SYGNALS

KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	3.2%	9.3%	18.9%	23.7%	17.1%	18.3%	11.4%
J200T	FTSE/JSE Top 40 Index	3.8%	9.6%	20.8%	23.5%	16.7%	17.7%	10.5%
J210T	FTSE/JSE Resources 20 Index	3.7%	4.6%	16.8%	-1.3%	0.1%	6.2%	1.0%
J211T	FTSE/JSE Industrials 25 index	3.4%	11.8%	23.7%	44.4%	31.2%	29.2%	21.1%
J212T	FTSE/JSE Financials 15 Index	3.6%	12.9%	17.7%	34.0%	24.2%	19.8%	13.6%
J403T	FTSE/JSE SWIX Index	1.5%	8.2%	16.1%	25.4%	18.9%	19.2%	12.6%
J303T	FTSE/JSE CAPI Index	3.2%	9.3%	18.9%	23.8%	17.5%	18.6%	12.2%
ALBI	BESA All Bond Index	0.1%	3.3%	3.7%	13.7%	13.6%	13.1%	11.1%
STeFI	STeFI Index	0.4%	1.3%	2.6%	5.5%	5.6%	6.0%	7.7%
	MSCI World Index in SA Rands	12.1%	12.1%	23.1%	33.3%	18.5%	16.4%	5.1%
	Rand/US Dollar Exchange Rate	6.7%	3.4%	8.5%	15.0%	11.7%	5.6%	3.7%
	Rand/Euro Exchange Rate	10.2%	8.5%	20.0%	19.6%	11.3%	4.9%	1.9%
	Headline CPI	0.2%	1.1%	2.6%	5.7%	5.9%	5.1%	6.2%
	Core CPI	0.3%	0.6%	1.8%	5.0%	4.6%	4.3%	5.5%

"Countries in Europe have their histories, their traditions, their institutions, want their own sovereignty, their ability to make their own choices, and to try and shoehorn countries into a centralised political union would be a great mistake for Europe, and Britain wouldn't be part of it,"

David Cameron, British Prime Minister, Davos, Switzerland

JAPAN TAKES CENTRE STAGE

The dramatic fiscal cliff showdown in the final hours of 2012, which averted a raft of income tax increases for US households and deferred planned spending cuts for two months, triggered a market rally in the opening trading hours of 2013. Upbeat economic data from the US and China added to the momentum.

The FTSE/JSE All Share Index topped the 40 000 level for the first time in its 17-year history, while the S&P 500 Index climbed to yet another five-year high.

Alcoa kicked off the latest US earnings-reporting season with strong revenues and an optimistic outlook. On the technology front, Google and IBM both posted above-expectations results, but Apple's earnings disappointed on lower than expected sales of the iPhone 5. Overall, corporate profits and revenues were higher than the lacklustre results of the prior quarter, but most analysts had also cut their estimates since then.

The optimism lost some steam after the minutes of the December US Federal Reserve meeting showed that at least half of the participants believe that the QE4 bond purchases will end in 2013. The Fed Chairman, Ben Bernanke, fended questions as to whether the aggressive bond buying programme will lead to higher inflation. Downplaying the threat, he indicated that the Fed has the tools to exit the market before inflation appears. He was less positive about the economy, describing it as being in a "relatively fragile recovery."

Oil hovered around US$112 a barrel as increasing supply and rising inventories in the US put a lid on prices. On the other hand, a cut in Saudi Arabia's production in November and December, pipeline sabotage in Yemen, a weather-related drop in Iraqi shipments and continued fighting in Syria, reminded investors of the ever-present supply risks. The hostage crisis in Algeria and stronger growth figures from China offered additional support.

Gold started the month on an up, with the price testing the US$1 700 an ounce level. India provided some support by raising the import tax on gold by 2% to 6%. Easing concerns over the global economy, however, dampened the price once again.

Platinum hit a three-month high as Amplats, the world's top platinum producer, announced closure of four of its shafts in South Africa's platinum belt and the sale of its Union mine as part of a sweeping re-organisation of its business. The cost cutting is seen as crucial to the flagging fortunes of Anglo American, which owns about 80% of Amplats. The company faced unprecedented government backlash against the announcement that it intends to cut 14 000 jobs, with the ANC calling for the surrender of its mining licence.

