~ APRIL 2013 ~

SYGNALS

KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	-2.5%	-3.2%	5.8%	16.1%	12.1%	13.9%	7.9%
J200T	FTSE/JSE Top 40 Index	-3.0%	-4.4%	4.7%	15.6%	10.7%	13.2%	6.5%
J210T	FTSE/JSE Resources 20 Index	-8.5%	-16.8%	-13.0%	-10.4%	-10.0%	-2.4%	-6.0%
J211T	FTSE/JSE Industrials 25 index	-0.1%	3.0%	15.2%	34.6%	27.2%	27.2%	18.8%
J212T	FTSE/JSE Financials 15 Index	0.1%	1.8%	15.0%	25.3%	22.0%	17.3%	13.7%
J403T	FTSE/JSE SWIX Index	-1.7%	-1.6%	6.5%	16.8%	14.3%	15.4%	9.8%
J303T	FTSE/JSE CAPI Index	-2.4%	-2.9%	6.1%	16.4%	12.5%	14.2%	8.9%
J253T	SA Listed Property	7.4%	16.0%	25.5%	43.7%	30.7%	26.2%	24.0%
ALBI	BESA All Bond Index	4.1%	5.0%	8.4%	16.9%	14.8%	13.0%	12.6%
STeFI	STeFI Index	0.4%	1.2%	2.5%	5.4%	5.5%	5.8%	7.4%
	MSCI World Index in SA Rands	0.3%	5.9%	18.8%	34.9%	23.4%	17.0%	5.4%
	Rand/US Dollar Exchange Rate	-2.8%	0.2%	3.6%	15.6%	17.0%	6.7%	3.5%
	Rand/Euro Exchange Rate	0.1%	-3.0%	5.2%	14.9%	10.3%	6.4%	0.1%
	Headline CPI	1.2%	2.5%	3.6%	5.9%	5.9%	5.3%	5.9%
	PPI	0.9%	2.0%	3.4%	5.7%	6.8%	7.0%	6.0%

"Italy is dying from fiscal consolidation. Growth policies cannot wait any longer."

Italy's new premier Enrico Letta in his opening speech to parliament

GOLD LOSES ITS SHINE

April brought an abrupt end to the bull market in commodities, and in particular gold. Commodity prices fell on rising concerns about visibly slowing growth prospects in the US and China.

The month kicked off with worse than expected US services and manufacturing sector data and job creation figures. The unemployment rate fell to 7.6% in March, but only because more people reported dropping out of the labour force. The labour force participation rate, at 63.3%, is the lowest since 1979. Other disappointing

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SYGNIA
THE SUM OF ALL THINGS

figures included retail sales, existing home sales and durable goods orders. All these have been interpreted as indicating that the US has hit a softer patch in terms of growth recovery.

In China, easing inflation reduced the immediate need for tighter monetary policy, but also signalled a lack of recovery in domestic consumer demand. Consumer prices rose by an annualised 2.1% in March, down from 3.2% in February. Strong import numbers have been dismissed as unreliable. Manufacturing and services sectors, on the other hand, rebounded in March before falling again in flash surveys in April. The official manufacturing PMI rose to an 11-month-high of 50.9 in March, while the services PMI increased to 55.6, both above the key 50 level which divides growth from contraction. However the data is not persuasive enough to change the view that the growth momentum has slowed down.

In Europe, both the Bank of England and the ECB kept interest rates on hold despite mounting evidence that the eurozone is slipping deeper into a recession. Markit's manufacturing PMI for the eurozone fell to 46.8 in March, the services sector PMI to 46.4, and the composite PMI to 46.5.

Fitch followed Moody's in stripping Britain of its AAA credit rating. On a positive note, the UK avoided an unprecedented triple-dip recession with GDP growing by 0.3% in the first quarter after contracting by 0.3% in the fourth quarter of 2012. Year-on-year, Britain's economy expanded by 0.6%.

Spain, on the other hand, sunk deeper into recession as GDP contracted by 0.5% over the first three months of 2013 for the seventh successive quarter. The Bank of Spain forecasts that Spain's economy will shrink by 1.3% this year. Prime Minister Mariano Rajoy acknowledged that despite stringent austerity measures Spain will need an additional two years to bring its public deficit to within the 3% limit demanded by the EU.

Portugal faced having its austerity plan unravel after the country's top court ruled that wage cuts and lower pensions for state workers were unfair. The ruling overturned €1.3 billion of austerity measures introduced as a condition of its €78 billion bail-out, forcing the government to announce alternative spending cuts.

The magnitude of aggressive new stimulus measures announced by Japan's central bank caught the market by surprise. Haruhiko Kuroda, the new governor of the Bank of Japan, delivered on his promise to change Japan's economic policy by announcing that the Bank would double the amount of money in circulation, increasing the monetary base to US$2.8 trillion by the end of 2014. The objective is to boost inflation to the targeted 2% level within 2 years. Kuroda also committed the Bank to open-ended asset buying. The pace of bond purchases is to rise to 7.5 trillion yen a month, almost three times the US Federal Reserve's stimulus as a share of the economy. The maturities will stretch to 40 years, ending the three-year cap that has hobbled policy for a decade. Japan's policies went unopposed at a G20 meeting in Washington.

