SYGNALS

KEY INDICATORS

AUGUST 2014

		1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS	3 YEARS	5 YEARS
J203T	FTSE/JSE All Share Index	-0.5%	3.2%	9.6%	24.5%	23.7%	21.7%	18.7%
J200T	FTSE/JSE Top 40 Index	-0.8%	2.7%	8.7%	24.3%	24.6%	21.8%	18.5%
J210T	FTSE/JSE Resources 20 Index	-5.6%	2.7%	2.1%	17.9%	14.5%	7.0%	7.7%
J211T	FTSE/JSE Industrials 25 index	1.6%	3.1%	10.9%	26.3%	31.4%	32.5%	27.9%
J212T	FTSE/JSE Financials 15 Index	0.7%	4.0%	17.1%	34.7%	25.3%	27.3%	20.3%
J403T	FTSE/JSE SWIX Index	0.6%	4.8%	12.4%	27.6%	23.8%	23.0%	19.6%
J303T	FTSE/JSE CAPI Index	-0.4%	3.3%	9.8%	24.6%	23.7%	21.9%	18.9%
J253T	SA Listed Property Index	3.0%	8.5%	14.8%	20.2%	9.6%	18.6%	19.8%
ALBI	BEASSA All Bond Index	2.8%	4.9%	8.3%	11.7%	5.8%	8.3%	9.7%
STeFI	STeFI Index	0.5%	1.5%	2.9%	5.6%	5.4%	5.5%	5.9%
	MSCI World Index in SA Rands	1.8%	3.2%	4.6%	25.7%	34.5%	32.9%	19.7%
	Rand/US Dollar Exchange Rate	-0.4%	0.8%	-0.9%	3.8%	12.7%	15.1%	6.5%
	Rand/Euro Exchange Rate	-3.8%	-4.4%	-7.2%	1.4%	14.2%	11.1%	4.3%
	Headline CPI	0.8%	1.3%	4.2%	6.3%	6.3%	5.9%	5.3%
	PPI	0.5%	1.0%	4.5%	8.0%	7.3%	5.0%	6.3%

"I know that most of the time after long strikes operations end up reducing the workforce. You see that all the time. A strike means the death penalty for a number of workers."

Professor Joseph Stiglitz, commenting on eurozone policies in August 2014

finsolnet

SYGNIA
THE SUM OF ALL THINGS

MARKET OVERVIEW

Volatility in the markets continued through August on the back of disappointing economic growth data releases and geopolitical unrest in the Ukraine, Syria, Iraq and the Gaza Strip.

On the economic front, Japan suffered its biggest quarterly contraction since the 2011 tsunami, China continued to slow down and the eurozone stagnated. Italy fell into a triple-dip recession, France registered zero growth and even the German economy contracted.

Inflation in the eurozone registered a weak 0.4% year-on-year in July, a five year low, with Portugal, Spain and Italy reporting deflation. Combined with the stubbornly high unemployment rate, and the threat posed by the escalating stand-off with Russia, the pressure on the ECB to leverage monetary policy is mounting. An array of Nobel-prize-winning economists launched a blistering attack on the institution, warning that contractionary policies risk years of depression and a fresh eruption of the debt crisis.

China's economic data for July was a mixed bag, with a surge in exports, but sluggish industrial output, retail sales and fixed asset investment growth numbers. China's preliminary manufacturing PMI for August came in at 50.3, down from July's 51.7.

Mid-month brought more positivity as investors used earlier market weakness as a buying opportunity and found misplaced reassurance in President Vladimir Putin's statement that Russia should not "fence itself off from the outside world" and "will do everything to make sure that the Ukrainian conflict ends as soon as possible". In the US stocks climbed after reports on July housing starts, existing home sales, manufacturing activity and earnings all topped forecasts.

The annual economic policy conference in Jackson Hole, Wyoming, devoted its agenda to the labour markets. The pursuit of lower inflation has been replaced, for the very first time, by a debate over the fact that inflation is actually too low to stimulate healthy economic growth.

