KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	3.0%	5.5%	18.8%	21.4%	24.0%	16.4%	19.9%
J200T	FTSE/JSE Top 40 Index	3.3%	5.6%	20.3%	22.8%	24.4%	16.5%	19.6%
J210T	FTSE/JSE Resources 20 Index	1.8%	2.6%	22.4%	2.8%	2.9%	-0.4%	8.5%
J211T	FTSE/JSE Industrials 25 index	4.3%	7.1%	19.9%	38.1%	41.3%	30.2%	29.6%
J212T	FTSE/JSE Financials 15 Index	2.9%	7.3%	16.1%	19.8%	28.5%	20.8%	20.8%
J403T	FTSE/JSE SWIX Index	3.5%	6.0%	18.0%	20.7%	24.8%	17.6%	20.6%
J303T	FTSE/JSE CAPI Index	3.0%	5.5%	18.6%	21.6%	24.1%	16.6%	20.2%
J253T	SA Listed Property	1.0%	1.0%	-0.3%	8.4%	21.4%	17.1%	18.9%
ALBI	BESA All Bond Index	1.1%	0.1%	2.0%	0.6%	8.0%	8.3%	7.7%
STeFI	STeFI Index	0.4%	1.3%	2.6%	5.2%	5.4%	5.5%	6.5%
	MSCI World Index in SA Rands	4.1%	11.5%	22.5%	56.1 %	37.2%	29.4%	17.0%
	Rand/US Dollar Exchange Rate	2.0%	3.2%	4.9%	23.2%	13.3%	16.1%	1.7%
	Rand/Euro Exchange Rate	4.3%	6.4%	12.3%	30.4%	17.4%	17.7%	1.8%
	Headline CPI	0.1%	0.8%	2.4%	5.3%	5.5%	5.7%	5.3%
	PPI	0.2%	1.0%	3.2%	5.8%	5.7%	7.2%	5.3%

"This is a toe in the tapering water, the absolute minimum reduction the Fed could announce without looking timid. Still, it is the first step away from incremental easing since July 2006, so it is significant."

Ian Shepherdson, chief economist of Pantheon Macroeconomics, in a research note commenting on the US Fed's December 2013 decision

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SYGNIA
THE SUM OF ALL THINGS

Global stock markets ended 2013 at new highs as the US Federal Reserve's tapering announcement was heavily sweetened by the promise of lower interest rates for longer, while a weary US Senate signed off on a budget deal without protracted negotiations. Emerging markets came under pressure as both Turkey and Egypt contributed to the political noise. The rand bore the brunt of the sell-off, despite credit rating agencies re-affirming South Africa's rating with only a mild rebuke.

MARKET OVERVIEW

Stock markets had a slow start in December as investors fretted about the outcome of the US Fed's meeting later in the month.

The economic data made little impact other than for the US statistics which were scrutinised for any signs of improvement which would heighten the odds of a cut in quantitative easing. The news that private sector employers had added a more than expected number of jobs to the economy in November, and that the unemployment rate had dropped to 7.0%, was greeted with an equity sell-off. An upward revision to the third quarter growth number to an annualised 3.6% quarter-on-quarter, the strongest quarterly growth since the first quarter of 2012, elicited a similar reaction.

Elsewhere, the euro zone economy showed continuing signs of a fragile recovery, with the manufacturing PMI rising to 51.6 in November and the rate of inflation increasing marginally to 0.9% year-on-year. Despite that, S&P stripped the EU of its top credit rating, cutting it to AA+ with a stable outlook, citing the deteriorating credit-worthiness of the bloc's 28 member nations.

China's economy continued to surprise on the upside. Factory growth held at an 18-month high on firm domestic and foreign demand, inflation slowed more than estimated, and export growth helped swell the trade surplus to US$33.8 billion, the highest number since January 2009.

The emerging markets, on the other hand, were knocked by political unrest in Turkey, where senior business and political allies of the ruling Islamist Justice and Development Party Prime Minister, Recep Tayyip Erdogan, were detained as part of an investigation into alleged bribery and money laundering. Erdogan, in order to stay ahead of the scandal, responded by replacing nearly half of his cabinet.

Developments in Egypt did not help matters. Egypt's military-backed government, which ousted Mohamed Morsi, Egypt's first democratically elected president and the leader of the Muslim Brotherhood, increased tensions by declaring the Muslim Brotherhood a terrorist group and announcing mass seizure of assets belonging to the Islamist movement's members.