If nothing else, the injection of money is expected to reignite the yen "carry trade" as Japan's institutions' funds seek higher yields offshore. In the short term, however, money seemed to have moved the other way with Japanese investors cashing in on the windfall gains abroad generated by the 20% slide in the yen.

Stock markets firmed further after the minutes of the US Federal Open Market Committee's March meeting showed that most members believed the benefits of quantitative easing outweighed the costs and that it should only slow down once the outlook for the labour market improved. This is anticipated to happen by year-end.

The first sign of trouble came mid-month on a stream of growth downgrades. The World Trade Organisation cut its forecast for trade growth this year from 4.5% to 3.3% after a 2% growth in 2012, the second-weakest annual figure on record after 2009 when trade shrank. The IMF cut its global growth forecasts to 3.3% for 2013 with the eurozone shrinking by 0.3%, and the US growing by 2%.

The second glitch came after Cyprus's central bank announced a US$400 million sale of gold reserves. The news pulled the gold price below the key US$1 500/oz level. While the sale in itself is small, it sets an uncomfortable precedent for other heavily indebted eurozone nations such as Italy and Portugal.

And the final blow was the announcement of an unexpected slowdown in China's economic growth. Chinese GDP grew by an annualised 7.7% over the first three months of this year, down from the previous quarter's 7.9%. The disappointing figure, driven largely by weaker-than-expected industrial production, triggered a massive commodities sell-off, with gold falling by 10% on 15 April in the biggest one day fall in 33 years. The gold price sank to US$1 321.35 by 16 April. China is the world's second-largest buyer of gold and accounts for 40% of demand for base metals.

Gold pulled other metals lower with the oil price falling to below US$100 a barrel before ending the month at US$103 a barrel.

Further weak economic data from the US, including a fall in the consumer confidence index, lacklustre earnings reports and dramatic news of bombings at the Boston Marathon, together with a flood of weak flash PMI figures for April, added to the negative sentiment. The mood was not improved after Bundesbank President Jens Weidmann warned that the eurozone's economic recovery could take a decade.

The market stabilised somewhat as bargain hunters returned to the market and physical gold found some support at US$1 420/oz level, before closing the month at US$1 476.75/oz, after the first estimate of US first quarter GDP growth came in at a lower-than-expected annualised rate of 2.5%. The string of underwhelming US economic data has also increased expectations of the continuation of the US Federal Reserve's quantitative easing programme.

A sharp fall in eurozone inflation and rising unemployment bolstered expectations of an interest rate cut by the ECB. The annual inflation rate in the euro area fell to 1.2% in April, the lowest since February 2010, while the March unemployment rate advanced to 12.1%, the highest since the data series began in 1995.

Spain's and Italy's borrowing costs fell as Spain held a successful debt auction and Italy finally formed a new government. Italy's new premier Enrico Letta added to the debate on growth versus austerity by vowing to end Italy's "death by austerity", and warning that Europe itself faces a "crisis of legitimacy" unless it changes course.

GOLD BULLETIN

The collapse of the gold price has been on the cards for a while. After rallying for 12 straight years, the metal has tumbled by 23% from its September 2011 high of US$1 923.70/oz. And although it recovered somewhat by month end, the confidence in its investment merits is at an all time low.

With investors switching from gold funds to equities, exchange-traded products linked to gold dropped by 13%, or US$37.2 billion, in value this year alone with net outflows of US$11.2 billion. The SPDR Gold Trust, the world's largest gold-backed ETF, is at the lowest level since October 2009.

Central banks are among the biggest losers as they own 19% of all the gold mined. The US and Germany are the biggest holders, with the metal accounting for more than 70% of their total reserves. Central banks started buying gold in 2008, with purchases in 2012 being the highest in half a century.

GLOBAL SNAPSHOTS

North Korea

North Korea ratcheted up their bellicose rhetoric through the month, threatening South Korea, Japan and the US bases in Guam with missile attacks. It blocked South Koreans from crossing the border to enter a jointly operated industrial park, and announced restarting of the Yongbyon nuclear reactor.

After three nuclear tests, there is no doubt the country can trigger a nuclear explosion. However sceptics view the recent moves as an attempt to bolster the image of the new leader among his army generals and the mass population, as well as a strategy to blackmail the West for more aid.

Tension has been rising since the United Nations imposed new sanctions on North Korea in response to its third nuclear test in February.

Italy

Inconclusive February elections split the Italian parliament into three blocs. Pier Luigi Bersani and the Democratic Party, the top vote gatherer, were forced to seek a coalition to form a majority government. The party failed to gain the support of Beppe Grillo's Five Star Movement, the third-biggest force, leading to Bersani's resignation. This propelled Silvio Berlusconi, the three-time prime minister and two-time convicted lawbreaker, back into the driving seat as the Democratic Party and his People of Liberty Party agreed to re-appoint President Giorgio Napolitano and appoint Enrico Letta of the Democratic Party as prime minister.

