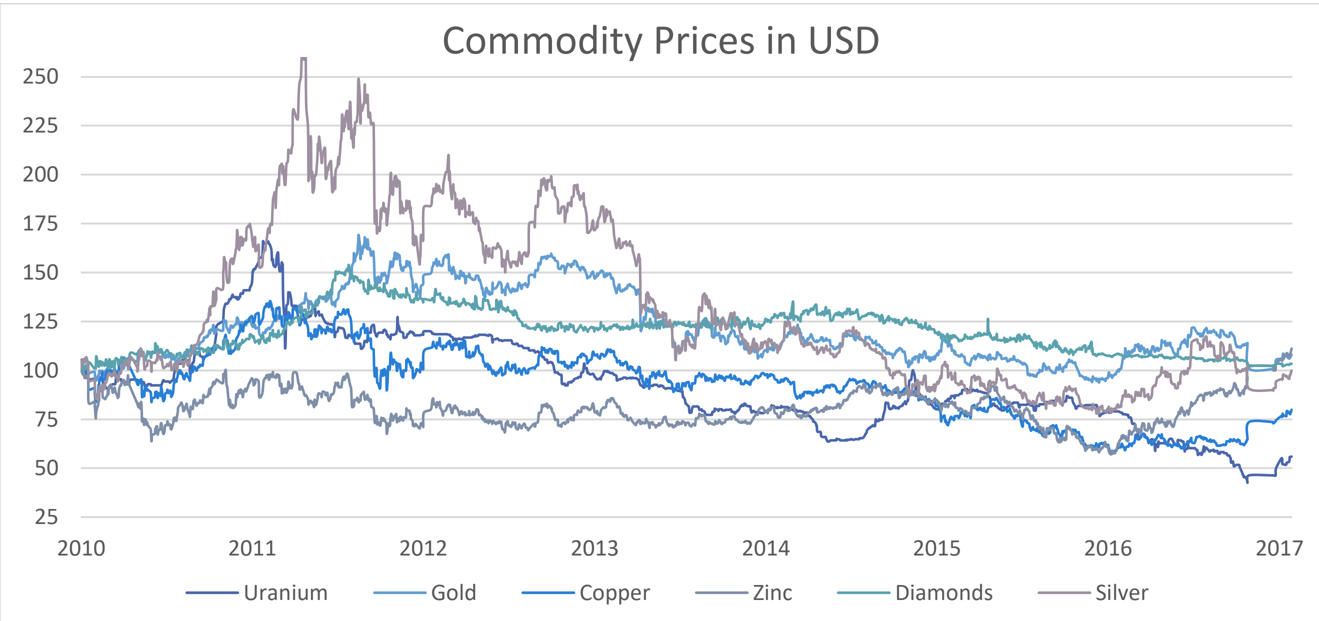
The greatest challenges currently faced by the industry are the changes in regulation and reduction in certainty surrounding quota allocation, as well as the proposed marine phosphate mining projects off the country's coast. While neither of these is likely to be catastrophic in nature, both pose a certain threat to the economic growth of the industry, should they be enacted without care.

Mining and Quarrying

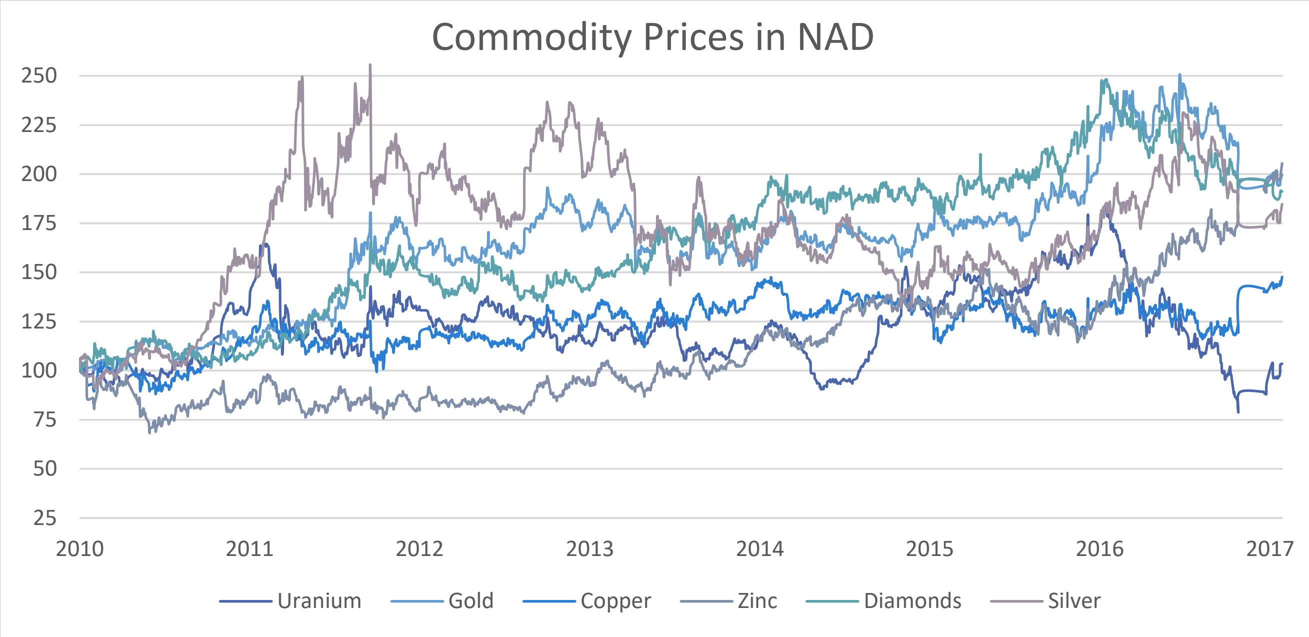
Stronger commodity prices in 2016 came as a relief to Namibian miners after an extended period of weakness. Industrial metals prices were bolstered by strong demand from China as well tightening supply, most notably in zinc and lead due to the closure of several large mines internationally. Precious metals lagged due to weakening investment demand as the US dollar strengthened and real interest rates started to increase. However, stronger prices were offset by a stronger local currency. Key commodity prices such as those of uranium and diamonds declined in both local and foreign currency terms, creating a drag on the Namibian economy. The local mining industry should however have fared well in 2016 due to rising production levels and improving prices in select commodities.



Source: IJG Securities, Bloomberg



Source: IJG Securities, Bloomberg



Source: IJG Securities, Bloomberg

Diamonds

Diamond production has been Namibia's key export earner for a number of years and should continue to remain so. Production declined by 11% in 2016 to 1.57 million carats versus the 1.76 million produced in 2015. This was owing to upgrading of Debmarine Namibia's Mafuta vessel and lower yields at Namdeb's land based operations. Looking forward, 2017 production should pick up substantially as the Mufuta returns to service and a new vessel is added to the fleet. The new exploration and sampling vessel, the SS Nujoma should enter service in the first half of the year. As a result of these factors, diamond mining capacity is expected to be substantially higher in 2017.

According to DeBeers a pickup in economic activity in the US and stable growth in China should be positive for global demand of rough diamonds. Demand for gemstones is also growing quickly in India, which is set to become one of the world largest consumers. Local demand for rough diamonds is also set to increase as Government and De Beers signed a 10-year sales agreement for the sorting, valuing and sales of Namdeb diamonds. As a result, Namibia will see a significant increase in rough diamonds made available for beneficiation, with US$430 million of rough diamonds being offered annually to Namibia Diamond Trading Company customers.

Uranium

Local uranium mines continued to have a tough time in 2016 as uranium oxide prices hit lows of US$18.25. The two operational mines in Namibia, Rössing and Langer Heinrich, have remained under immense pressure. To cope with the low price of Uranium, Rössing has cut production and is cutting costs where possible. Langer Heinrich, on the other hand, has completely suspended mining activity and is only processing above ground stockpiles. As a result, Paladin has retrenched 307 workers at the Langer Heinrich mine. Paladin is a dire financial situation and was in discussions to sell an additional 24% (after selling 25% in 2015) of the Langer Heinrich mine to China National Nuclear Corporation to meet their debt obligations. After the deal fell through the company announced a very ambitious financial restructure where the maturity date of all outstanding convertible bonds, collectively worth US$362 million, would be pushed out to 2022 and 2024, US$145 million worth of new Paladin shares would be issued to bondholders, and any accrued unpaid interest would be exchanged into new secured bonds and new convertible bonds on a 3:1 basis.

While the two old mines fight for survival, Swakop Uranium's Husab mine produced its first barrel of uranium oxide in December and is readying itself to bring the mine into full production. This mine is expected to increase domestic uranium production significantly in 2017, and will provide the country with much needed export earnings and growth. At full capacity, the mine has the potential to produce 15 million pounds (6,800 tonnes) of uranium oxide per annum. When in full production in 2018, the mine has the potential to triple Namibia's uranium output, and become the second largest uranium mine in the world. Swakop Uranium is fortunate to have a guaranteed uptake of its 2017 production, which will be sold to its majority shareholder China General Nuclear Power Company, the largest developer of nuclear power in the world.

Gold

The B2Gold Otjikoto gold mine was a key performer in 2016, and by the end of September production stood at 119,439 ounces, 3% above budget and 12% higher than the 106,349 ounces produced in the same period of 2015. Expectations are for the mine to deliver their target of 160,000 ounces in 2016 and to increase production in 2017 to 170 000 ounces. Cash operating costs for the first three quarters of 2016 were at a record low of US$368 per ounce of gold making Otjikoto one of the lowest cost gold mines in the world. Furthermore, mining at the Wolfshag pit, located directly adjacent to the Otjikoto Mine, is expected to start producing ore early in 2017. The Wolfshag open pit will produce higher than average grade ore for three to five years and the company is exploring options to also mine underground. With the gold price remaining resilient in both USD and ZAR terms, the B2Gold operation in Namibia is likely to perform well over coming years.

Copper

After opening in February 2015, the Tschudi copper mine reached full capacity in December 2015, making 2016 its first year operating at full production. The mine produced an estimated 17,000 tons in 2016. Due to the nature of the mine and mineral extraction process (open-pit mine extracting oxidised copper ore to be treated through heap-leach, solvent extraction and electro-winning) Tschudi should remain in a position to operate despite the major fall in copper prices seen over the past few years. The same, however, cannot be said for the other copper mines in the country, which remain under care and maintenance due to their high cash operating costs.

