KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	2.6%	1.0%	8.1%	22.8%	20.4%	19.2%	12.0%
J200T	FTSE/JSE Top 40 Index	3.1%	1.1%	9.2%	24.9%	20.6%	19.6%	11.2%
J210T	FTSE/JSE Resources 20 Index	7.3%	1.2%	1.2%	11.2%	2.0%	5.9%	-0.5%
J211T	FTSE/JSE Industrials 25 index	1.6%	1.9%	17.0%	36.6%	35.8%	31.9%	23.1%
J212T	FTSE/JSE Financials 15 Index	-0.7%	-2.6%	2.2%	16.6%	23.8%	18.4%	14.3%
J403T	FTSE/JSE SWIX Index	2.0%	1.2%	7.4%	20.1%	20.7%	19.5%	13.3%
J303T	FTSE/JSE CAPI Index	2.5%	1.0%	8.2%	22.9%	20.5%	19.3%	12.7%
J253T	SA Listed Property	-3.5%	-3.5%	-4.8%	0.0%	17.8%	16.7%	18.2%
ALBI	BESA All Bond Index	-1.3%	-3.4%	-4.0%	0.2%	6.6%	7.4%	9.7%
STeFI	STeFI Index	0.4%	1.3%	2.6%	5.2%	5.4%	5.6%	6.9%
	MSCI World Index in SA Rands	2.0%	2.4%	20.7%	44.0%	36.6%	26.6%	10.3%
	Rand/US Dollar Exchange Rate	4.2%	1.9%	13.7%	22.4%	21.2%	11.7%	5.9%
	Rand/Euro Exchange Rate	3.7%	3.6%	15.2%	28.7%	16.3%	13.3%	3.8%
	Headline CPI	1.1%	1.1%	3.7%	6.3%	5.6%	5.5%	5.4%
	PPI	0.7%	1.7%	3.6%	6.6%	3.5%	5.3%	3.9%

"I am convinced that it is nothing more than a provocation by those who want to involve other countries in the Syrian conflict, who want to gain the support of powerful members in international affairs, primarily, of course the United States."

President Vladimir Putin commenting on the reports of chemical weapons attacks in Syria.

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SYGNIA
THE SUM OF ALL THINGS

August brought little micro-level excitement as Europe and the US investors enjoyed their summer holidays. At macro-level, however, market behaviour could be split into two distinct halves, the first, a strong rally fuelled by a renewed interest in resource stocks and signs of a timeous economic recovery in the eurozone, and the second, a sharp downturn as the US and its allies prepared for military strikes against Syria in the wake of the alleged chemical attacks by President Bashar al-Assad against civilians. Capital outflows from emerging markets continued unabated, while the South African rand battled the duel forces of negative foreign sentiment and continued labour unrest.

GEOPOLITICAL RISK BACK ON

The month started off on a high, with sentiment lifted by dovish statements from the European Central Bank and the US Federal Reserve, followed by stronger economic data reports from both regions.

At the end of July the US Fed described the US economy as expanding at a “modest” pace as opposed to the “moderate” pace in June, a shift interpreted as indicative of a longer term commitment to quantitative easing.

The ECB left its key lending rate at 0.5% as expected, while the ECB President Mario Draghi indicated that although the eurozone economic data tentatively suggested stabilisation, interest rates will remain low for an extended period.

The first indicators of global economic activity and manufacturing PMIs, surprised on the upside.

Both the US and the eurozone manufacturing PMIs rose to two year highs, while China’s official manufacturing PMI increased marginally from its June level. However, a separately calculated HSBC/Markit manufacturing PMI dropped to an 11-month low.

Positive eurozone data, which included declining inflation and improving business and consumer confidence numbers, was taken as an indication that the recession may be nearing its end. The recovery, albeit fragile and regionally uneven, is especially welcomed at a time when emerging markets are slowing down. In Germany, rising consumer and business confidence, falling unemployment and stronger production figures all point to stronger growth at a time when Chancellor Angela Merkel is fighting for a third term in office. She has made the economy a pillar of her campaign. She is widely expected to win the September elections.

The market was given a further boost after the eurozone officially reported a return to growth, with the second quarter GDP in the 17-nation euro area expanding by 0.3% quarter-on-quarter after a 0.3% contraction in the previous quarter. The German economy grew by 0.7% quarter-on-quarter, with growth driven mainly by domestic demand, France’s GDP by 0.5% on a recovery in consumer spending and exports and Portugal’s by 1.1%. Italy and Spain remained in a recession.

The US data came in mixed. The US economy is particularly closely watched with any weakness interpreted as supportive of longer term quantitative easing and vice versa. August brought little certainty. The jobless claims fell to a five-year low while unemployment dropped to 7.4%, the lowest level since December 2008. However this hides the fact that only 162 000 jobs were created in July (the US Fed is looking at 175 000 as a benchmark) and that the fall in unemployment could be largely attributed to more people dropping out of the workforce. On the upside the US economy grew by an annualised 2.5% in the second quarter after a 1.1% gain in the prior three months. The services sector activity, consumer spending and retail sales all trended up, and the housing market continued to recover.