The US Fed's announcement, when it came, was not what was expected. Although the US Fed announced it would start tapering its monetary easing programme at the end of January 2014, with monthly purchases of US Treasuries and mortgage-backed securities reducing by US$10 billion to US$75 billion, the message was sweetened with an undertaking to maintain interest rates at record lows well beyond when unemployment reduces to 6.5% and well after bond purchases end altogether. The US Fed is now expected to reduce its bond purchases in US$10 billion increments over the next seven meetings before ending the program in December 2014.

After an initial negative reaction, markets picked up again as investors digested the news and judged it to be less impactful than expected.

A further boost to confidence came from the US Senate which passed a US$1.01 trillion budget deal well ahead of its end of the year deadline. The plan keeps in place about half of the spending cuts known as sequestration for next year, and about three-quarters of the planned reductions for 2015. The agreement eliminated the risk of protracted negotiations and another government shutdown. However the deal did not raise the US debt ceiling, which could bring another showdown in February.

The gold price tumbled in response to the US Fed's tapering plans, touching a low of U$1 185 an ounce. This brought to a close the worst year for the metal in 32 years, with the price down 28% over 2013, and 37% below its record high of US$1 920 achieved in 2011. This follows 12 straight years of gains. Assets in exchange-traded products backed by gold fell to the lowest level since 2009 as investors pulled US$38.6 billion from gold funds over the past twelve months.

The oil price ended the year at US$112 a barrel, supported by escalating unrest in South Sudan and Libya. OPEC kept its overall oil production quota unchanged at 30 million barrels a day.

However the global markets ended the year with a mini rally on thin trading volumes as investors put 2013 to bed.

After all the numbers have been tallied, the winner for 2013 is Japan. The Nikkei 225 index rallied 56.7% in 2013, its biggest annual gain since 1972. Shares were bolstered by a weaker yen and hopes for Prime Minister Shinzo Abe's economic and monetary policies.

China has the honour of having the worst-performing stock market of the major economies, with the benchmark Shanghai Composite Index down 7.6% from a year earlier as disillusioned domestic equity investors moved their money into property and high yielding securitized debt instruments offered by the shadow banking sector.

The S&P 500 was up 29.6% in 2013, its best performance since 1997, the FTSE100 14.4%, Germany's DAX 22.8%, Australia's S&P/ASX 200 14.8% and South Africa's ALSI 21.4%.

360 DEGREES ROUND THE WORLD

US: November data reinforced the picture of an economy in recovery, with the ISM manufacturing index rising to 57.3, its highest reading since April 2011, the housing market rebounding despite higher mortgage interest rates and retail sales coming in stronger than expected as higher stock prices, rising home values and stronger job growth buoy consumer sentiment. Consumer inflation remained low at 1.2% year-on-year.

EURO ZONE: The EU anti-trust regulators fined six financial institutions, including Deutsche Bank, Royal Bank of Scotland and Citigroup, a record €1.71 billion for rigging financial benchmarks. The EU also reached agreement on how to deal with failing euro-area banks. The measures include a pledge to inject €55 billion into a financed resolution fund over 10 years, the establishment of an agency to make decisions on handling of failing banks and an agreement on cost-sharing procedures.

GERMANY: Angela Merkel was formally sworn in as Germany's Chancellor after the Christian Democratic Union and its coalition partner, the SPD, announced their cabinet choices, ending three months of political bartering following the September elections.

UK: Home prices in London increased by 12.0% year-on-year in October, the highest rate of increase since August 2010. In the broader UK, house prices rose an annualised 5.5%.

GREECE: Greece expressed anger over the latest decision by the IMF, ECB and the EU to once again delay the next €1 billion tranche until it can resume negotiations with Greece in January. The Greek economy shrank by 3.0% year-on-year in the third quarter, but is expected to return to growth next year.

IRAN: US President Barack Obama said that he believed the chances for a comprehensive nuclear agreement with Iran are 50-50 at best.

CHINA: The property bubble continues to pose both financial and social risks. New home prices in China's four largest cities rose once again as measures put in place by local governments failed to deter buyers. Shenzhen and Guangzhou posted increases of 21% year-on-year, while prices climbed 18% in Shanghai and 16% in Beijing.

JAPAN: Prime Minister Shinzo Abe's public support dropped below 50% for the first time as the government passed a bill boosting penalties for leaking confidential government information. This comes at the same time as the emergence of inflation which is likely to damage public support further unless companies start to increase base wages. Businesses, however, are waiting for freer labour laws and lower taxes before proceeding.

On the economic front, the third quarter GDP growth figure was revised downward to an annualised 1.1% quarter-on-quarter and the current account unexpectedly fell into deficit in October as imports rose ahead of a sales tax increase in April 2014. On a positive note the central bank dropped deflation from its economic view for the first time since 2009.