Outlook

While 2016 was a mixed bag for Namibian miners, the outlook for mines is broadly positive as the recently built mines have reached full capacity while Husab is expected to do so 2018. The outlook for commodity prices is generally positive: The uranium price is likely to recover over the next year or two; copper prices should rise if there is sufficient demand from Chinese and US infrastructure spending; diamond prices are expected to recover as demand picks up; gold prices, however, may come under some pressure as interest rates increase. Furthermore, higher prices have made the Namib Lead-Zinc project as well as the Okanjande graphite mine feasible, and they may come into production in the near future. The biggest risk in the sector is water supply, especially in the central part of the country, but good rainfall may ease this worry.

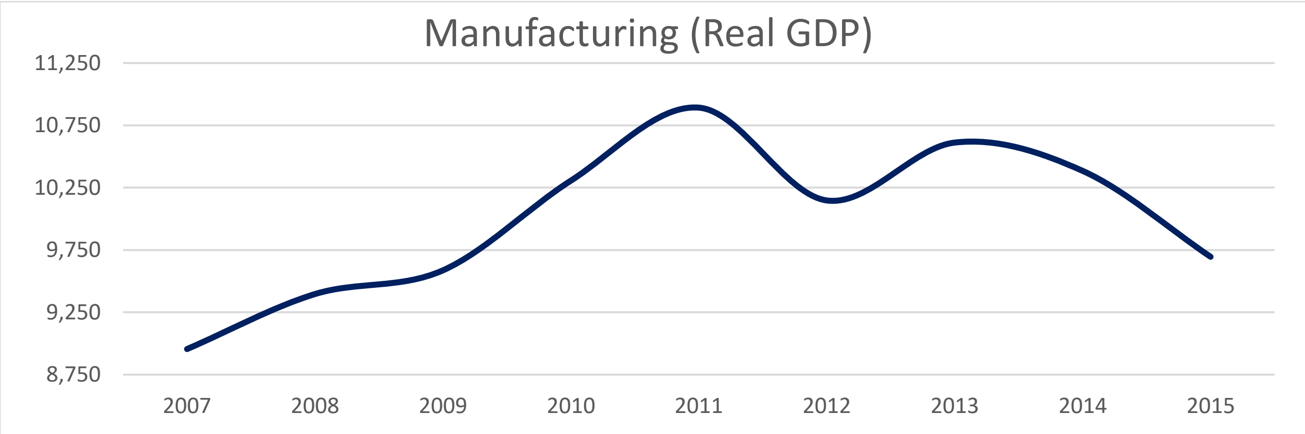
Mineral Production:

		2009	2010	2011	2012	2013	2014	2015	2016
Cu Cathode	t	-	-	-	-	-	-	10,527	16,391
Cu Concentrate	t	-	-	-	21,083	21,347	22,004	19,717	2,075
Cu Metal Contained	t	-	-	-	4,886	5,145	5,248	3,351	262
Gold Bullion	kg	2,057	2,190	2,112	2,289	1,968	2,377	6,213	6,738
Lead Concentrate	t	20,262	18,365	15,514	17,557	21,409	22,317	21,464	14,862
Lead Metal Contained	t	8,385	-	-	9,530	11,224	11,746	10,746	6,116
Manganese	t	51,471	126,448	41,876	188,863	133,473	104,527	36,386	16,896
Zinc Concentrate	t	93,953	93,829	89,488	94,421	113,778	104,046	99,756	80,560
Zinc Metal Contained	t	33,746	-	-	50,143	60,111	54,953	51,711	36,099
Zinc Refined	t	153,815	151,748	145,639	144,508	128,291	118,665	59,018	88,650
Diamonds	Carrats	939,916	1,475,610	1,344,932	1,665,684	1,776,290	1,897,872	1,774,509	1,584,168
Uranium	lbs	10,751,733	11,619,052	8,748,205	10,316,833	10,352,606	8,326,257	7,668,691	8,657,713

Source: Ministry of Mines and Energy

Manufacturing

Manufacturing, has contracted in real terms from the high seen in 2011, with current levels more closely in line with those of 2009 than 2014. Manufacturing's contribution to the economy has thus decreased in real terms, lagging overall economic growth in Namibia. As one of the economic priorities set out in NDP4, manufacturing's decreasing contribution to the Namibian economy over the period should be seen as a failure in execution of the development plan. Anecdotally however, it is difficult to imagine that the amount of manufacturing activity within Namibia has decreased, despite being supported by the official statistics. It is probable that much of the products produced by increased manufacturing activity ends up in intermediate consumption in industries such as construction, and as such is not visible in manufacturing's contribution to GDP.



Source: NSA (National Accounts)

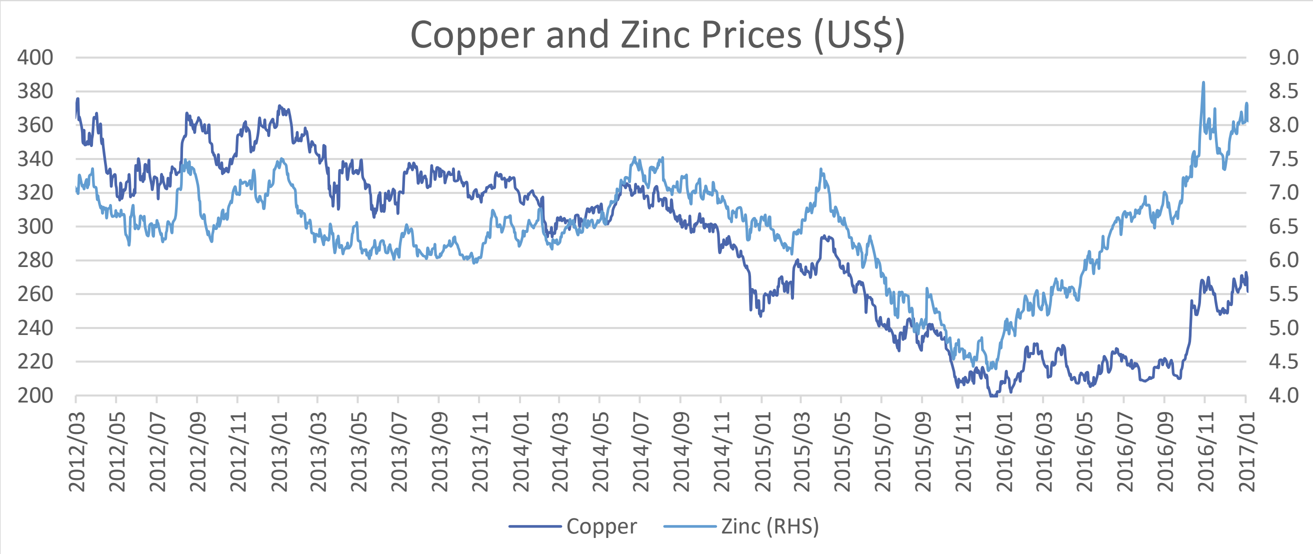
Manufacturing contracted by 6.6% in 2015, with our '2016 Outlook nowcast' for growth of 5.8% in that year, missing by a substantial margin. Some notable misses in our forecasts were meat processing, other food products, textile and wearing apparel, basic non-ferrous metals, and diamond processing. As has become expected, many of the growth rates for prior years have been revised (changing the base) and we would expect the 2015 figures to change, as well as further revisions to prior years with the next iteration of the national accounts.

	2014	IJG "Nowcast" 2015	2015
Manufacturing	-2.1	5.8	-6.6
Meat processing	-17.2	15.1	-9.1
Grain Mill products	13.7	8.0	7.6
Other food products	12.0	10.1	-11.7
Beverages	-16.5	3.0	-3.3
Textile and wearing apparel	-6.9	3.4	-12.8
Leather and related products	10.7	2.5	-1.3
Wood and wood products	1.6	2.0	4.2
Publishing and Printing	10.6	5.3	5.0
Chemical and related products	1.2	6.0	4.6
Rubber and Plastics products	5.4	2.0	8.5
Non-metallic minerals products	5.6	6.1	8.1
Basic non-ferrous metals	-3.2	5.0	-13.7
Fabricated Metals	3.7	3.5	2.6
Diamond processing	-11.1	5.4	-47.0
Other manufacturing	-2.9	4.8	-7.5

Source: NSA (National Accounts), table extracted from our 2016 outlook

Meat processing contracted by 9.1% in 2015 as farmers rebuilt their herds after a large number of animals were slaughtered in 2013 due to the onset of the drought. In real terms meat processing has been stagnant with a 2015 contribution to GDP slightly below the 8-year average for the category. We should see a pickup in meat processing going forward with 2017 showing some recovery and 2018 posting noticeable growth as herd sizes stabilise and farming activity normalises. Drought and adverse regulations in export markets remain a downside risk to the outlook for this category, as with many of the manufacturing categories.

Basic non-ferrous metals are the largest sub-category within the manufacturing sector although its share of total manufacturing GDP has been declining. In 2011 this category made up 29% of all manufacturing output, but has since declined to 20% in 2015. Consisting largely of copper and zinc processing, we expect the trend in this category to reverse to some extent due to copper cathode production from the recently commissioned Tschudi copper mine near Tsumeb which started producing at nameplate capacity in 2016. Low copper prices in 2016 were offset by favourable exchange rates and we may well see further output growth in 2017 as the copper price has been gaining traction and global supply growth slows. Zinc prices gained ground in 2016 which should have buoyed output, and can be expected to continue to do so in 2017.



Source: Bloomberg

Beverage production has exhibited relatively consistent growth in the past. A step down in beverage production was seen in 2014 as Namibia Breweries started migrating beer production volumes to the Sedibeng brewery in South Africa. We do not expect to see these volumes return to Namibia and should see beverage production decline further due to the prolonged drought effectively forcing Coca-Cola SABCO to reduce production and import the deficit from South Africa. As the second largest manufacturing subcategory, subdued growth will have an impact on growth in the manufacturing sector as a whole.

The other food products subcategory has shown erratic performance with output product well down from the highs seen in 2010. Diamond processing output fell to just over half of what it had been during the previous year. We expect growth in real terms for both subcategories in 2016.

