

# SYGNAIS



## KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	2.7%	7.5%	5.1%	18.0%	17.4%	15.5%	7.3%
J200T	FTSE/JSE Top 40 Index	3.1%	7.4%	3.9%	16.4%	17.0%	14.6%	6.5%
J210T	FTSE/JSE Resources 20 Index	-0.5%	-1.2%	-13.7%	-6.5%	3.3%	3.4%	-0.7%
J211T	FTSE/JSE Industrials 25 index	6.1%	14.6%	19.1%	35.0%	29.6%	25.6%	15.0%
J212T	FTSE/JSE Financials 15 Index	2.1%	8.0%	11.2%	31.3%	19.3%	17.0%	6.6%
J403T	FTSE/JSE SWIX Index	2.7%	8.3%	7.8%	21.3%	19.2%	16.9%	8.8%
J303T	FTSE/JSE CAPI Index	2.7%	7.5%	5.1%	18.2%	17.6%	15.8%	8.1%
ALBI	BESA All Bond Index	0.1%	7.5%	9.6%	13.5%	11.2%	12.3%	10.9%
STeFI	STeFI Index	0.5%	1.4%	2.8%	5.7%	5.8%	6.3%	8.1%
	MSCI World Index in SA Rands	4.1%	7.7%	12.1%	29.7%	18.7%	10.7%	1.4%
	Rand/US Dollar Exchange Rate	1.5%	-1.3%	12.3%	19.9%	6.7%	2.6%	3.2%
	Rand/Euro Exchange Rate	3.9%	0.4%	6.1%	5.1%	6.3%	-1.8%	1.7%
	Headline CPI	0.3%	0.6%	2.7%	4.9%	5.1%	4.6%	6.4%
	Core CPI	0.7%	1.3%	3.4%	4.6%	4.4%	4.3%	5.7%
	PPI	1.6%	6.6%	7.8%	5.4%	7.2%	7.3%	7.2%

*"We must avoid finger-pointing and recrimination. We must unite against violence from whatever quarter. We must reaffirm our belief in peace, stability and order and in building a caring society free of crime and violence."*

*President Jacob Zuma in response to the Marikana tragedy.*

As the euro zone stumbled towards disaster, Spain's borrowing costs surged above the key 7% per annum level as it asked for up to €100 billion to recapitalise its banks, global summits seemed to lead nowhere and Greece, albeit opting to hang onto the euro, immediately asked for further aid. But the last day of June brought a surprise break-through in the European Union's approach to the crisis, lending some support to stock markets and to general investment sentiment.

## THE AFTERSHOCK OF MARIKANA REVERBERATES GLOBALLY

Economic data in August was downbeat with manufacturing, a key measure of economic growth, slowing down in the US and contracting in China and Europe.

There has also been little change in unemployment, with the US jobless rate coming in at 8.3% in July, and the euro zone's at 11.2%. The latter hides the wide inequality in Europe spanning from a low of 4.5% unemployment in Austria to a high of 24.8% in Spain.

Second quarter growth figures were disappointing.

The euro zone's economy shrank by 0.2%, having flat-lined in the first quarter after an upward revision. This means that the region has technically avoided the two consecutive quarters of contraction that define a recession. Within the euro zone, Austria, Netherlands and Germany recorded 0.2% growth, while France posted a third consecutive quarter of zero growth. Portugal's recession deepened with GDP falling by 1.2%, while Italy's second quarter data showed that the economy contracted 0.7% quarter-on-quarter. Spain recorded a fall of 0.4% over the same period, while Greece shrank by 6.2% year-on-year. The UK reported a contraction of 0.5%.

In comparison the US GDP increased by 0.4% compared with the previous quarter, after rising by 0.5% in the first quarter, while Japan grew by a lower than expected 0.3% as the debt crisis in Europe crimped demand for exports.

On the commodities front oil prices hit a three-month high of over US\$115 a barrel as US crude stock reserves fell and as North Sea supply cuts were priced in on the back of a major round of maintenance over the next two months. Escalating conflicts in Syria and Yemen, sanctions on Iran and the tropical storm Isaac hitting US oil rigs and refineries helped to underpin prices.

Speculation that the US Federal Reserve may unveil another round of stimulus measures and that the ECB is set to take action on the euro zone debt crisis kept gold above US\$1 650/oz. through the month. A closely watched report from the World Gold Council showed that demand for physical gold from jewellers and investors, particularly in India and China, has fallen to its lowest level since the first three months of 2010.