INDIA: India's strategy to reduce its current account deficit seems to be yielding results as the deficit narrowed to the lowest level since 2010. Imports were dampened by the increased taxes on gold, while the rupee's 11% drop against the US dollar in 2013 has begun to bolster exports. The central bank left interest rates unchanged but said it will act if the 11.0% inflation fails to ease.

SOUTH AFRICA

December brought further rand weakness as the unrest in Turkey impacted all emerging markets. The rand lost 23.2% against the US dollar and 30.4% against the euro in 2013 on a combination of global and domestic issues. General negative sentiment towards emerging markets was compounded by domestic strikes in the mining and manufacturing sectors. The rand has been lumped together with the currencies of Brazil, Indonesia, Turkey and India as the "fragile five".

The currency was further hit by the news that the current account deficit widened more than expected to 6.8% of the GDP in the third quarter, its highest level since 2008, as demand for imports remained strong while the rand's depreciation increased the price of imports. This came despite a favourable revision to the trade data after incorporating flows between South Africa and Botswana, Namibia, Lesotho and Swaziland. A seasonally better trade balance number in November helped the rand recover some lost ground.

Short term economic indicators looked marginally better with the seasonally adjusted Kagiso PMI rising to 52.4 in November and consumer inflation coming in at a better than expected 5.3% compared with a year earlier. However, private sector credit demand slowed to 7.0% year-on-year from 7.6% year-on-year in October, pointing to some slowdown in consumption expenditure.

On a positive note, Fitch affirmed South Africa's long-term foreign and local currency ratings at 'BBB' and 'BBB+', respectively, and its outlook as stable. Positive factors influencing the decision included South Africa's strong banking system, deep local capital markets and the fact that government debt was largely denominated in rand and thus had a limited exchange rate and financing risk. This was followed by S&P, which, while affirming its credit ratings, retained the outlook as negative.

ODDS AND ENDS

THE NOISE AROUND BITCOINS

2013 has been a big year for bitcoins. Bitcoin is a digital currency launched in 2009 by pseudonymous developer Satoshi Nakamoto. It is a currency without borders, without government interference and without political controls. All bitcoin transactions are captured in a public transaction log called the blockchain. This master list is maintained by a decentralised network of operators, known as “miners”, that verifies all payments. All bitcoins are “mined” by groups of users competing to find or decrypt blocks of secret numbers using complex algorithms. There are 12 million bitcoins in circulation with an upper limit set at 21 million.

Worldwide there are about 1 000 physical businesses and 20 000 online merchants willing to accept bitcoins as payment, motivated by the fact that payment processing fees are substantially lower than those for credit cards. Bitcoins can be traded through various online exchanges, the largest being BTC China. At this stage, however, commercial use of bitcoins is relatively small. It is mostly used by price speculators and “investors”, which has led to extraordinary levels of price volatility.

Bitcoins started the year valued at US$13.51 per bitcoin and ended at US$730, after reaching the height of US$1 242 in November.

Earlier in 2013 the FBI shut down Silk Road, a sophisticated black market website, after it was estimated that 9% of all bitcoins spent in 2012 were spent buying illegal drugs through Silk Road.

November brought a big boost to the currency after the US Senate committee hearings informally described bitcoins as a "legal means of exchange".

In December, however, the People's Bank of China announced it was prohibiting Chinese financial institutions from using bitcoins, effectively ensuring that bitcoins cannot be exchanged for local currency.

The move forced other countries to issue their views on bitcoins. The European Banking Authority warned that bitcoins lack consumer protections. Germany declared it a "unit of account" that can be used for the purpose of tax and trading in the country. India issued an advisory note not to trade in any virtual currency. Other countries followed, with the most prevalent view being that it is “not illegal”. Most countries are treating bitcoins as an asset, rather than a currency, and most remain very cautious.

From an economic perspective there are two things which work against bitcoins functioning as a real currency, its volatility and the hoarding by investors which has made it more of an asset.

PLASTIC MONEY IS CATCHING ON

Polymer, or plastic, bank notes are catching on around the world with the Bank of England being the latest to adopt the trend. The UK follows countries such as Canada, Australia, Mauritius and Morocco in replacing paper with plastic. The attraction of plastic notes is their durability, as well as the ability to include more sophisticated security features.

The first polymer note in the UK, a five pound bill, will be released in 2016 and will feature Winston Churchill. A year later, Jane Austen will appear on a ten pound note.

DISCLOSURE