The manufacturing sector in Namibia faces various challenges that limit development. Water scarcity, high electricity costs, low population density and vast distances between markets, as well as limited access to capital, all pose barriers to increasing manufacturing activity in Namibia. The drought that has plagued Namibia for the last three years, as well as the sustainability of water sources in the central region, act as a limiting factor to anyone looking to deploy capital into the manufacturing sector. Electricity costs in Namibia are higher than that of most, if not all, of our neighbours (although our supply is more well managed). We rely heavily on electricity imports from the rest of the region and are far from being self-sufficient in terms of power production, at least in the short to medium term.

The low population in Namibia translates to a relatively small market which means that Namibian manufacturers who are geared to supply only the Namibian market cannot compete on price with imported products unless barriers to imports are imposed. Access to capital is often a limiting factor in reaching economies of scale which could lead to more competitive products and an export of Namibian manufactured products.

Along with this, regulation within Namibia could be more effective in encouraging the distribution of locally manufactured products. Most retailers in Namibia are large South African companies that stock the same products on their shelves in Namibia as they do in South Africa. These products are commonly produced in South Africa, or imported through South Africa. Having the same products on the shelves in stores in both countries cuts down on expenses for these retailers. There are however, in some instances, Namibian products that could take the place of these South African manufactured products. There is also legislation in place, in the form of the Retail Charter, that aims to encourage carrying more Namibian products on shelves within the country. Though only recently launched, stakeholders within the manufacturing sector are very positive that if implemented by retailers the effect will be very positive in terms of growth within the Namibian manufacturing sector. The charter is however voluntary and as such may need promotion and government support to encourage participation to the extent that it positively affects the Namibian manufacturer.

Another key piece of legislation that could have a large impact on the manufacturing sector in Namibia is the Public Procurement Bill. The bill proposes, among other things, to increase transparency regarding the public procurement dispensation process. It also aims to favour Namibian companies and by extension Namibian manufacturers. Should the stated objectives of the bill be effectively implemented it would lead to Namibian manufacturers winning an increasing share of public tenders. The current tender process lacks transparency and good governance procedures. Although the Public Procurement Bill has been passed, the old tender board still operates according to the old legislation (according to our knowledge). Private sector buy in can also be improved through representation within the procurement dispensation process, and this will have the additional benefit of improving transparency within the procurement process.

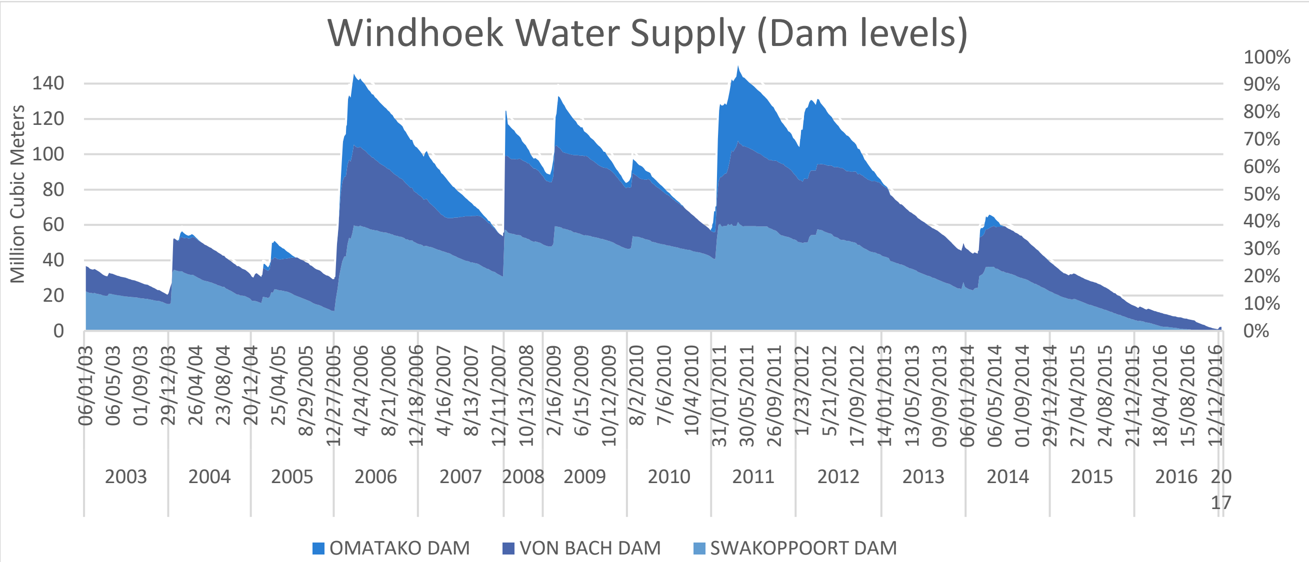
Outlook

Overall manufacturing performance is likely to remain subdued going forward despite some growth forecasted for 2016 and 2017 after the low base set in 2014 and 2015. Copper production at Tschudi reached full production during 2016 and thus 2017 will be the first year of full production which will see the non-ferrous metals category grow. Beverage production is likely to have made little head way in 2016 due to the Coca Cola operations scaling down and beer volume migration to South Africa. The drought continues to have a negative impact on the beverage industry and has resulted in the use of boreholes and ground water which drives up costs as it is necessary to purify the water. Mixed performance is expected for the smaller subsectors of manufacturing but no major growth surprises or disappointments are expected.

Electricity and water

Water

Water is a determining factor to the output of Namibia and due to the arid nature of the country, water supply is one of Namibia's biggest challenges. Poor rainfall seasons over the past four years resulted in limited water inflows into the key national dams that supply the central region of Namibia with water. According to NamWater, on 16 January 2017, the level of the three dams supplying the central areas with water was at 7.4% of their combined full capacity and 3.0% of the lowest abstraction capacity, taking into account dead storage levels. This is the lowest level since the severe drought Namibia experienced in the early nineties. In 1996/7, the country received good rainfall and dam levels improved after the drought, and have subsequently not been drawn down to such low levels until now. Whether the rainy season will bring relief this year is hard to tell as the central area receives most of its rain during the period from February to April. Thus far, the current rainy season has not resulted in major inflows into the Von Bach, Swakoppoort, and Omatako dams that supply the capital.



Given the concerningly low dam levels and the uncertainty of rain going forward, the City of Windhoek developed the Windhoek Aquifer further in 2016 to provide the city with water should the dams run dry. According to the City of Windhoek the only way to maintain a constant supply of water is if the 40% water savings target set by the municipality is achieved as NamWater and the City of Windhoek will only be able to supply about 60% of the required water demand from the Windhoek Aquifer, the reclamation plant and the canal from the northern region. However, Windhoek has only managed to save between 30% - 35% recently, well below the target of 40%.

Abstraction of water from the Windhoek Aquifer is a short-term solution as the City of Windhoek estimates the aquifer holds approximately three years of Windhoek's water needs. Artificial groundwater recharge, or managed aquifer recharge (MAR), provides an attractive option for augmenting the natural groundwater recharge and subsurface storage from surplus surface water.

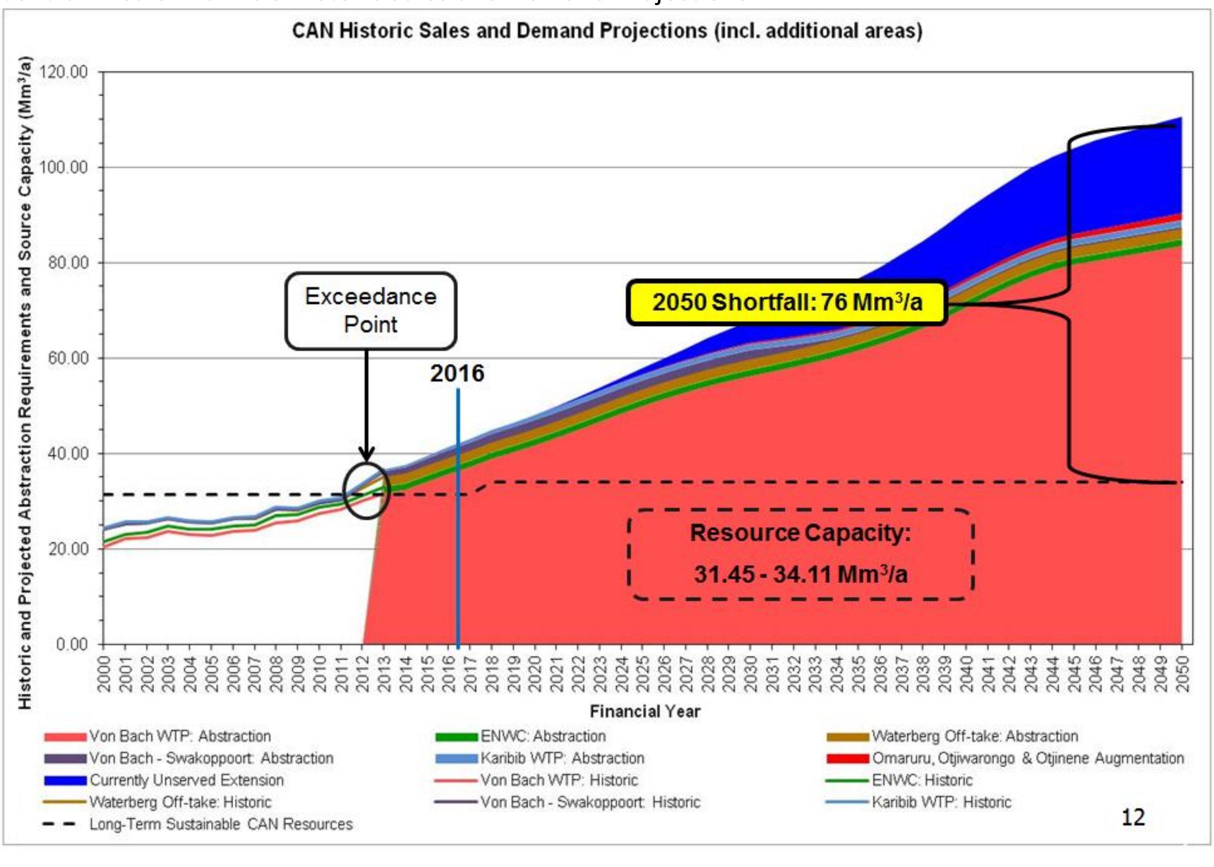
The north of Namibia has also experienced below average rainfall over the last four years, leading to crop failures and forcing framers to reduce their livestock numbers. During drought years the carrying capacity of the land is severely affected leading to necessary culling of livestock. Subsequent years see less slaughtering due to farmers rebuilding their herds, but in Namibia these numbers never reach pre drought levels as some farms fail and farmers leave the sector, destock or shift across to wildlife and tourism as a preferred land use. Thus even multiple good rainy seasons leave the country with less meat production than before the preceding drought.