The platinum price staged a strong recovery on supply concerns after a wave of violence in South Africa caused by clashes between the dominant National Union of Mineworkers and the upstart Association of Mineworkers and Construction Union escalated into a police crackdown. Earlier this year, the NUM and AMCU rivalry led to a six-week shutdown of the world's largest platinum mine, Impala Platinum. The rapid rise in the price highlighted the reliance of the platinum market on South African supply. By mid-August platinum ranked as the best-performing precious metal of 2012 after having been outpaced by silver and gold because of investor pessimism over the extent of the slowdown in demand particularly from the auto sector, where platinum is used in catalytic converters.

The markets started the month weaker as the ECB failed to deliver any concrete proposals, while leaving the benchmark interest rate unchanged at 0.75%. Draghi signalled that although the ECB was willing to start buying government bonds to hold down the borrowing costs of troubled euro zone countries, it would only do so after a country asked for aid and only after the European bailout fund first exercised its power to buy bonds. However the €500 billion permanent rescue fund, the European Stability Mechanism, still requires the approval of Germany's constitutional court, which is expected in mid-September. Until then, Europe's only rescue vehicle is the European Financial Stability Facility, which has less than €150 billion left over after last month's approval of Spanish bank aid.

The disappointment was short-lived as markets started to anticipate eventual ECB intervention and rallied again.

The EU, IMF and the ECB "troika" inspectors visited Greece to assess whether it has made sufficient progress in meeting the terms of the bail-out to justify the release of the next aid instalment. No conclusions were reached and inspectors are set to return in September to deliver a final verdict. Greece has been told it must cut €14 billion from its budget in the next two years, €2.5bn more than they originally demanded. The extra cuts are required because planned privatisations proceeds and tax revenues are falling short of forecasts. But, in a surprising shift in sentiment, Greece raised €4.1 billion

in a sale of three-month debt at 4.43%. The extraordinarily large sale was held ahead of the redemption of a €3.2 billion bond held by the ECB which expired in mid-August.

Markets continued to rise as some better than expected US economic data boosted sentiment. US retail sales, durable goods orders, sales of existing homes, industrial output and inflation figures all trended up. Rumours that China was considering new economic support measures also helped. German Chancellor Angela Merkel said that Germany was "committed to do everything we can in order to maintain the common currency".

The rand fell sharply against major currencies as 44 people were killed following a wildcat strike at Lonmin's Marikana mine. Global headlines fuelled worries of a potential spill-over to other mining companies as Lonmin struggled to restore operations and workers continued to stay away. Fitch and S&P rating agencies immediately warned that the events highlighted the social challenges they had already flagged as a key concern when they decided to put a negative outlook on South Africa's credit ratings. These credit ratings help to determine a country's cost of borrowing. By month-end demands for higher wages spread to the gold industry, although the Chamber of Mines which represents companies, including Africa's three biggest gold producers, warned that it will not re-open talks on a two-year agreement signed in August last year. Under the agreement, workers get increases ranging from 7.5% to 10%.

Elsewhere markets weakened somewhat after Germany's Bundesbank stepped up its criticism of any ECB bond-buying program and the ECB itself poured cold water on speculation that its new crisis-fighting plan would necessarily include buying euro zone countries' bonds to cap yields. Whether the plan is actually enacted depends to a large extent on Spain. The ECB will not intervene until debtor states request a formal bail-out from the EFSF and ESM rescue funds, and sign a "memorandum" giving up fiscal sovereignty.

The optimism following the release of the minutes of the last US Federal Reserve meeting, which showed that support for a third round of QE is growing, was overshadowed by a weaker than expected flash HSBC Chinese PMI which dropped to a nine-month low of 47.8 in August, down from July's 49.5. Contracting at its fastest pace in nine months, the economy is looking to continue slowing well into the third quarter.

Greek Prime Minister Antonis Samaras met with the French President François Hollande and Chancellor Merkel. Although both expressed their allegiance to keeping Greece in the euro, they insisted that the new Greek government must demonstrate commitment to its austerity program. Samaras hoped to stretch the implementation of new austerity measures over four years rather than two years as previously agreed as Greece is struggling to meet the austerity timetable. The government coalition's junior partner, the Democratic Left Party, objects to putting thousands of civil servants on labour reserve, while unions are blocking privatisation efforts.

Germany and France, on the other hand, agreed to move to closer European integration in a renewed show of unity.

The IMF has urged governments globally to delay austerity programmes until growth returns or, if a delay was not possible, to shift the burden of any programme onto higher taxes and larger benefit cuts. The report, which focused on the US, Europe and Japan, was an attempt to identify the best pace and structure of fiscal consolidation. The UN's International Labour Organisation warned of a "catastrophic" rise in unemployment, especially among the young, if Greece was to leave the euro-zone or if the bloc was to split. The rise in unemployment would spread to Germany (11.3% by 2014) and France (17% by 2014), with the 15-24 year olds most at risk.

