~ JULY 2012 ~

SYGNALS

KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	2.7%	0.9%	4.0%	14.5%	13.8%	15.7%	6.9%
J200T	FTSE/JSE Top 40 Index	2.6%	0.2%	2.2%	12.5%	12.9%	14.5%	6.1%
J210T	FTSE/JSE Resources 20 Index	-2.0%	-7.9%	-15.5%	-7.4%	0.3%	4.2%	-0.7%
J211T	FTSE/JSE Industrials 25 index	5.9%	5.6%	16.7%	27.5%	25.2%	24.7%	14.3%
J212T	FTSE/JSE Financials 15 Index	3.1%	4.6%	13.9%	30.1%	15.6%	18.1%	6.1%
J403T	FTSE/JSE SWIX Index	3.2%	2.2%	7.9%	18.7%	15.8%	17.4%	8.4%
J303T	FTSE/JSE CAPI Index	2.7%	0.9%	4.1%	14.8%	14.0%	16.0%	7.6%
ALBI	BESA All Bond Index	4.0%	7.4%	9.7%	17.4%	12.9%	12.9%	11.0%
STeFI	STeFI Index	0.5%	1.4%	2.8%	5.7%	5.9%	6.4%	8.2%
	MSCI World Index in SA Rands	2.8%	3.4%	8.3%	21.1%	14.8%	10.7%	0.8%
	Rand/US Dollar Exchange Rate	1.5%	6.4%	6.0%	23.5%	6.5%	2.0%	3.1%
	Rand/Euro Exchange Rate	-1.7%	-1.3%	-0.4%	7.3%	3.3%	-2.9%	0.8%
	Headline CPI	0.2%	0.7%	3.0%	5.5%	5.2%	4.9%	6.6%
	PPI	4.4%	5.3%	6.4%	6.6%	7.0%	7.8%	7.0%

"Unfair though it may be, an investor should continue to expect an attempted inflationary solution in almost all developed economies over the next few years and even decades. The cult of equity may be dying, but the cult of inflation may have only just begun."

Bill Gross, Chief Investment Officer of PIMCO, the world's largest bond manager, in their June newsletter

The dramatic EU summit announcement that European banks would receive aid directly from the region's permanent bail-out fund, the European Stability Mechanism, quickly run into trouble as a number of EU countries, including Finland, the Netherlands and Germany, seemed to hesitate over the decision. Markets turned down on the uncertainty and weak economic data which pushed down commodities. But the month ended strongly up on speculation of further monetary intervention by both the ECB and the US Federal Reserve.

MARKETS ROCKED BY SENTIMENT SWINGS

Once again global economic data disappointed.

The US economy expanded at a slower pace than expected in the second quarter of 2012 with the GDP rising by an annualised 1.5% after a 2.0% gain in the first quarter, mainly due to a sharp contraction in consumer spending. The final quarter of last year was revised up from 3.0% to a 4.1% growth, underscoring the magnitude of the slowdown.

June data did little to reassure. The manufacturing sector contracted for the first time in three years as new orders tumbled. The services sector, albeit expanding, did so at the slowest pace since January 2010. Consumer spending was flat. And the unemployment rate remained at 8.2%. The political focus on elections in November, and the threat of the "fiscal cliff" at the end of 2012 make a short-term rebound unlikely.

Across the Atlantic, the eurozone remained mired in recession. June manufacturing activity hit a three-year low, while the unemployment rate rose to a record high of 11.2%. Flash figures for July show a similar picture. Markit's Eurozone Composite PMI, a combination of the services and manufacturing sectors and a guide to growth, has remained below the 50 growth/contraction mark for six consecutive months, suggesting a quarterly GDP fall of 0.6%.

Fears also escalated over the outlook for China after falling demand for imports led to a 42.9% year-on-year rise in the country's trade surplus in June. Manufacturing activity fell closer to the 50 benchmark line, while inflation cooled to the lowest level in more than two years at 2.2%. The economy grew at 7.6% in the second quarter, its slowest expansion since the financial crisis and a significant slow-down from 8.1% growth in the first quarter.

Oil topped US$100 a barrel once again as tension over Iran and an oil strike in Norway increased concerns about supply. Iran announced it had successfully tested missiles capable of hitting Israel and repeated its threat of disrupting shipments through the Strait of Hormuz, a shipping channel for about a fifth of global production from the Middle East, as sanctions took effect on 1 July. Prices fell after the Norwegian government forced a settlement of the strike action, and rose again on the escalation in violence in Syria and an attack on Israeli tourists in Bulgaria, which Israel blamed on Iran.