The south of the country has been affected similarly by the drought, although the regions to the south are generally more arid and thus sustain fewer people and less farming. Ironically some of the largest dams in the country are found there. Thus, the supply of water is not as big an issue as in the central and northern areas of Namibia. The south may gain importance in terms of economic development due to the currently under construction Neckartal Dam, as well as the underutilised Naute Dam and Hardap Dam. The outlook for the south of the country is thus not as dire as that of the rest of Namibia, with this outlook reinforced by recent rains.

The coastal area also faces water challenges of their own, however, capacity is not necessarily the issue, but rather restrictions on the use of desalinated water. The first large desalination plant in Sub-Saharan Africa was inaugurated by Areva on 16 April 2010. The plant is located near Wlotzkasbaken, 30 km north of Swakopmund. Its maximum capacity is 20 million m^3 per year. Its main projected use was to supply the uranium mine at Trekkopje, located 48 kilometers inland. However, given the collapse in the price of uranium, the mine was placed under care and maintenance, therefore very low volumes of water are currently pumped to the mine. Areva has a contract to sell water to NamWater and provides the water requirements of Rössing Uranium, Langer Heinrich and Husab. The coastal area, including the mines, uses about 25 million m^3 per year, however, the demand from the local authorities is more than the long-term sustainable supply from the ground water sources, on which a tariff exists. The solution is that the shortage for household use needs to be supplemented by desalinated water, however, the challenge is that a tariff on desalinated water for municipal use has not been approved by cabinet. A tariff does exist on desalinated water used by mines and industry outside the municipal area. The consequence of this is that the ground water sources is over abstracted to make up for the shortfall until the problem is resolved and approved by cabinet.

The current water crisis being experienced in Windhoek is much more severe than that of the rest of the country. As the densest populated and most industrialised city in Namibia, the implications of drought are far reaching, affecting the economy and social stability of the country. Major emphasis is currently being put on finding solutions to the water crisis experienced by the capital and surrounding areas. It is estimated that water demand has surpassed the sustainable yield available from the current water sources since 2011.

Central Area of Namibia Historic Sales and Demand Projections



Source: Ministry of Agriculture, Water and forestry

The current drought is simply highlighting the afore mentioned statement. An underinvestment in infrastructure and rapid growth have contributed to the current situation. The issue with generating solutions to the water crisis is that solutions, like building new dams or pumping water from the north of the country or desalinated water from the coast, are expensive to implement and take time to put in place. Solutions which address the long-term sustainability of water as a resource require long term planning and thus leadership that is forward looking and willing to make decisions that account for future sustainability.

The physical scarcity of certain resources in Namibia means that significant trade-offs need to be made between food, energy, and water. Water is the most significant resource constraint, given the arid nature of Namibia's environment and the fact that water is expensive to supply to many areas. Therefore, water is one of the main limitations to economic development in Namibia as the viability and array of potential activities is reduced. Water shortages and restrictions in Windhoek will directly affect economic activity in Namibia, impacting water dependent industries, such as Namibia Breweries, Meatco, NPI and Namibia Dairies, to name a few.

Electricity

Electricity supply in Namibia, while dependent on import agreements, was stable through 2016. Namibia imported 68% of electricity use for the year ending in June 2016 versus imports of 64% in the 2015 NamPower financial year. Reduced river flow through the Ruacana plant as well as the refurbishment of the runners at the plant were the main causes of the increase in electricity imports. The rehabilitation of the Van Eck power station experienced some setbacks and as such generation capacity at this plant is somewhat down on expectations. Van Eck remains a relatively expensive source of electricity, but a safety net during periods of high use. The rehabilitation process should be completed during the calendar year.

The regional drought experienced in 2016 placed pressure on the southern African region's energy supply. Lake Kariba, a major source of electricity for Zambia and Zimbabwe, ran close to dry towards the end of 2015. The hydroelectricity generated by this dam sustains much of the local demand in the two countries while also generating foreign currency exports as power is sold to other parts of the region. Namibia is one of the importers of Zambian and Zimbabwean electricity, although Zambia supplies Namibia via Victoria Falls which saw under less pressure than the Kariba generation. The concern was that these two sources of electricity would disappear as Zambia and Zimbabwe focused on domestic supply. This was however not the case as the two countries continued to honour the Power Purchase Agreements (PPA's) with Namibia, choosing rather to retain the foreign currency inflows than the supply of electricity to their respective local municipalities.

The vast majority of imported electricity used within Namibia is supplied by Eskom. The current rand based import agreement with the South African utility comes to an end in March 2017, although negotiations appear to have been successful in renewing this contract for a five-year period. The contract for 200MW of base load power essentially means that Namibia should not run into any electricity supply shortages for some time. The cost of this rand based contract is also favourable when compared to US Dollar contracts from other producers in the power pool, and not subject to currency fluctuations which is beneficial from a cost and budgeting point of view.

NamPower expects demand side growth of approximately 2.3% in 2017. Much of this growth is driven by increased demand from growing settlements in the North of the country. Various step-load increases are expected but NamPower does not foresee major challenges as a result of these. On the supply side developments have been largely driven by renewables. Fourteen Renewable Energy Feed In Tariff programme (REFIT) projects are to contribute 70MW to the grid. One of these has already been commissioned and the rest are either under construction of yet to begin construction. In addition, NamPower has signed PPAs with Diaz Power and GreeNam for 44MW wind and 20MW solar generation respectively, as well as issuing a tender for 37MW of solar generation in the Hardap region.

NamPower aims to have 75% of electricity use generated domestically by the end of 2018, and despite the development of much capacity in the renewable space, will require additional base load generation capacity increases in order to achieve this target. The intermittent nature of solar and wind generation makes this source of electricity difficult to manage and unreliable. Peak usage occurs when generation capacity from these sources is no longer available resulting in the need to import electricity. NamPower requires that any future on grid electricity generation, above and beyond that mentioned in the previous paragraph, be equipped with storage capabilities in order to supply during peak demand.

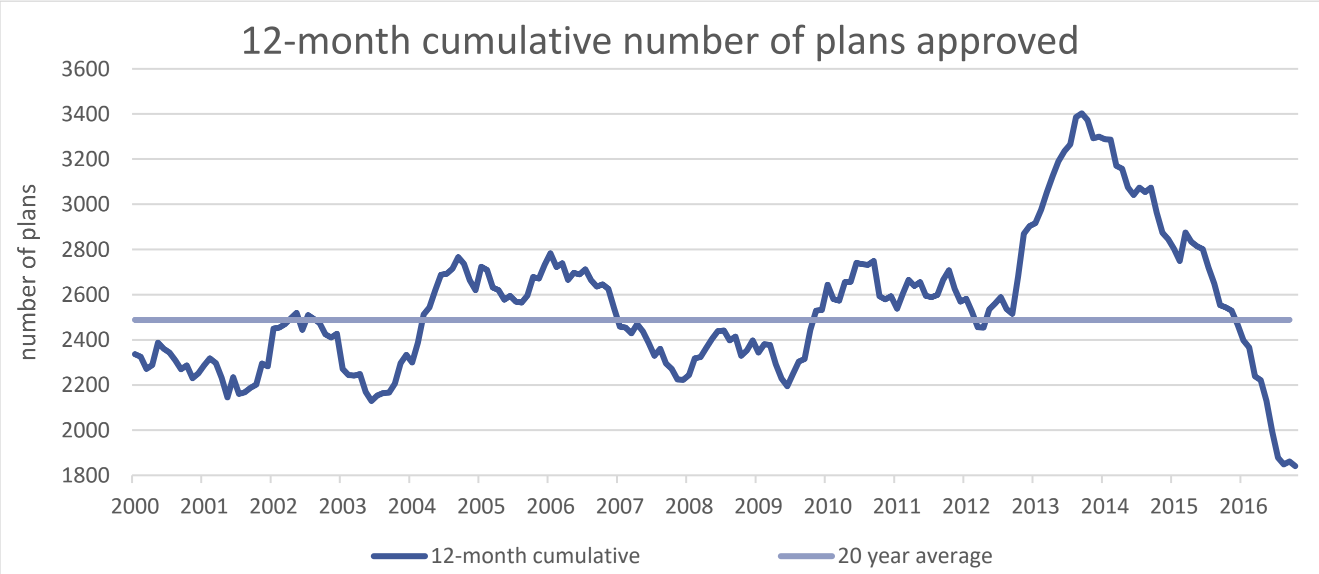
Longer term base load generation options currently still on the table include the Kudu Gas project as well as the Xaris Energy and Arandis Power projects. Which one of these will actually be pursued is unclear at this stage. The Kudu Gas project, which was put on hold indefinitely, has resurfaced recently. We do not, however, expect Kudu, or either of the other two base load projects, to commence development within the next year or two. For the foreseeable future Namibia is likely to remain dependent on electricity imports. This does not concern us though, as the power purchase agreements in place with Eskom and the rest of the power pool are stable and reliable, if expensive.