However, the supply disruptions have been cushioned by demand weaknesses, particularly in vehicle sales. As an example, new vehicle sales in Europe over 2012 plunged to their lowest level since 1995.

Most central banks, other than Japan, kept their interest rates and monetary policies unchanged.

The Bank of Japan (BoJ), on the other hand, announced a US$116 billion stimulus package to drag the world's third largest economy out of recession. This is expected to increase the GDP by 2%. In addition, the central bank was pressured to adopt a 2% inflation target, doubling its existing goal of 1%. This represents Prime Minister Shinzo Abe's first major policy initiative to end deflation and boost growth since coming into power. Abe's Liberal Democratic Party has also proposed establishing a fund to buy foreign bonds to weaken the yen. Japan also unveiled a government budget for 2013 that cuts spending for the first time in seven years.

The yen plunged to a two-and-a-half-year low against the US dollar, while the Japanese stock market soared on the announcements. However, both gave up some of the "gains" after the central bank announced that it would only start implementing the policies in 2014. Abe, however, has an opportunity to review the timelines when BoJ Governor Shirakawa's five-year term expires in April. He has already indicated that he wants someone "who can push through bold monetary policy" as the next governor.

The announcement at mid-month that the House of Representatives agreed to an extension of the federal borrowing authority until 19 May in order to buy time for the Democrat-controlled Senate to pass a plan to shrink budget deficits spurred yet another rally and led to a sharp fall in the gold price.

However, the gold price rose once again at month-end after the US Fed left its monthly $85bn bond-buying stimulus plan in place, while indicating that a recent stalling in US economic growth was most likely temporary.

The World Bank cut its global growth forecast for this year as austerity measures, high unemployment and low business confidence weigh on developed nations. It projects that the world economy will expand by 2.4%, after growing by 2.3% in 2012. The US is now forecast to grow by 1.9%, the euro area to contract by 0.1% and Japan to expand by 0.8%. China's growth outlook was cut to 8.4% and India's to 6.1%.

World leaders, influential executives, bankers and policy makers attended the 43rd annual meeting of the World Economic Forum in Davos, Switzerland. German Chancellor, Angela Merkel, pointed out that the ECB's action in the bond market is a useful bridge but that governments need to tackle true economic overhauls. Currency manipulation featured as a risk, with Japan mentioned frequently. China urged the Group of 20 to improve collaboration and communication to avoid currency wars in future while signaling their comfort with the value of the yuan. The British Prime Minister, David Cameron, argued against a deeper political union within Europe.

EUROZONE

The eurozone remains mired in a recession, with unemployment at a record high of 11.8% and a mixed bag of manufacturing PMIs. The ECB's Mario Draghi, however, took a more optimistic view, asserting that the eurozone would recover later in 2013 and that there was now a "positive contagion" effect in play. Europe's top central banker cited falling bond yields, rising stock markets and historically low volatility as evidence. The ECB also announced that eurozone banks were poised to make early repayments totalling €137.2 billion on emergency three-year loans.

Markit's flash composite eurozone PMI, which surveys around 5 000 firms and is seen as a good growth indicator, jumped to 48.2 in January from December's 47.2. While the index has now held below the 50 mark that separates growth from contraction in all but one of the last 17 months, Markit data suggests that the conditions might be improving. Loans to companies and households contracted for the eighth month running in December, showing low official borrowing costs are having little success in reviving investment and spending.

Germany's fourth-quarter GDP shrank by 0.5% from the previous period, bringing 2012 growth to 0.7%, down from 3% in 2011. The government forecasts expansion of just 0.4% in 2013. On a positive note, German consumer and investor confidence rose to the highest level in more than two-and-a-half years, and the Bundesbank has indicated that the economy is starting to rebound.

In neighbouring France the downturn deepened, with its composite PMI falling to its lowest level since March 2009, when the eurozone was deep in recession.

Cyprus's bail-out remains contentious as it could approach the size of the island nation's €18 billion economy.

And Italian elections have been scheduled for 24 February following Prime Minister Mario Monti's resignation. The front-runner is Pier Luigi Bersani. The election could disrupt Italy's response to the financial crisis.