Markets started the month on a down as the euphoria over the June EU summit agreement faded. Eurozone leaders agreed, in principle, to establish a joint banking supervisor and to allow the €500 billion ESM to inject capital directly into banks. But cracks appeared almost immediately as Finland and the Netherlands indicated they would not support the pact, while Germany's Chancellor, Angela Merkel, seemed to lack parliamentary approval for any such agreement.

As markets wobbled, global central banks went on the offensive. The ECB, Denmark's central bank and the People's Bank of China all cut interest rates, while the Bank of England raised the size of its asset-purchase programme by £50 billion to £375 billion.

The ECB cut its main lending rate from 1.0% to a record low of 0.75% and the overnight deposit rate to nil. The latter move is designed to discourage banks from hoarding cash at the ECB. Similarly, Denmark cut its benchmark lending rate to 0.45% and the rate it offers on certificates of deposit to -0.2%.

Unfortunately this action did little to ease concerns as Spanish and Italian borrowing costs soared back into the danger zone, with the yield on Spain's benchmark 10-year bond rising above the 7.0% level.

As Spain's budget deficit topped 3.4% of GDP after only five months of the year, the EU agreed to give the country until 2014 to meet its deficit target of 3%. It also finalised the terms of a bail-out for Spain's banks. Spain, in turn, announced a further €64 billion in spending cuts and a 3% rise in the VAT rate to 21%. The fourth austerity package in seven months will scrap a tax rebate for home buyers, scale back unemployment benefits, consolidate local governments and eliminate the year-end bonus for some public workers. Airports, ports and railway assets will be privatised. The government cut its economic growth forecast for 2013 from 0.2% growth to a contraction of 0.5%.

Italy unveiled a similar €26 billion in spending cuts over the next three years, while deferring a 2% VAT increase until July next year. This comes a month after a new property levy stoked nationwide protests.

Greece asked its lenders for a three-year extension to its bail-out programme till 2017, admitting that it is failing to fulfil its commitments as well as running out of money. Greece is waiting for the next €31.5 billion instalment of international aid to be approved by the troika of the EU, the ECB and the IMF. Their representatives are currently in Athens to assess Greece's progress, having extended their stay indefinitely to help government leaders complete a "credible package" of budget savings. In what can only be perceived as a desperate pre-emptive move the Greek government announced a further €11.5 billion austerity package, but the details are still to be confirmed.

But the southern regions are not alone. Britain is stuck in a recession after the Queen's Diamond Jubilee long weekend and a very wet June drove the final nail into growth for the second quarter. The UK economy shrank by 0.7%, following a 0.4% fall in GDP in the final quarter of 2011 and a 0.3% fall in the first three months of the year. The UK is expected to return to growth in the third quarter as the London Olympics inject a one-off boost through ticket sales and tourism.

Pessimism about the start of the second-quarter earnings season in the US weighed on equity markets. The final results were a mixed bag of pleasant and unpleasant surprises. Apple delivered a rare earnings disappointment with lower-than-expected sales of its iPhone, as customers wait for the release of iPhone 5. Profits increased 20.7% to $8.8 billion.

Minutes of the US Federal Reserve's most recent meeting dashed hopes of another round of quantitative easing. The prospect of no immediate Fed action reflected in a lower gold price and a stronger US dollar.

Mid-month, Moody's downgraded Italy's government bond rating by two notches to Baa2 (two notches above junk), citing the knock-on effects of a possible Greek exit from the eurozone and the general European crisis.

But it was Spain which once again hogged the headlines. The difficulties confronting Spain, which is imposing strict austerity measures to curb its deficit while dealing with a banking crisis, were underlined when figures showed it slid deeper into recession in the second quarter. The GDP shrank 0.4% from the previous quarter after contracting 0.3% in the first three months of the year, making the economy 1.0% smaller than a year earlier.

In addition Spain's 17 heavily indebted autonomous regions, locked out of international debt markets, have to refinance €36 billion in debt this year. Valencia region was the first to call for internal aid. This was followed by Murcia and Catalonia. The extra pressure on the central government increases the probability of Spain having to ask for aid.

As yields on the Spanish 10-year bond climbed above 7.6%, so the financial position of banks deteriorated. Spanish banks borrowed €315 billion from the ECB under the long-term refinancing operation in January and February this year and "parked" the money in Spanish sovereign bonds. While this helped to stabilise the bond market for a few months, the move has backfired as sharply rising bond yields have meant significant losses on those investments. Spain has enough funds to muddle through into the autumn, but if the cost of funding does not fall, it will have little choice but to ask for a bail-out.