The US Federal Reserve chair, Janet Yellen, indicated that the US economy is improving but that the US Fed will wait for more evidence of the strength of labour markets before deciding when to start raising interest rates.

The summit's "thunder" was stolen by the ECB President, Mario Draghi, who used the opportunity to hint that the ECB is ready to deploy quantitative easing in an effort to fight deflation. Draghi also called for more fiscal flexibility, a reversal of the ECB's staunch support for unrelenting austerity.

The latter was welcomed by the markets, with Spanish and Italian yields falling to record lows and emerging markets benefitting from renewed interest. The yield spread that investors demand for holding Spanish 10-year bonds instead of German bunds with a similar maturity dropped to as little as 1.24%. The risk-on attitude also helped to keep the rand relatively strong against the US dollar despite weak domestic economic data releases.

At month-end Russia's President Vladimir Putin met his Ukrainian counterpart, Petro Poroshenko, to negotiate a truce. Sceptics described the meeting as an opportunity for Putin to assess Ukraine's military preparedness. He clearly found it wanting as Russian-backed rebels intensified their campaign, capturing more strategically positioned towns in south-east Ukraine. Poroshenko called for international help in the face of Russian invasion, while Putin issued a congratulatory message to the insurgents. In reality Russia is holding out for serious concessions from Ukraine before contemplating true negotiations. To date, Ukraine has shown no willingness to negotiate.

Markets ended the month on edge over geopolitical tensions and falling commodity prices. Interestingly, the increased risk levels have not been enough to sustain the gold price above the US$1 300 an ounce level.

360 DEGREES ROUND THE WORLD

UK: The UK economy maintained its momentum in the second quarter with GDP growing at 0.8% between April and June, the same level as over the previous three months. With the economy in solid recovery, a rapid decline in unemployment and inflation close to the BoE's 2% target, the BoE is expected to start increasing interest rates sooner rather than later.

GERMANY: Germany's GDP shrank by 0.2% between April and June, following a 0.8% expansion in the prior quarter. The figures reflect the general slowdown in exports affected by the weakness of the eurozone. The problems are likely to be compounded in future by the stand-off with Russia. The Bundesbank now predicts that the German economy will expand by 1.9% this year and 2.0% in 2015.

FRANCE: The French GDP figure was unchanged in the three months between April and June, a second quarter of stagnation, as companies cut spending and exports remained weak. Contraction in manufacturing activity continued into August, signalling the eurozone's second largest economy is unlikely to return to growth in the third quarter. French finance minister, Michel Sapin, halved France's growth forecast for 2014 to 0.5%.

ITALY: Italy's economy shrank by 0.2% in the second quarter after declining by 0.1% in the first quarter, pulling the country back into a recession. Similarly to other eurozone countries, a slowdown in exports and weak domestic demand took their toll. Italy's GDP has been falling for the last three years, with the only exception being the last quarter of 2013. The Bank of Italy lowered its growth forecast for this year to 0.2%, less than a third of its previous prediction.

SPAIN: Reversing the trend, Spain's GDP grew by 0.6% in the second quarter after expanding by 0.4% in the first quarter, the highest growth rate in six years. Spain is the eurozone's fourth-largest economy. The GDP there has now grown by 1.2% over the last 12 months. The unemployment rate has also started to ease, falling from its peak of 26.0% to its current 24.5%. The Spanish government raised its forecast for this year's economic growth to 1.2% and for 2015 to 1.8%, while the IMF expects the recovery to continue over the medium term.

PORTUGAL: Portugal's central bank took control of Bunco Espirito Santo SA in a €4.9 billion bailout, leaving junior bondholders with losses. Banco Espirito Santo has been forced to take government money after regulators uncovered potential losses on loans to other companies tied to Portugal's Espirito Santo family and ordered the lender to raise capital.