Construction

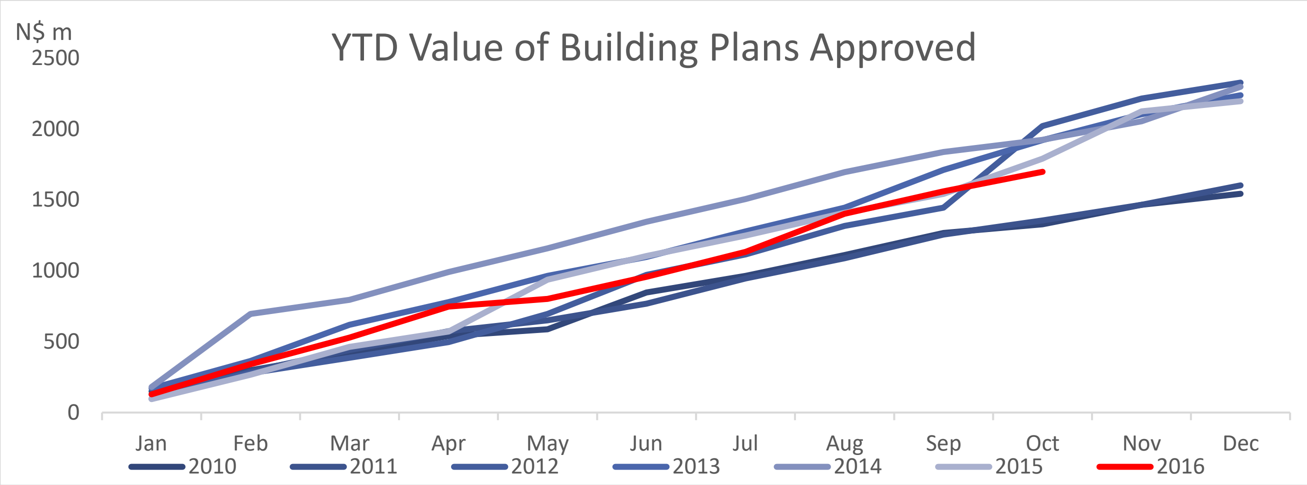
The construction industry has been a major driver of growth in the Namibian economy in the past. Private and public sector investment in infrastructure was complemented by the construction of three large mines. Between 2010 and 2015 construction took center stage in the Namibian economy and created a substantial base off of which continued growth was always going to be a challenge.

As most of the construction activity at the mines came to an end in 2015, with Husab largely completed in 2016, we expected construction to contract in 2016. This contraction was exacerbated by the fact that government revenues disappointed and the state failed to pay contractors on time. Many government construction projects have since been put on hold and the industry has shed jobs on a relatively large scale. The mid-term budget review by the minister of finance indicated tighter fiscal policies going forward, and the reduction to the development budget mentioned in this review will lead to less infrastructure spend for a number of years to come.

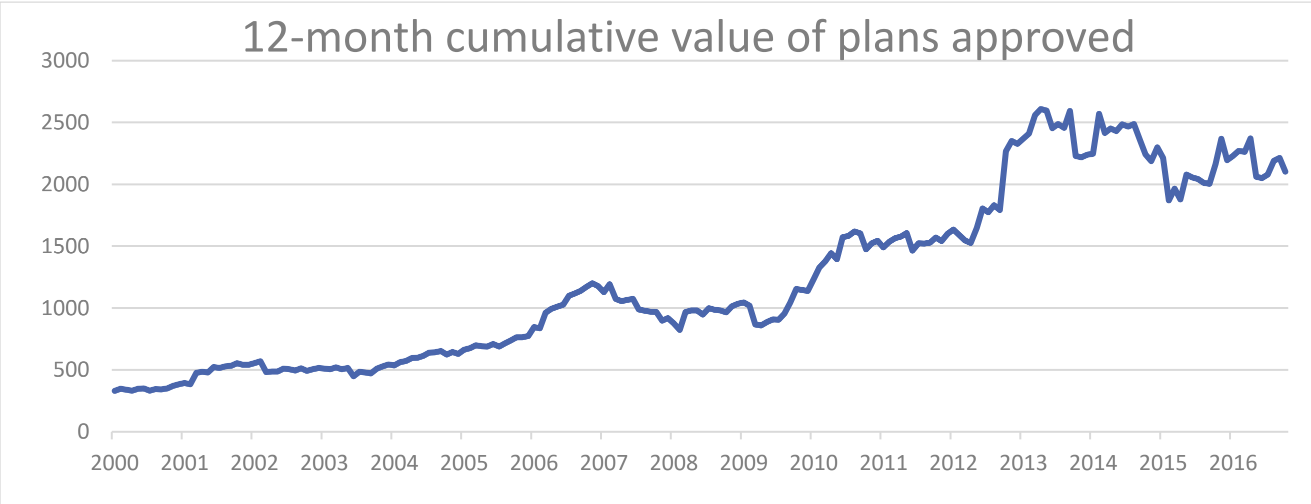
Looking at construction activity within the capital, the 12-month average number of building plans approved by the City of Windhoek has continued on a downward trend to below 1,900 plans approved in October 2016, after peaking in September 2013 at 3,403.



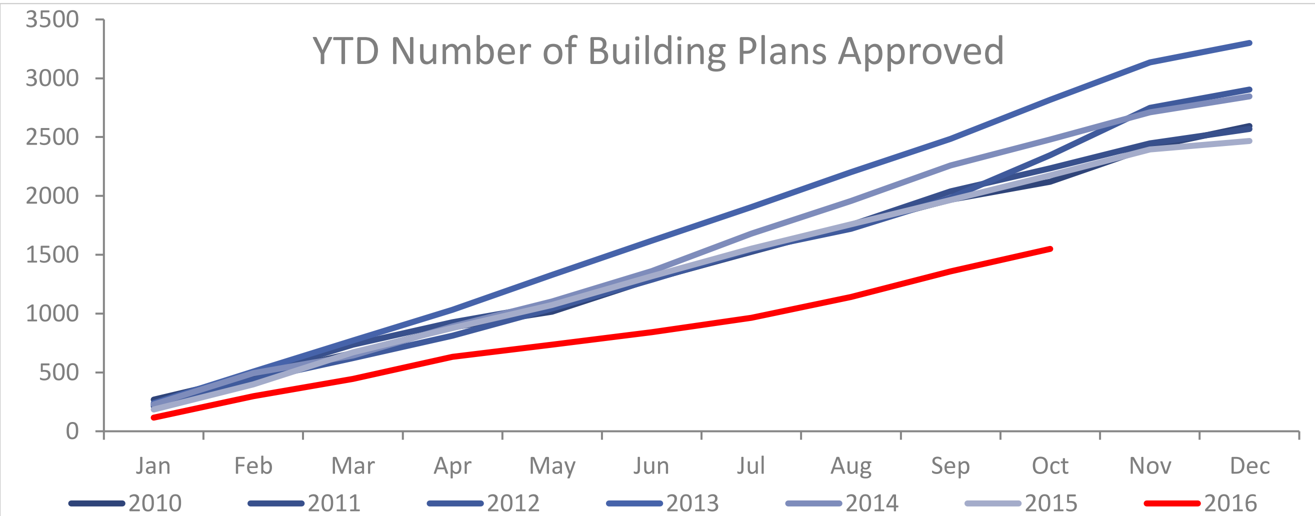
Source: City of Windhoek



Source: City of Windhoek



Source: City of Windhoek



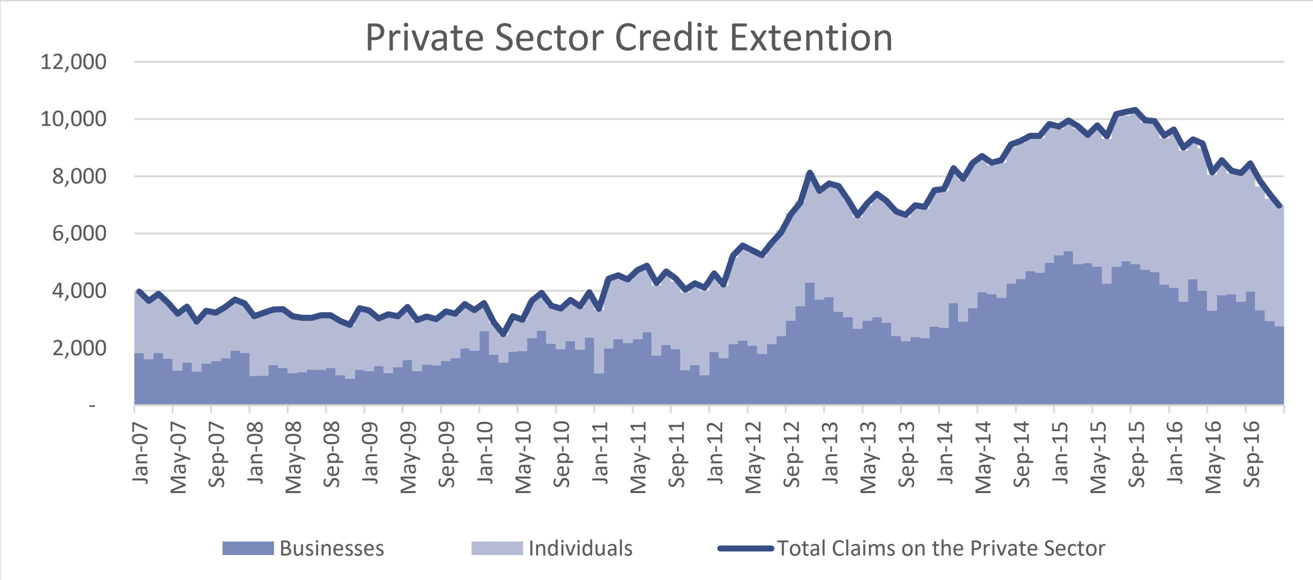
Source: City of Windhoek

With government spending on infrastructure slowing and the current interest rate environment making it increasingly difficult for banks to extend credit, we expect further contractions in the construction sector in 2017 and possibly beyond. This is cause for concern as the sector provides a substantial amount of jobs and those employed in the sector earn low wages on average while supporting large families in many cases.

Wholesale and retail trade

The wholesale and retail sector of the economy has been a key driver of growth between 2010 and 2014. This trend was fuelled by unusually high levels of government spending, personal income tax cuts and historically low interest rates in the country. However, most of these catalysts are no longer present and some strain is expected in this sector going forward.

Low interest rates, which led to heavy borrowing by the private sector, have been replaced by a hiking cycle. Since the start of the rate hiking cycle in 2014, Bank of Namibia has increased the repo rate six times in 25 basis point increments, from 5.5% to the current 7.0%. Although the increases were relatively small and gradually implemented, these increases in the interest rate have reduced the disposable income of consumers and put highly leveraged businesses under pressure. Furthermore, the liquidity situation of the banks has restricted the supply of new loans, making credit hard to come by.