Across the Pacific, the Japanese economy showed it had some way to go. Although consumer prices have begun to move higher, the economy grew by only 2.6% (annualised) in the second quarter, as businesses cut investment.

Markets continued to rise after China reported better than expected trade figures for July, with exports increasing by 5.1% from a year earlier, a reverse from June's 3.1% fall, and imports by 10.9% after a 0.7% fall in June. This was followed by stronger industrial output and company profits, foreign direct investment and retail sales numbers, all adding to evidence that China's growth momentum is improving after a two-quarter slowdown. The news breathed new life into the resources sector on expectations of stronger demand for commodities.

However, the mood turned negative in the latter half of the month as the situation in Syria deteriorated in the wake of a suspected chemical weapons attack by government forces against civilians. Emerging markets currencies came under severe pressure as the US, UK and France rallied support for a military intervention. Of the US$3.9 trillion of cash that has flowed into emerging markets over the past four years US$1 trillion has flowed out since May 2013 when the US Fed indicated paring down of monetary stimulus.

Concerns that any involvement in the conflict could spiral into a deeper and a more complex unrest in the Middle East led the gold price to hit a 15-week high bolstered by safe-haven buying, while oil prices rose to US$110 a barrel. Oil prices were further supported by continued unrest in Egypt where the Muslim Brotherhood vowed to continue their protests against the ousting of former President Mohammed Morsi. The interim government had declared a state of emergency.

Month-end brought a minor recovery as the UK Parliament voted against military involvement in Syria, while the US indicated that it was considering a “limited, narrow” military strike against Syria. US President Barack Obama's decision to seek permission for an attack from Congress has been widely interpreted as a stalling tactic by a country reluctant to become involved in yet another war.

SOUTH AFRICA

August brought surprisingly strong second quarter GDP growth numbers, a spike in inflation, a weaker rand and more strike action playing out against a backdrop of contentious wage negotiations.

South Africa's GDP expanded by a seasonally adjusted annualised 3.0% in the second quarter, up from the 0.9% in the prior three months, boosted by the manufacturing sector which grew by 11.5% on a recovery in base metals. The number, although strong in absolute terms, makes the achievement of a 2.4% GDP growth target in 2013 unlikely.

The one-year anniversary of the Marikana tragedy and a slew of strikes in auto manufacturing, construction and aviation services kept labour issues topical.

The auto manufacturing industry contributes at least 6% to GDP and accounts for 12% of exports. The strike was called by NUMSA, which wants pay hikes of 20% for its members, while employers have offered 6%.

The mining industry did little to achieve consensus and the month ended with the gold producers preparing for bruising strikes and work stoppages of up to three months. The NUM, which represents 64% of the gold labour force, is seeking a 60% wage increase, while AMCU, which represents 17% of the labour force, wants 150%. Employers, through the Chamber of Mines, offered 6.5% in what was described as the “final offer”.

Labour unrest added to the pressure on the rand, already battered by the broad emerging markets outflows.

South Africa's trade account deficit widened to R14.2 billion in July from R7.7 billion in June, the highest number in three months as machinery and chemical products imports climbed. This is not good news at a time when the current account is likely to come under pressure as outflows continue on the back of the tapering of US Fed's monetary easing. The cumulative deficit for 2013 so far stands at R89.4 billion compared with R59 billion over the same period in 2012.

On a shorter term basis the Kagiso PMI increased to 52.2 in July, holding above the key 50-point mark for a fourth consecutive month. However, other data pointed to a slow down. Retail sales growth came in at 1.9% year-on-year in June from a revised 6.0% in May, well below expectations. Growth in private sector credit demand slowed to 7.4% year-on-year in July from 8.9% in June. And the expansion in the broadly defined M3 measure of money supply braked to 7.4% from 9.2% in June. Business confidence remained level between June and July.

Inflation came in at 6.3% year-on-year in July, with the Reserve Bank warning that the inflation outlook is deteriorating largely due to the fall of the rand. Excessive wage settlements and higher food prices pose additional risks. The inflation rate generally rises as much as 2% for every 10% decline in the rand. Headline producer inflation also quickened more than expected to 6.6% year-on-year in July from 5.9% in June.

On a negative note, the 2013 African Economic Outlook survey released by the African Development Bank placed South Africa among the ten slowest-growing countries in Africa this year. South Africa joined nine other countries including Sudan, Egypt and Swaziland, while Sierra Leone, Angola, Zambia and Mozambique are among the fastest growing.

Despite lacklustre domestic economics, the stock market posted another record high, lifted by the surge in the gold price. However the 10-year bond yield spiked to its highest levels in 19 months on the emerging markets sell-off. The rand ended the month at R10.24 to the US dollar.