US stocks rallied after Apple won a US\$1 billion verdict against Samsung over patents relating to the iconic iPhone and iPad designs. Apple immediately announced that it will seek an injunction to block sales of Samsung products in the US. In a separate judgement Apple was cleared of patent infringement claims by Google's Motorola Mobility unit. Together, the decisions have emboldened Apple to continue the campaign envisioned by its late co-founder, Steve Jobs, to prove phones running on Android copied the iPhone's features and designs.

German business confidence fell for the fourth straight month in August as companies saw both their current and future economic conditions deteriorating.

At month-end Spain's north-eastern region of Catalonia, which represents around a fifth of the country's economic output, announced that it needs to tap a state liquidity facility for just over €5 billion. The government announced in July it was setting up a new liquidity mechanism to help the regions repay their debts, using funds from the state lottery and bank loans, but the facility is not yet up and running. Six regions are expected to need the aid.

Weak German and Asian economic data added to the concerns. German unemployment increased for the fifth month in a row, retail sales in Japan and Germany fell more than estimated and South Korean manufacturers' confidence stayed near the lowest level since 2009. US reports showed consumer spending rose less than forecast after flat-lining in June. To add to the uncertainty, Spain announced that it would delay deciding whether to seek a sovereign bailout until the aid conditions are clear. This is unlikely to happen until the ESFM has been formally approved.

The Federal Reserve chairman, Ben Bernanke, used the annual gathering of central bankers in Jackson Hole, USA, to deliver a forceful argument for potential new steps to stimulate the economy. Markets interpreted his speech as setting the stage for action when the Fed's policy-making committee meets in mid-September.

September will thus be a key month, with the ECB policy meeting on the 6<sup>th</sup> of September, the German constitutional court ruling on the 12<sup>th</sup> and European finance ministers' meeting on the 14<sup>th</sup>. The troika report on Greece is expected by month-end.

## SOUTH AFRICA

Photographs of bemused-looking snow-covered lions in the Johannesburg zoo circulated to general amusement as the country experienced an unseasonably cold winter, but merriment soon gave way to horror as the events at Marikana grabbed the headlines.

On the economic front, the second quarter GDP showed that the economy expanded by 3.2%, up from 2.7% in the first quarter. The number was boosted by the mining sector's recovery from the effects of a strike earlier in the year. Manufacturing output contracted while activity in two other main sectors, finance, real estate and business services, and wholesale, retail and motor trade slowed markedly. With the contribution from mining stripped out, the economy would have expanded by just 1.7%. These figures reinforce the view that the economy will perform poorly this year, hobbled by a global slowdown and a recession in Europe. The mining sector is also set to contract in the third quarter as a consequence of the Lonmin strike. The IMF has cut South Africa's growth forecast for 2012 to 2.6%.

Consumer inflation slowed more than expected to 4.9% year-on-year in July from 5.5% in June on lower petrol and food prices, and lower-than-expected electricity price increases. In a positive step, the government reached a three-year wage agreement with public sector workers. A 7% increase for 2012 back-dated to May, to be followed by CPI plus 1% for the following two years, is a favourable outcome. Surprisingly, PPI slowed from 6.6% in June to 5.4% year-on-year in July. PPI was up 1.6% on the month.

Other indicators were also positive. Manufacturing output grew by 0.8% year-on-year in June; retail sales accelerated by 8.3% year-on-year and the official unemployment rate fell to 24.9% from 25.2% in the first quarter. The latter leaves 4.5 million people without jobs and 13.4 million employed. However the figures were quickly criticised as painting an inaccurate picture of reality.

The banking industry met Finance Minister Pravin Gordhan to discuss its role in assisting the government in meeting its development goals. Private sector credit extension, which rose by 8.3% year-on-year in July, propped up by unsecured loans and overdrafts to businesses, was discussed as a potential risk. However banks made it clear that they disagree with the Treasury that its lending practices could put poor households at risk of over-indebtedness and that they believe the lending practices of other credit providers, such as furniture and clothing retailers, should be monitored as well.

On the corporate front Anglo American shares came under pressure on press reports that shareholders are demanding a change of management and, in particular, of the CEO, Cynthia Carroll, due to a loss of confidence in her strategy and leadership. Lonmin warned the market that it may breach debt-to-profit covenants. Lonmin has already raised prospects of a rights issue, but no details have been provided.

## GLOBAL SNAPSHOTS

### Iran

It is estimated that US-led sanctions against Iran are costing OPEC's third-largest producer US\$133 million a day in lost sales. Shipments from Iran have plunged by 52% since the sanctions banning the purchase, transport, financing and insuring of Iranian crude began on the 1<sup>st</sup> of July. The US extended the sanctions in July to buying Iranian petrochemical products, providing material support to the National Iranian Oil Company or Central Bank of Iran, and acquiring US bank notes or precious metals by Iran's government.