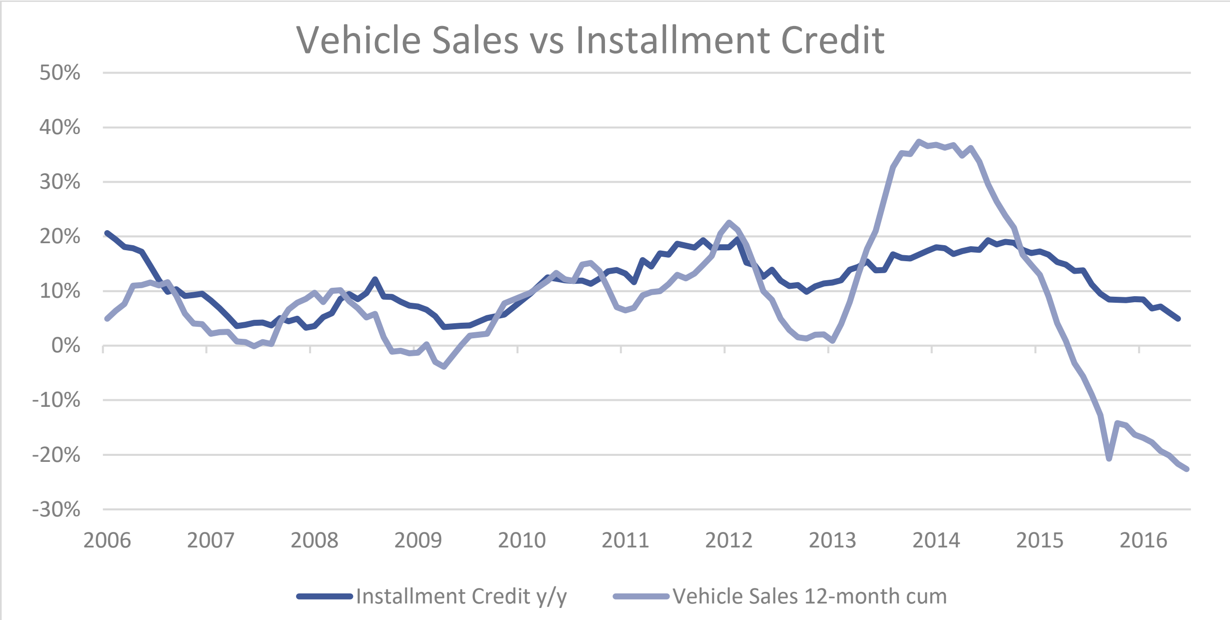


Source: Bank of Namibia, IJG Securities

Various high frequency indicators and discussions with private retailers suggest that demand for consumables has already started tapering off. The same has been evident in the market for capital goods for a while. Vehicle sales have been declining for the last two years, and this is expected to continue. Government has cut their capital budgets to the bone, and any capital expenditure such as new vehicles and furniture will be limited for the foreseeable future. Additionally, the multiplier effect of lower government spending on both consumer and capital goods should also be negative for retailers, as there is simply less money floating around the economy.

Given the current fiscal situation it is very conceivable that personal, corporate and/or value added taxes may rise to make up for the under collection of budgeted revenues, which may further impact on disposable incomes. So far no changes have been implemented, but changes to tax legislation are anticipated at the tabling of the fiscal budget in March.

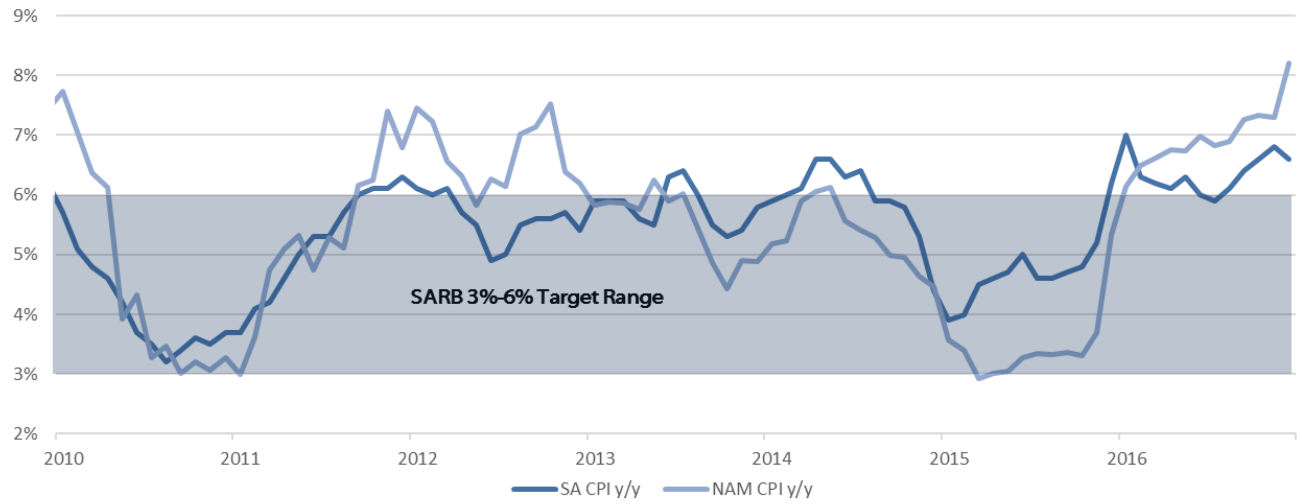
The exceptionally high and unsustainable base created over recent years could not continue indefinitely. The simultaneous reversal of fiscal and monetary stimulus has had, and should continue to have, a negative impact on wholesale and retail trade, in 2017.



Source: IJG Securities

Inflation

As the base effect of lower oil prices filtered out of the basket, inflation picked up sharply from the beginning of 2016, averaging 6.7% for the year versus the average of 3.4% in 2015. The high inflation was also bolstered by high food price inflation and accelerating utility prices which included a 10% increase in water tariffs. We expect to see inflation even higher in 2017, due to the sharp increase in rental inflation witnessed in January.



Source: Namibia Statistics Agency, IJG Securities

Housing and utilities price increases have increased strongly in the first month of 2017. Despite the challenging economic environment, rental escalations amounted to 9.7% m/m in January. This subcategory makes up 23.3% of the inflation basket Furthermore, administered prices of utilities still pose a significant risk, as water and electricity price hikes may be announced in response to supply constraints.

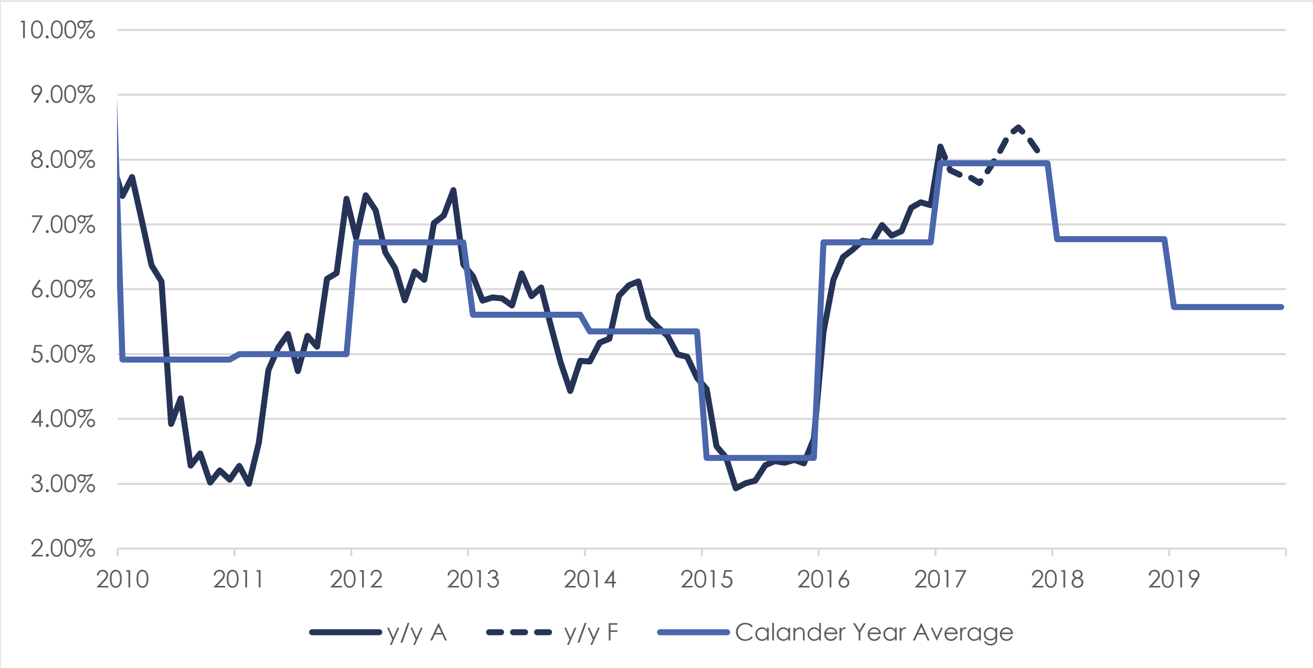
The Namibian inflation basket is concentrated in four categories, which make up more than 70% of the basket. These categories are housing, water, electricity, gas and other fuels; food and non-alcoholic beverages; transport; and alcoholic beverages and tobacco.

Food inflation has undoubtedly been the single largest driver of NCPI in 2016. Over the very near term the elevated food price inflation should continue despite improved rainfall in many of the drought-stricken regions. This should moderate through the year if good rainfall continues in Namibia and South Africa. The prices of maize and wheat have already declined significantly and South Africa is expected to produce a bumper maize crop this year. Meat prices are likely to lag other food price categories as farmers restock their herds.

Rising oil prices remains a driver of inflation globally, and Namibian pump prices have already increased once in 2017. Petrol increased by 20c or 1.9% and diesel increased by 30c or 2.9%. This price hike was in response to the Organisation of Petroleum Exporting Countries' (OPEC) first cut in output in the past eight years, and sustained cuts could push this price even higher. However, supply side factors should constrain oil prices going forward, bar any major political risks that would impede production. The increase in pump prices already implemented should push inflation slightly higher.

A large amount of Namibia's annual inflation is 'frontloaded'. Rentals and education are two of the categories that normally see once-off increases in January. Due to this effect, we expect average inflation to rise from the 6.7% seen in 2016 to 7.9% in 2017. According to our assessment we conclude that most basket items have likely peaked at current levels and should moderate going forward. However, due to the large contribution made by the housing category we see inflation remaining at elevated levels for the entire calendar year.