ISRAEL: The conflict in the Gaza Strip has had an impact on the economy as Israel's GDP grew by only 1.7% quarter-on-quarter to June, compared to 2.8% in the first three months of the year. Combined with a strengthening shekel the weakening economy has prompted the central bank to cut its benchmark interest rate to 0.5%, the lowest level in five years.

RUSSIA: President Putin is basking in an 86% domestic approval rating to date, as he has paid a small price for the most blatant land grab in Europe since World War II. With Russia's US$2 trillion economy stagnating, fixed investment falling and the sanctions over the pro-Russian revolt in eastern Ukraine intensifying, Putin has few answers beyond increasing the role of the state in the economy. In a symbolic move, Putin also imposed an import ban on an array of food goods from the US and Europe.

USA: As energy prices declined, the consumer price index increased by a mere 0.1% month-on-month in July, the smallest gain since February. This takes some pressure off the debate on stagnating wage growth numbers.

The economy created 209 000 net new jobs in July, a sixth straight month above the 200 000 level and the longest such streak since 1995. The unemployment rate edged up slightly to 6.2% as more people joined the labour market.

ARGENTINA: Argentina has asked the international court of justice in The Hague to take action against the US over an alleged breach of its sovereignty as it defaulted on its US$1.5 billion debt. Argentina defaulted after losing a long legal battle with speculators that rejected the terms of the debt restructurings in 2005 and 2010. Its plan to exit its debt default by asking investors holding defaulted bonds to swap them for new locally issued debt was ruled "illegal" by a US court.

JAPAN: Japan's economy contracted the most since the record earthquake three years ago as consumption and investment plunged after the April sales tax increase. GDP shrank by an annualised 6.8% over the three months to the end of June. A slew of economic data indicated consumers remained thrift-conscious and companies grappled with tepid demand and high inventories. Consumers are bearing the burden of higher inflation without commensurate income growth. Consumer prices rose by 3.6% in July from a year earlier. After discounting for the sales tax increase, core inflation rose by 1.3%.

CHINA: Chinese households increased the amount of savings diverted into wealth management products to a record U$2.1 trillion in June despite the government's efforts to curb shadow banking. The value of assets invested in savings products rose by 24% in the first half of 2014. China's shadow banking, including wealth products, trusts, money market funds and some interbank lending, constitutes about 19% of the nation's total banking assets.

SOUTH AFRICA

The August headlines were dominated by the collapse of African Bank and the chaos that ensued as both equity and fixed interest funds suffered losses. The Reserve Bank's timeous intervention through placement of Abil under curatorship prevented broader contagion. Calls for calm did not stop the rating agency, Moody's, from downgrading Standard Bank, FirstRand, Absa, Nedbank and Capitec. The negative outlook reflected in foreign flows into the bond market.

On the economic front the South African Chamber of Commerce and Industry's business confidence index fell from 89.7 in June to 87.9 in July, a 15-year low, as strikes took their toll on manufacturing figures. The deficit on South Africa's trade balance widened more than expected to R6.9 billion. Meanwhile, total credit extension rose by 9.4% year-on-year in July, increasing the risk of an interest rate hike in the near term. The increase in the consumer price index moderated to 6.3% year-on-year in July from 6.6% in June.

South Africa's economy avoided falling into a recession by expanding by an annualised 0.6% in the second quarter. The shift towards negative growth is accelerating with four key sectors, including mining and manufacturing, moving into negative growth territory, compared with two in the first quarter of the year. Finance Minister Nhlanhla Nene warned of a cut in the government's growth projection for 2014 to 1.8% from 2.7% estimated in February.

On the corporate front, municipalities' debt to Eskom has trebled to a massive R10.8 billion. Eskom has asked the government for an equity injection of R50 billion. The National Energy Regulator has also given Eskom permission to recoup R7.8 billion in costs. This means that the 8% tariff increase Eskom has been granted for next year could rise to above 10%.