Despite meeting its 2013 public deficit target of 5.0%, Portugal requested a longer repayments schedule on its bailout, which it hopes, like Ireland, can help it get back into commercial finance markets this year.

Greece, on the other hand, announced that it had narrowed its public deficit to 8.1% in 2012, marking a rare improvement over targets pledged to its EU-IMF creditors.

CHINA

The giant Chinese economy picked up steam during the last few months of 2012, although the pace of growth remains well below that seen in recent years. The economy grew by an annualised 7.9% over the fourth quarter, bringing the full year's growth to 7.8%.

China's manufacturing PMI rose to 50.6 in December, while the non-manufacturing PMI increased to 56.1. HSBC's preliminary manufacturing PMI for January rose to a 24-month high of 51.9. Inflation remained at a manageable 2.5% year-on-year.

Other economic data was equally upbeat. A burgeoning recovery in exports, stronger than expected industrial output and profits, healthy retail sales, and robust fixed asset investment supported the view that Beijing's pro-growth policies seem to have gained sufficient traction to shore up a recovery without, as yet, igniting inflation.

China is expected to grow by 8.1% in the first quarter of 2013.

USA

The US economy continues to recover despite the uncertainty of the fiscal cliff negotiations.

The IMS manufacturing PMI rose to 50.7 in December from 49.5 a month earlier. The jobless rate held steady at 7.8%, down nearly 1% from a year earlier. US orders for long-lasting consumer goods also came in better than forecast. And the housing market is looking healthier with the total number of home sales in 2012 rising to the highest level in five years (9.2% higher than in 2011). Home values climbed 5.9% in 2012, the largest annual gain since the summer of 2006. But the 4.3% drop in contracts for the purchase of previously-owned homes in December reminded investors that the market is not out of the woods yet.

For the quarter as a whole, however, the US economy fell at an annual rate of 0.1%, hurt by weaker exports, a drop in military spending and a slower build-up in inventories relative to the third quarter. This brought 2012 growth to 2.2%. The advance figures rely on estimates and are often subject to sharp revisions.

SOUTH AFRICA

The prospects for 2013 are looking fragile with the IMF lowering its growth forecast for the year to 2.8% on the back of labour unrests and a deteriorating business environment. The Reserve Bank followed suit, lowering its growth estimate to 2.6%, and increasing it to 3.8% for 2014.

Consumer inflation came in at 5.7% in December, its highest level since May 2012, while the Reserve Bank kept the repo rate unchanged at 5%. The producer price index remained at the same 5.2% year-on-year as in the prior two months, suggesting benign producer price pressures.

Other economic statistics were mixed. Real monthly retail sales grew by 3.4% year-on-year in November 2012. The seasonally adjusted Kagiso PMI fell 2.1 points to 47.4 in December, suggesting that the slowdown in demand from Europe remains a challenge. Credit extension to the private sector, on the other hand, grew faster than expected in December, accelerating to 10.1% year-on-year from 9.6% in November. Within that, growth in mortgage loans lags behind other components of household credit.

The Reserve Bank's leading indicator of business activity increased for the fifth consecutive month in November, suggesting some tentative recovery in economic conditions in the months ahead. The country's trade balance came in at – R2.7 billion, lower than the previous month's R7.9 billion.

Business confidence improved slightly in December, but remained at the lowest levels since 2000 due to uncertainties in the domestic and global environment, labour disputes and concerns about foreign perceptions.

Fitch lowered South Africa's sovereign credit rating by one notch to BBB with a stable outlook. Fitch warned that mining strikes and social tensions could pressure the government to increase social spending, reducing already tight fiscal space and hurting growth. S&P and Moody's both downgraded South Africa late last year, with a negative outlook. This leaves our sovereign debt two notches above "junk" status according to Fitch and S&P, and three as per Moody's rating. Fitch also downgraded Eskom and Transnet.

The rand fell below R9/US$, to its lowest level in more than three years, as money flowed out of the equity and bond markets amid concerns over continued labour and social unrest and a widening current account deficit (6.4% of GDP in the third quarter). South Africa's large external funding requirement means that the currency is very vulnerable to any upset in capital flows. The rand weakness has been welcome by exporters, and in particular manufacturers, but is bad news for fuel prices and inflation.