### UK

The London Olympics, staged at a cost of US\$14.5 billion, did little to boost the broader economy. Businesses complained of being side-lined as tourists made a beeline for the Games and avoided the capital's other attractions and shopping destinations, while non-sports fans opted to stay at home. However the Olympics did create thousands of jobs in London and helped to bring the unemployment rate down to 8%, the lowest level since July 2011.

### China

China is preparing for its 18<sup>th</sup> Communist Party Congress, with officials widening efforts to bolster the legitimacy of a leadership transition clouded by the ousting of Politburo member Bo Xilai. 2 270 delegates have been elected to attend the meeting. Although no date has been set for the Congress meeting, the six meetings since 1982 have all been held between September and November.

### Israel

Speculation is rife that the Prime Minister Benjamin Netanyahu will push the button on bombing of Iran's nuclear facilities before US elections on the 6<sup>th</sup> of November. While Israel has repeatedly warned that it would strike Iran, the words are now being accompanied by civil-defence measures, including a new system that uses text messages to alert the public to missile attacks, wider distribution of gas masks and the appointment of a new Home Front Defence minister. The threats also come as nuclear talks between Iran and world powers have stalled and increased sanctions have so far failed to stop Iran's atomic progress. Israel would need to act within months, before Iran reaches a "zone of immunity" where its underground nuclear enrichment facilities would be invulnerable to Israeli air strikes.

## WORLD STAGE EVENTS EXPLAINED

### Food prices on the rise

The Food and Agriculture Organisation has warned that the world could face a food crisis similar to that of 2007/08 when a mixture of high oil prices, growing use of bio fuels, bad weather, soaring grain futures markets and restrictive export policies pushed up food prices, sparking violent protests in the Middle East and North Africa.

In 2012 extreme weather conditions in the US Midwest have sent maize and soya bean prices to record highs. This has driven overall food prices higher, reversing the FAO's forecast for price declines this year. Grain markets have been further boosted by speculation that Black Sea producers, particularly Russia, might impose grain export restrictions.

The FAO food price index, which measures monthly price changes for a food basket of cereals, oil, seeds, dairy, meat and sugar, averaged 213 points last month, up 6% from 201 points in June.

### Another banking scandal

In yet another banking scandal to rock London, Standard Chartered saw a 16% drop in its share price after the New York Department of Financial Services, set up to oversee banks and insurers, accused it of helping Iran to launder as much as US\$250 billion over the past decade. Moving cash in and out of Iran is heavily restricted, especially as most international trade is done in US dollars. Although Standard Chartered promptly denied the allegations, it agreed to pay the US regulator US\$340 million to settle the matter.

### Can you ever escape your debts?

As if Spain didn't have enough debt woes, a Polish legislator has called for a repayment of a 235 million zloty (€57.4 million) debt dating back to the 16th century.

At issue is a 430 000 gold ducat loan taken by King Philip II of Spain (1527-98) from Poland's Italian-born Queen Bona Sforza (1494-1557) to finance the war between Spain and France for control of the Kingdom of Naples. During the period in question one gold ducat weighed 3.5 grams. Using current gold prices, the value of the debt would amount to €57.4 million.

### Should you have invested in Facebook – Part II?

Facebook's shares sank to a record low of below US\$19 after the first of several stock lock-ups to prevent insider sales came to an end. But this is just the beginning with more pressure expected when another 1.44 billion shares are freed up during November. The drop took Facebook's total loss since its debut at \$38 to over 50%, or US\$40 billion.

The concerns centre on the company's slowing revenue growth, and its ability to make money through advertising as more users turn to tablets and smart phones.

### US fiscal cliff compared to another Y2K

The impending "fiscal cliff" in the US has been compared to another Y2K scenario, with the government being forced to avert the crisis irrespective of who is in power.

By the end of the year, the US government must decide whether to allow a number of tax increases and spending cuts to come into effect. The alternative is to allow the deficit to expand. Republican candidate Mitt Romney is likely to automatically extend all of the expiring income tax cuts, raise defence spending and probably cut existing tax rates should he win the election. If Barack Obama is re-elected, the Democratic Party would probably retain control of the Senate and should be able to recapture a majority of the House of Representatives. This would allow them to halt spending cuts.

## Rand volatility survey

According to the UK-based Consensus Economics, which surveys more than 300 forecasters in 27 countries on a monthly basis, bond market inflows are the most influential factor behind the volatility of the rand.

The survey ranks the degree of sensitivity with which currencies respond to different influences. The traditional factors determining exchange rates are relative economic growth, inflation differentials, the foreign trade/current account balance, short- and long-term interest rate differentials and equity flows.

In the rand's case, on a scale of zero (no influence) to 10 (very strong influence), these factors were rated between 4.3 and 6. The most important other factor was bond inflows, rated 7.5.

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