GLOBAL SNAPSHOTS

United Kingdom

In an announcement more reminiscent of the US Fed, the Bank of England stipulated that it will keep interest rates at a record low until unemployment falls to 7% or below (it currently stands at 7.8%), which it views as unlikely for another three years. The new Governor of the BoE, Mark Carney, indicated that a recovery in Britain's economy was underway and appeared to be broadening but had a long way to go.

Spain

The austerity experiment in Spain seems to be bearing some fruit. The Spanish economy contracted by just 0.1% in the second quarter, down from 0.5% in the previous quarter. The economy shrunk by 1.6% year-on-year. Unemployment has started to fall, house prices and car sales have stabilised, exports are surging and the current account deficit, once 10% of GDP, has turned to surplus.

Italy

Italy's political risks remain on the table. In August members of Silvio Berlusconi's People of Freedom party threatened to bring down Prime Minister Enrico Letta's government if Berlusconi is evicted from parliament following his tax-fraud conviction. The threat comes ahead of a vote due by October on whether to expel Berlusconi from the Senate.

Greece

The Greek economy posted its 20th consecutive quarterly decline in the three months to June, with the GDP shrinking by 4.6% quarter-on-quarter, after a 5.6% contraction in the first three months.

The effectiveness of the EU intervention in Greece has become a major issue of debate in the German elections, at a time when the IMF is pushing for agreement on restructuring of the Greek debt.

It is becoming increasingly clear that the decision to bail-out Greece has been a mistake, and that the country should rather have been allowed to default on its debt and exit the euro. Instead, the severe austerity programme it was forced to introduce has resulted in a cumulative economic contraction approaching 25%, unemployment at 27.6% and unprecedented poverty. Greek debt has risen to €321 billion, higher than the 2010 level. The rescue programme also obliges the country to generate a primary fiscal surplus of 4.5% of GDP by 2016 to repay its debt. This is an unachievable target. It is likely that the IMF will soon get its way.

India

India's economic growth has slowed to its weakest pace since the bottom of the global economic downturn in 2009, while the rupee posted its biggest monthly loss in 20 years in August. This, combined with a widening current-account deficit, higher oil prices and rising inflation, has wreaked havoc with the economy.

For the past three decades, the Indian economy has grown at an average annual rate of 6.4%. This growth has now slowed to 4.4% a year. To some extent, India is just another victim of the ebb and flow of global finance, open to the threat of tighter monetary policies by the US Fed and a resurgent American economy sucking capital out of emerging markets. However this is exacerbated by domestically rooted problems.

The current government, which took office in 2004, has failed to address some serious structural problems in the country. The most serious of these is the economy's reliance on a limited pool of skilled labour, rather than an abundant supply of cheap, unskilled labour. It has done very little to develop the manufacturing sector and to improve the infrastructure. Inflexible regulation and wide-spread corruption discourage external investors at a time when India is facing increasing competition from other countries as far as its core corporate revenue earners, call centres and software development are concerned.

Secondly, the government committed to major redistribution programs to the poor, while neglecting the consequences, double digit inflation (9.4% year-on-year in July) and higher fiscal and trade deficits. This, in turn, has led to consumers frantically buying gold as a hedge, rendering the country reliant on foreign capital to finance its trade deficit. The Reserve Bank of India raised interest rates in July to support the currency and contain inflation, while imposing a series of tax hikes on gold imports to dampen demand.

ODDS AND ENDS

The cost of punishing Syria

The month ended with the US President Obama saying that he is considering a “limited, narrow” military strike against Syria subject to Congressional approval, a cautious move that reflects the potential to worsen the violence in Syria and intensify a fight for regional influence between Iran and Saudi Arabia.

The risks of intervention are a surge in anti-Americanism that could bolster Syria’s President Bashar al-Assad, and a wider regional conflict that could drag in other countries, including Israel and Turkey.

For the US, the challenge is to deliver the intended message to Assad without opening the door to a takeover by rebels linked to Al Qaeda, the collapse of state institutions, or a major escalation by Syria’s allies.

The conflict is no longer just about Syria. It has become a volatile regional morass that pits Iran and Hezbollah, the Shiite militant group in Lebanon, against Al Qaeda affiliates backed by Saudi Arabia and other Persian Gulf states.

There is also concern that Shiite-led Iraq could send thousands more militants to help Assad, and that Israel will be drawn into the conflict if attacked.

Obama is correct to be careful of being, once again, drawn into the Middle East mess.

What is GOOGLE GLASS?

Google Glass represents Google’s entry into the “wearable technology” market. Google Glass is a futuristic-looking pair of sunglasses/headband with a small screen perched on the right hand side. The screen lights up when one tilts one head or touches the frame. The screen provides access to a few simple apps; Google search, text messaging, Twitter, a to-do list, some hourly news headlines from CNN. Beside the screen is a tiny camera built into the frame which can record anything the wearer sees. The wearer controls Google Glass with voice commands. The initial reviews have been mixed, while raising concerns about what is being recorded and by whom.

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