The exchange rate may be the largest risk to inflation in 2017. According to Bank of Namibia, a significant weight should be placed on exchange rates and imported inflation when forecasting NCPI. With South Africa still on the brink of losing their investment grade credit rating due to ongoing political turbulence, as well as expectations for low growth, exchange rate risks remain on the downside.



Source: Namibia Statistics Agency, IJG Securities

Actual						Forecast		
2011	2012	2013	2014	2015	2016	2017	2018	2019
5.0	6.7	5.6	5.4	3.4	6.7	7.9	6.8	5.7

Source: Namibia Statistics Agency, IJG Securities

Interest rates

Our 'Outlook 2016' interest rate scenarios missed the mark by some margin, with actual interest rate moves being less pronounced than our conservative case. The South African Reserve Bank (SARB) hiked twice during the calendar year, first in January and then again in March. The magnitude of the hikes was small at 25 basis points each. The Bank of Namibia (BoN) followed the SARB on both occasions in an effort to support the external position, but despite this monetary policy remains relatively accommodative in Namibia and as a result public and private debt has continued to increase.

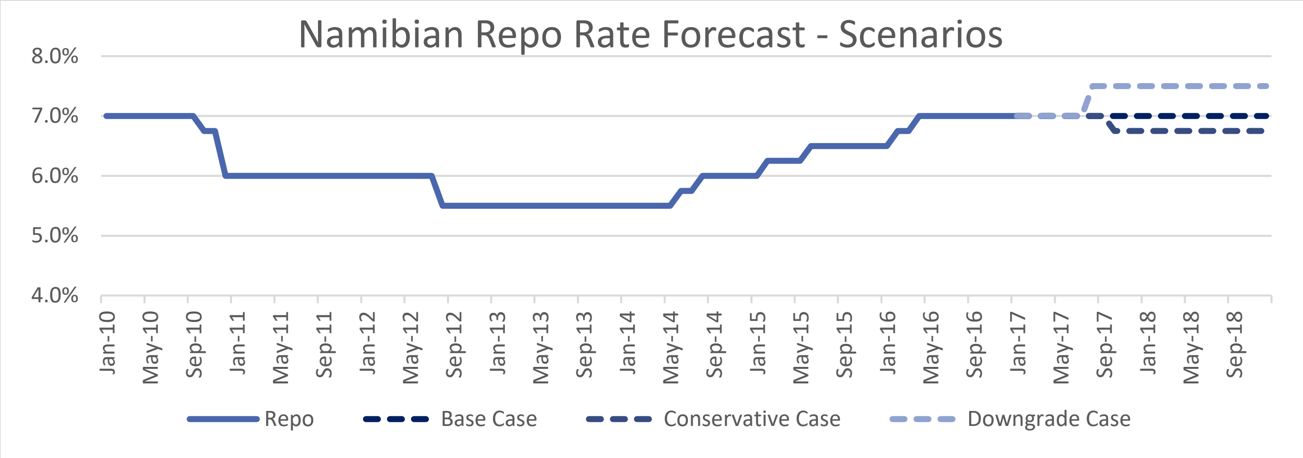
South Africa managed to avert a credit ratings downgrade in 2016 despite a turbulent political atmosphere and low growth environment. The SARB was thus able to focus on the inflation outlook as the Rand strengthened through the year (despite various upsets along the way). While inflation remained above the SARB's target for most of the year, longer term expectations were for a return to the target band. In the latest MPC statement the governor of the reserve bank noted that while the SARB expected inflation to return to the 3% - 6% band, this would likely only take place in the final quarter of 2017.

Our base case scenario for 2017 is for little to no changes to the current repo rate. This is based on the expectations for inflation to moderate through the year, while economic growth remains slow but improving. This should give the SARB space to keep rates flat going forward and we would expect the current dovish tone to remain in place throughout the year provided political shocks do not upset the current balance.

We attribute risks to this outlook to a combination of external factors and political factors, with an outside chance of a ratings downgrade still on the table. We do however not allocate as much weight to a ratings downgrade in the current outlook. The political environment remains unpredictable with a possible cabinet reshuffle currently the main risk as party politics and an internal power struggle ahead of the ANC elective conference in December rage on. Should this battle turn ugly it would lead to a ratings downgrade for South Africa and this in turn will lead to interest rate increases. Our downgrade scenario is based on political instability and low growth leading to a downgrade. Should this happen it is likely that interest rates will be increased by at least 50 basis points, and most probably more than once. We however feel that only one such hike is likely within the 2017 calendar year.

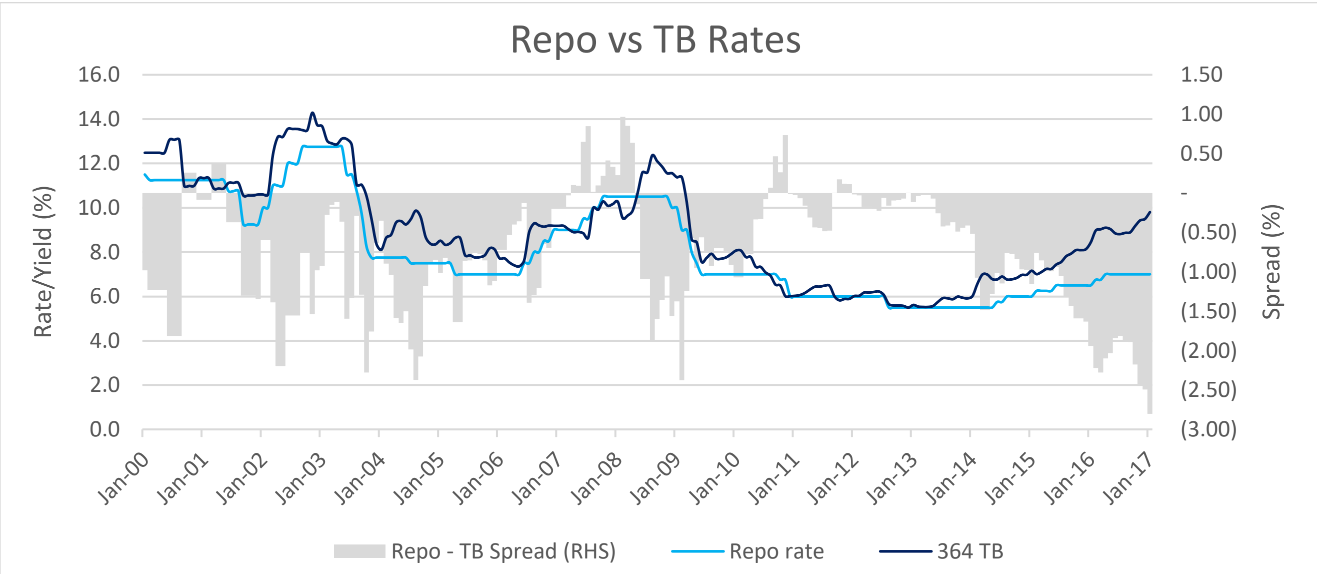
Along with the local political threat to the interest rate outlook, we view key external risks to be new US administration as well as a possible hard Brexit as alluded to by the British PM. Donald Trump has thus far exhibited a recklessness in pushing through policy changes and lack of direction with regards to a real fiscal stimulus strategy. Whether or not Trump is perceived to be successful in kick-starting US growth will be visible in the actions taken by the US Fed. Current market expectations are for two rate hikes in the US, while the Fed dot plot points to the possibility of three hikes. Should Trump's policies be ineffectual with regards to fiscal stimulus and if US growth underwhelms, it is likely that EM currencies, particularly the South African Rand which has increased in resilience of late, are likely to strengthen against the dollar which should bring the Rand closer to fair value and less in need of support in the form of interest rate hikes.

This brings us to our conservative scenario which is based on the possibility of a repo rate cut which would be driven by slow growth and underpinned by a strengthening Rand and moderating inflation. Should this happen it is likely to take place in the third or fourth quarter of the calendar year. The dovish tone employed by the SARB of late leads us to conclude that a rate cut is very possible this year. We do not anticipate more than one cut in this scenario and see any cut in the current climate being limited in magnitude.



Source: BoN, IJG Securities

Our above scenarios are based on the SARB's possible decisions as we believe that BoN is likely to continue following the SARB. While loose monetary policy has contributed to the overheating of the economy over the last two years in our view, it is unlikely that tightening policy now will be on BoN's agenda, although there may be some benefits to doing so. Market rates have moved away from administered rates as seen in the below figure. The one-year TB rate is over 2.5% higher than the repo rate at present, the largest that this spread has been since 2000 (when our dataset begins). This has resulted in a squeeze on the banks and an increase in administered rates may, counterintuitively, promote credit extension in the current low growth environment.