BHP Billiton, the world's biggest mining group, announced plans to move its aluminium, manganese and nickel assets, which represent most of the group's assets in South Africa, into another listed company. If implemented, BHP Billiton will reduce its exposure to South Africa to virtually nothing.

In addition to the Abil disaster, Standard Bank took a US$80 million hit from its exposure to suspected metal financing fraud in China, wiping out its first-half earnings growth.

ODDS AND ENDS

WHO ON EBOLA

The World Health Organisation has described the West African Ebola epidemic as an "extraordinary event" which constitutes an international health risk. The Geneva-based United Nations health agency said the possible consequences of a further international spread of the outbreak, which has killed almost 1 000 people in Guinea, Liberia, Nigeria and Sierra Leone, were "particularly serious" in view of the virulence of the virus. However it stopped short of banning international travel or trade. The WHO did authorise the use of experimental drugs in the fight against Ebola.

LACK OF DEMAND FOR CHINESE BABIES

Less than 3% of the 11 million Chinese couples eligible for another child applied for permission to do so by the end of May 2014, jeopardizing government's efforts to bolster population growth. The United Nations predicts that China's population will start shrinking by 2030. Raising a child from birth through to 18 years of age costs about U$3 745 a year, equivalent to 43% of the average household income in China.

BUYING PROPERTY IN LONDON

London's house prices flattened in July, raising concerns that the capital is now at the top of the cycle. The BoE has started capping the number of high loan-to-value mortgages in a bid to curb the reckless lending practices of the previous housing market boom and to protect the fragile economic recovery from a potential property price bubble.

THE MIGHTY DOLLAR

The US dollar's 70-year dominance as the reserve currency might be coming to an end. A reserve currency is held in significant quantities by governments and institutions as part of their foreign exchange reserves, and commonly used in international transactions. It is expected that, within a decade, the world's reserve currency could be replaced by a basket of currencies.

The advantages of the existing system to the US are enormous, generating worldwide automatic demand for the US dollars and allowing successive administrations to spend far more than they are able to raise in tax and export revenue. The creation of the BRICS Development Bank, modelled on the IMF, is the first step towards a change. The bank will have a US$100 billion currency reserve available to lend around the world, giving distressed debtor nations an alternative option. In addition, if China and Russia, the world's largest energy importer and producer respectively, were to drop the US dollar energy pricing, America's reserve currency status could unravel faster than expected.

DISCLOSURE

The information and opinions contained in this document are of a general nature and are not intended to address the circumstances of a particular individual or entity. Sygnia does not act as advisor or in a fiduciary capacity towards the recipient(s).

Whilst reasonable care was taken in ensuring that the information contained in this document is accurate, Sygnia does not warrant its accuracy, correctness or completeness and accepts no liability in respect of any damages and/or loss suffered as a result of reliance on the information in this document. Sygnia does not undertake to update, modify or amend the information on a frequent basis or to advise any person if any information provided in this document is found to be inaccurate or subsequently becomes inaccurate.

No one should act on the information contained in this document without having obtained appropriate and professional investment, legal, tax and such other relevant advice as may be required in each instance.

The figures and values are calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Limited ('JSE') in accordance with standard criteria. Figures and values quoted are the proprietary information of FTSE and the JSE. All copyright subsisting in the Figures and values vests in FTSE and the JSE jointly. The data was obtained from I-Net Bridge.

SYGNIA ASSET MANAGEMENT Registration No. 2003/009329/07
Directors: N. Giles | N. Govender | S Mkhwanazi | S. Peile | M. Wierzycka

CAPE TOWN 7th Floor The Foundry Cardiff Street Green Point 8001
T +21 446 4940 F +21 446 4950 www.sygnia.co.za info@sygnia.co.za

JOHANNESBURG Unit 40 6th Floor Katherine & West Building West Street Sandton
T +10 595 0550 F 0862 065 173 www.sygnia.co.za info@sygnia.co.za