On the corporate front, the retail sector, the darling of the stock market over the past three years, fell sharply after Shoprite and Mr Price released worse-than-expected trading updates, crystallising fears that the sector is overpriced.

Amplats and FNB came under strong attacks from the ANC, the former for its reorganisation plans and the latter for an advertising campaign featuring schoolchildren discussing their hopes and concerns for the country, some of which were critical of President Jacob Zuma and the ruling party.

The public deterioration in the relations between business and the ANC threaten the investments the government badly needs to create its targeted 5-million jobs by 2020.

In a more reconciliatory note Finance Minister Pravin Gordhan confirmed that there were no immediate plans to increase mining taxes, despite the ANC proposing that the government extract more revenue from the industry.

Cosatu suspended the Western Cape farm workers' strikes on condition that negotiations on wages continue. However, this teetered on reports that farmers were dismissing workers returning to work after the strike. The Employment Conditions Commission is set to make recommendations on the minimum wage, currently set at R69 a day.

UNITED KINGDOM

The UK economy shrank by 0.3% over the final three months of last year, bringing the total growth over 2012 to zero, leaving the country on the brink of an unprecedented triple-dip recession. The disruptions to the North Sea oil and gas fields were the most significant driver of the decline. The IMF has cut its 2013 forecast for the UK to 1% growth and urged the UK to abandon some its austerity programmes to stimulate growth.

The debate on the UK's continued membership of the EU heated up as Prime Minister, David Cameron, announced a referendum on the issue, to be held in 2017. Conservatives, in particular, are pushing for Britain's membership of the EU to be slimmed down.

The move has been criticised as irresponsible, with the heads of some of Britain's biggest companies, including British Telecom, Virgin and Rio Tinto, signing an open letter to Cameron saying that attempting a major change in Britain's relationship with the EU could "create damaging uncertainty" and put off investment in the UK.

SPAIN

Spain started the month positively as it sold €5.8 billion of short-dated bonds, well in excess of its target. Spain's yields have fallen to around 4.8% after the July peak of 7.6%. Investors are willing to take the risk based solely on the ECB's pledge to protect the euro. In fact, the largest buyers are once again local banks. This has diverted lending from firms and further entwined the banking system with the sovereign state.

Spain is using the improvement in sentiment as justification for not asking for a bail-out. However, by month-end, the plunging retail sales and money supply data signaled an accelerating downturn, calling into question the strategy. Meanwhile Spanish exports have been a bright spot over the past three years, the momentum has now faltered due to lack of investment. Spain's fourth quarter GDP fell by 0.7% quarter-on-quarter, shrinking the economy by 1.4% in 2012. The IMF expects the economy to contract by 1.5% in 2013. A third of all the jobless people in the eurozone live in Spain. The effects of the slump are likely to overpower any gains from fiscal austerity.

Prime Minister Mariano Rajoy implemented five austerity packages in 2012, aiming to deliver €62 billion of savings. Those expectations have been dashed by increasing unemployment, depressed tax revenues and bank bail-outs. In fact, the EC projects a budget deficit for Spain of 8.0% in 2012 and 6.1% in 2013. Spain was supposed to keep the 2012 figure to 6.3% of GDP and 2013 to 4.5%.

ODDS AND ENDS

Dreamliner not so dreamy?

Powerful and lightweight, lithium-ion batteries are the perfect power source for modern gadgets. But their short history has been fraught with problems; they have caught fire in cellphones, laptop computers and electric cars, and even destroyed a small submarine. The same battery has now brought down Boeing's long-awaited 787 Dreamliner, by catching fire. All the planes have been grounded until the reason is found.

Has Apple lost its shine?

After years of hyper-growth Apple Inc disappointed investors when it reported its slowest growth rates in years and said the trend will continue. The stock has fallen by over 35% since September 2012. The company seems to be entering a phase where it may more closely resemble a "value" stock, offering slower sales growth, predictable earnings and a steady dividend. Apple is facing stiff competition from rivals such as Samsung, Google and Amazon, particularly with regards to the iPhone, its biggest source of revenue.

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