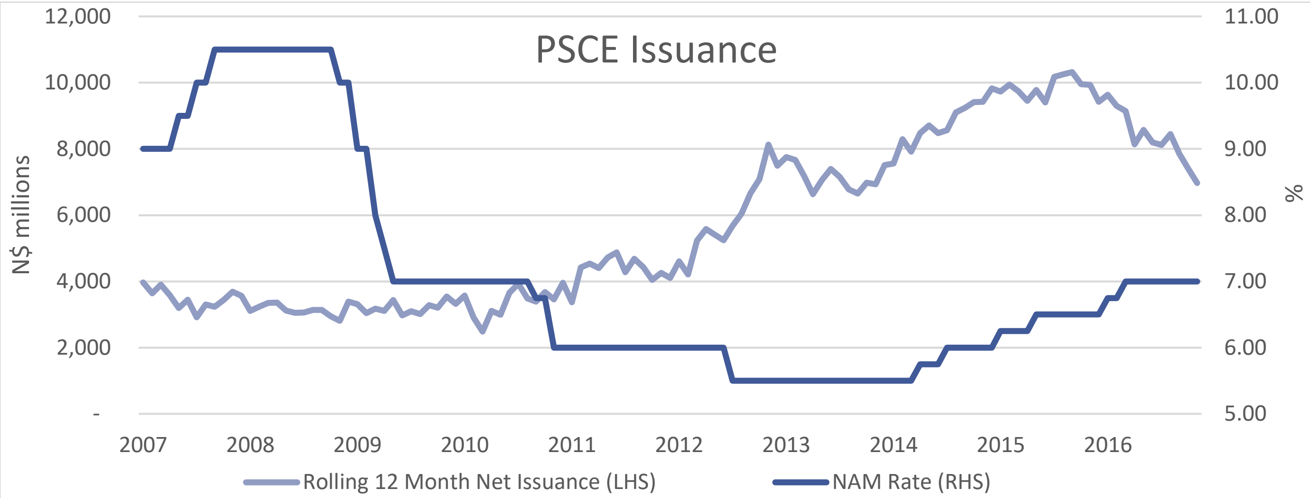
Source: BoN, IJG Securities

Historic Interest Rate Moves, SARB

	Largest Hikes			Largest Cuts	
	Repo After Hike	**Point Move**		**Repo After Cut**	**Point Move**
Sep-02	13.50%	1.00%	May-09	7.50%	-2.00%
Jun-02	12.50%	1.00%	Oct-03	8.50%	-1.50%
Mar-02	11.50%	1.00%	Jun-03	12.00%	-1.50%
Jan-02	10.50%	1.00%	Sep-01	9.50%	-1.50%
Jan-14	5.50%	0.50%	Mar-09	9.50%	-1.00%
Jun-08	12.00%	0.50%	Feb-09	10.50%	-1.00%
Apr-08	11.50%	0.50%	Sep-03	10.00%	-1.00%
Dec-07	11.00%	0.50%	Aug-03	11.00%	-1.00%
Oct-07	10.50%	0.50%	Jun-01	11.00%	-1.00%
Aug-07	10.00%	0.50%	Jul-12	5.00%	-0.50%
Jun-07	9.50%	0.50%	Nov-10	5.50%	-0.50%
Dec-06	9.00%	0.50%	Sep-10	6.00%	-0.50%
Oct-06	8.50%	0.50%	Mar-10	6.50%	-0.50%
Aug-06	8.00%	0.50%	Aug-09	7.00%	-0.50%
Jun-06	7.50%	0.50%	Dec-08	11.50%	-0.50%
Nov-15	6.25%	0.25%	Apr-05	7.00%	-0.50%
Jul-15	6.00%	0.25%	Aug-04	7.50%	-0.50%
Jul-14	5.75%	0.25%	Dec-03	8.00%	-0.50%
Oct-00	12.00%	0.25%	Jan-00	11.75%	-0.25%

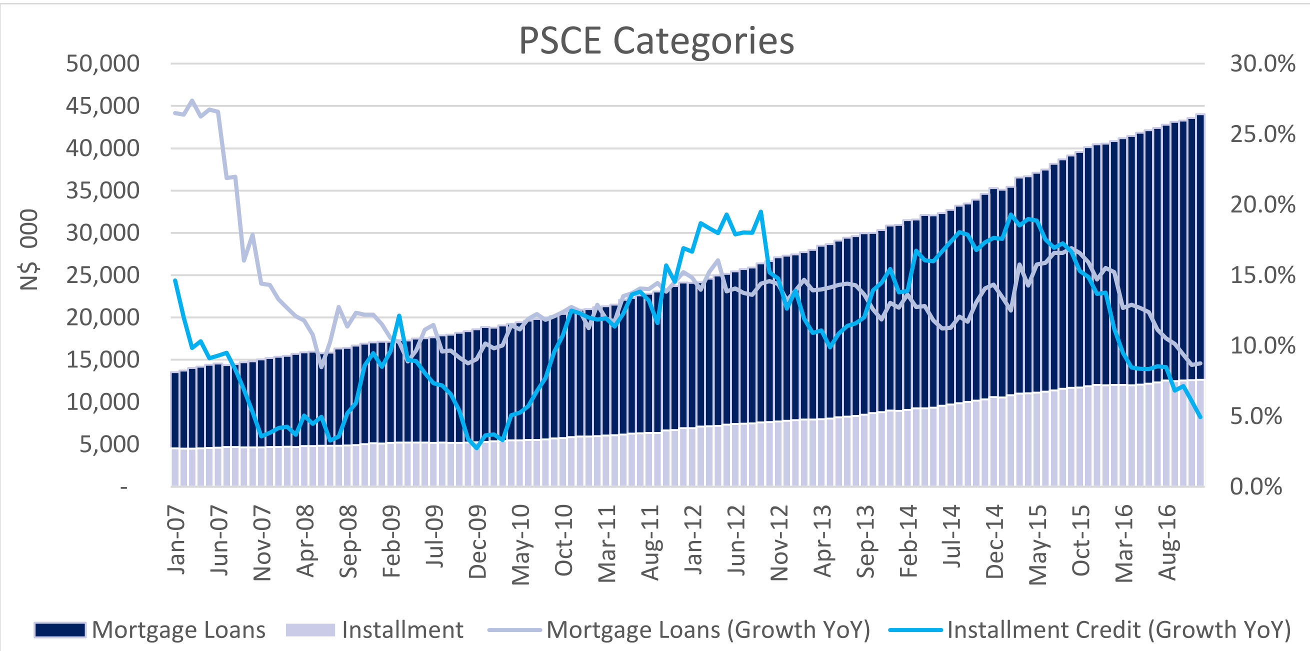
Private Sector Credit

As we reach what might possibly be the end of the rate hiking cycle, private sector credit extension, one of the key drivers of growth in the Namibian economy over recent years, has come under pressure and has slowed noticeably. The slowdown was a result of both lower demand and lower supply of loans. Higher interest rates have decreased demand while a low liquidity environment constrained the supply of new loans.



Source: Bank of Namibia, IJG Securities

After an extended period of extremely low interest rates, strong growth in credit extension has left many consumers highly indebted, and many corporates with heavily leveraged balance sheets. However, since the start of the rate hiking cycle in 2014, the Bank of Namibia has increased the repo rate six times in 25 basis point increments, from 5.5% to the current 7.0%. This gradual increase in interest rates has reduced the discretionary disposable income of Namibian households and put pressure on highly leveraged corporates. This, in conjunction with amendments in the credit affordably act, has undoubtedly dampened down conventional credit demand for capital goods such as vehicles while the new minimum deposit requirements on mortgages have had a similar effect on housing demand.

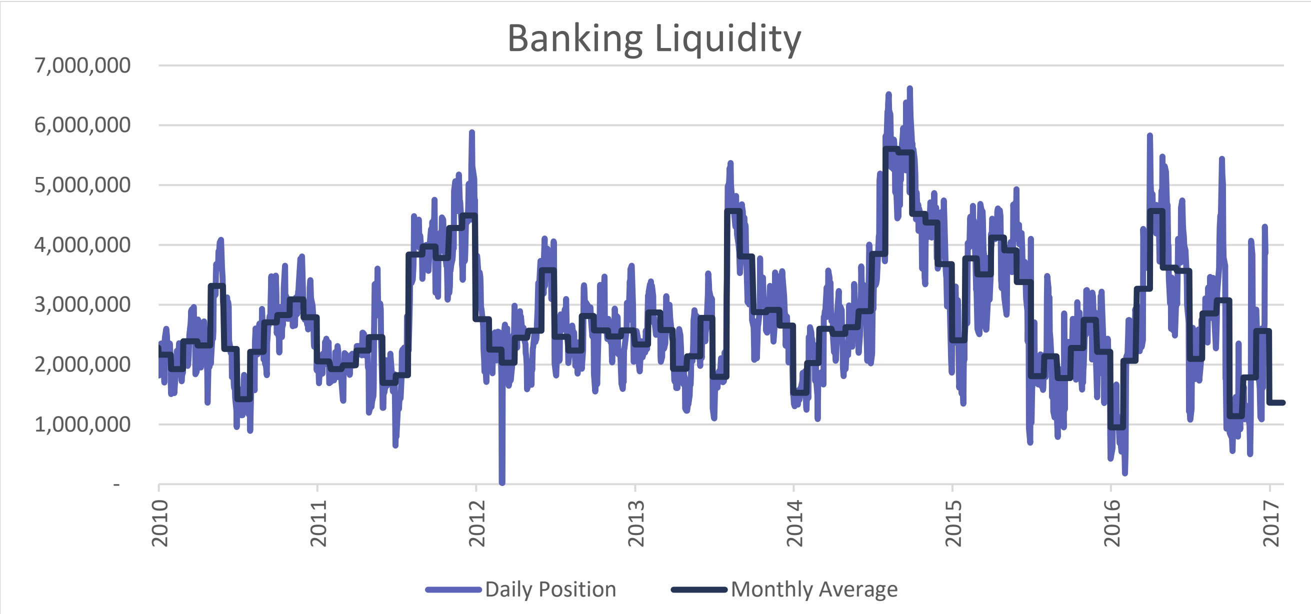


Source: Bank of Namibia, IJG Securities

From a supply perspective, government, previously a key provider of liquidity in the market, has come under severe financial pressure and simply does not have the funds that they used to have to deposit with the commercial banks (often via local authorities or state owned enterprises) and as well as this is becoming relatively slow when it comes to paying contractors, particularly for civil works projects, which of course translates to fewer deposits from such individuals and entities into commercial banks.

Additionally, Government has started to compete with banks for short term funding. In recent treasury bill tenders, short term government security yields have risen to such an extent that it has caused a crowding out effect for bank deposits. This has resulted in a squeeze on the banks and an increase in administered rates may, counterintuitively, promote credit extension in the current low growth environment.

Despite the slowdown, credit extension to households remains relatively robust, having expanded by 9.3% y/y in 2016. The growth was primarily driven by mortgages which grew by 9.5% y/y, while overdrafts have accelerated to 11.1% y/y, and installment credit has slowed to 8.1% y/y. The slowdown in extensions is much more pronounced in the corporate space as mortgage, overdrafts and installment credit grew by 6.3% y/y, 6.1% y/y and 0.7% y/y respectively. Installment credit has been the hardest hit by the slowdown as the demand for capital good such as vehicles has faded. Cumulative 12-month vehicle sales have declined by 21.6% y/y.



Source: Bank of Namibia, IJG Securities

Our outlook is for a further slowdown in credit extension in the short term, possibly easing by mid- to late 2017. We expect South Africa to maintain their current repo rate for 2017, which should give consumers and corporates some room to breathe. Future increases in Namibian administered rates are likely to follow moves made by the South African Reserve Bank, as has been the case over the last couple of years. Going forward, the question remains that of whether the liquidity situation in the country will allow for further strong growth in credit extension, while higher rates will also raise questions about the ability of banks to continue to grow their balance sheets without jeopardizing loan quality.

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