Representatives of Berlusconi's People of Liberty Party are due to meet Letta to seek common ground on a government program and divide up Cabinet positions.

Berlusconi's return to prominence comes almost 18 months after the European debt crisis toppled his last government, and six months after he received the first of two criminal convictions.

Zimbabwe

Zimbabwe announced an intention to amend its contentious Indigenisation and Economic Empowerment Act to force mining companies to cede 51% shareholdings for no monetary compensation. This comes despite earlier agreements between the government and Anglo Platinum, Impala Platinum and Aquarius Platinum, which have all agreed to cede majority shares in their Zimbabwe operations in exchange for payment.

Eurozone

The recession in the eurozone shows no signs of abating. With unemployment at an all time high of 12.1% in February, 19 million people are out of work. In the full 27-member EU, unemployment stands at 10.9%, with 26.3 million people out of work.

The countries with the lowest unemployment rates are Austria (4.8%) and Germany (5.4%), compared with 27.2% in Spain, 17.5% in Portugal and 26.4% in Greece.

China

China's property bubble grew in March as new home prices in the major cities continued to rise. Prices rose in 68 of 70 cities tracked by the government. Prices rose by 11.1% from a year earlier in Guangzhou, by 8.6% in Beijing and by 6.4% in Shanghai.

South Africa

Labour unrest continued against a backdrop of lacklustre economic data.

South Africa's labour relations are expected to remain fraught through 2013. The good news is that the public sector unions have a three-year wage agreement in place. The bad news is that parastatals, such as Transnet and Eskom, only have one-year deals. The bus industry is already on strike, while the motor and mining industries are preparing for negotiations. This comes at a time when established trade unions are fighting for relevance against upstarts and hence populist rhetoric and unrealistic headline wage increase numbers are likely to be part of the process.

This is not great news for the rand, which has had a turbulent time of late. The currency has fallen by 5.9% against the US dollar since the start of 2013, making it the weakest emerging market currency and second weakest major liquid currency. Interestingly, both the equity and bond markets continued to attract net foreign inflows. The culprit has been the current account deficit, which registered at a massive R24.5 billion in January.

The rand strengthened to R8.97/US dollar at month-end on the positive news that South Africa's trade deficit had narrowed to R7.8 billion March from R9.5 billion in February as exports of mineral products and base metals increased. March exports rose by 2.9% from the previous month while imports were down 0.3%. The deficit for the first quarter of 2013 came in at R41.8 billion compared with R27.6 billion in the first quarter of 2012 and only R5.1 billion in the first quarter 2011.

On the economic front, the seasonally adjusted Kagiso manufacturing PMI fell to 49.3 last month after moving above the key 50-point mark in February. The pull-back was largely driven by significant declines in the new sales orders and business activity.

Business confidence indices painted a conflicting picture, with Sacci's BCI for March falling to its lowest level since April 2000, while the BER survey showed business confidence improving marginally. The BER consumer confidence index, on the other hand, plunged to a nine-year low on the back of concerns about employment, violent strikes, threats of power failures and rising inflation.

Consumer inflation was unchanged at 5.9% year-on-year in March, slightly below expectations. The reduction in petrol prices in early May is going to help going forward. And although producer prices rose faster than expected in March, with the producer price index coming in at 5.7% year-on-year, weaker global growth and moderate commodity prices should contain producer inflation in the months ahead.

On a positive note retail sales growth improved more than anticipated in February, at 3.8% year-on-year. Seasonally adjusted retail trade sales were up 2.7% in February compared with January, following month-on-month changes of -1.7% in January and 0.8% in December.

South Africa's leading indicator of business activity rose again in February, its eighth consecutive month of increases, pointing to continued local economic growth six to 12 months ahead. The leading indicator rose 1% in February from a year earlier, after an upwardly revised 1.9% (from1.2%) year-on-year increase in January.

On the corporate front, Telkom reached an agreement with the Competition Commission to pay a fine of R449 million awarded by the Competition Tribunal in August last year. Telkom was found to have abused its dominance in the telecommunications market between 1999 and 2004, a period during which it was a monopoly provider of telecoms facilities in the country.

ODDS AND ENDS

The future of teaching

EdX, a non-profit enterprise founded by Harvard and MIT, is set to release automated software that uses artificial intelligence to grade student essays and short written answers.

The role of automation in education is contentious. Although automation in grading multiple-choice tests is widespread, the use of artificial intelligence technology to grade essays is rare. Criticisms include the fact that computers can not measure effectiveness of written communication, reasoning, adequacy of evidence, meaningful organization, among others.

However, it will undoubtedly become a useful pedagogical tool, enabling students to take tests over and over to improve the quality of their answers.

Facebook and cellphones

Cellphones have long been Facebook's Achilles' heel. Expected to unveil its own cellphone, Facebook disappointed by merely unveiling a software package, called Facebook Home, which turns the Facebook news feed into the screen saver of any smartphone which runs Google's Android operating system. In going this route, Facebook is cleverly exploiting technology owned by one of its leading rivals. However, costs associated with constant data streaming might prove too much for most users.

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