Moody's placed the Netherlands, Austria and Germany on a negative credit watch, while the gold price rose above US$1 600/oz and the Rand weakened to R8.51 to the US dollar on rising fears.

Just as the situation seem to spiral out of control the German parliament endorsed the decision to use the eurozone's rescue fund to help Spanish banks. The aid will come from the temporary rescue fund, the €440 billion European Financial Stability Facility, as the German constitutional court is yet to vote on whether the permanent bail-out fund, the ESM, can be passed into law.

Finland followed suit, but only after agreeing a separate deal for collateral from Spain in exchange.

"Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough. "
Mario Draghi, President of the European Central Bank at a speech at an investment conference in London.

And in a definitive move the ECB's President, Mario Draghi, announced that the central bank "would do whatever it takes to protect the euro". His message was echoed by German Chancellor, Angela Merkel, and French President, Francois

Hollande. The comments stoked optimism that the ECB and the US Fed will provide further stimulus to support their struggling economies.

The subsequent strengthening of the euro added to the upward momentum of the gold price, while the yield on 10-year Spanish bonds fell below 7.0%.

SOUTH AFRICA

According to the Reserve Bank's 2012 annual economic report growth remains "pedestrian", with the manufacturing sector vulnerable because of the impact of the European crisis on exports.

The employment figures continue to look abysmal, with only 448 000 jobs created from the 1 million jobs lost between the fourth quarter of 2008 and the third quarter of 2010. The official unemployment rate, however, declined to 24.9% in the second quarter of 2012 from 25.2% in the first quarter, with the government sector reflecting the strongest growth. The expanded unemployment rate, which includes discouraged workers, also declined, to 36.2%.

The gloomy view was reinforced by the Finance Minister, Pravin Gordhan, who indicated that economic growth this year is likely to miss the government's current forecast of 2.7%.

South Africa's seasonally adjusted PMI, a key measure of manufacturing activity, fell to 48.2 in June from 53.6 in May, dropping below the key 50 level dividing contraction and expansion for the first time since 2011 and dampening the outlook for overall economic growth in the second quarter.

After nine consecutive MPC meetings with no changes, the Reserve Bank cut the repo rate by 50 basis points to 5.0%, taking the prime rate to 8.5%. This follows similar moves by the ECB, and the central banks of China, Australia, the Czech Republic, Denmark, Kazakhstan, Vietnam and Israel.

Consumer price inflation came in at 5.5% year-on-year in June, while the producer price inflation remained unchanged at 6.6%. Inflation is expected to remain within its 3%-6% target range until the end of 2014. However, while inflation has moderated, food prices are likely to stay elevated due to higher transport and electricity costs and high wage increases.

On the political front, credit ratings agencies expressed their disappointment over the failure of the ANC Policy Conference at the start of June to clarify its approach to the nationalisation of mines, warning that it would deter investors. All three main agencies, Fitch, Moody's and Standard & Poor's, have South Africa on a negative credit rating outlook, which means the next move could be a downgrade. A report discussed at the conference proposed a 50% resource rent tax on mining "super profits", increased regulation, and price and export controls for minerals seen as "strategic". No consensus was reached, although the conference rejected outright nationalisation. Another issue of contention was an official youth wage subsidy, which appeared to have been scrapped in favour of a proposed job seeker's grant for young people.

And Nkosazana Dlamini-Zuma, an anti-apartheid veteran who has served in the cabinet of every South African president since Nelson Mandela, has been elected to head the African Union Commission, a bloc of 54 pan-African members.

GLOBAL SNAPSHOTS

San Marino

Fitch downgraded San Marino, the third smallest state in Europe after Monaco and the Vatican, to 'BBB+'. The 24-square mile landlocked republic, which relies on banking and tourism, has been hit by the 2009 Italian government's amnesty that allowed Italians to repatriate capital from tax havens like San Marino. Since then around €4 billion of the roughly €14 billion held in San Marino banks has been taken out of the country. With banking making up about 25% of GDP, the effects have been significant.

San Marino claims to be the world's oldest republic. Legend has it that it was founded in AD301 by a stonemason for a small community of Christians seeking refuge from the Roman emperor Diocletian.

Hong Kong

The first weekend of June marked the 15th anniversary of Hong Kong's return to Chinese rule. The transfer in 1997, after 100 years of British rule, was agreed in 1984 in a Sino-British Joint Declaration, signed at a time of cold war paranoia.

The terms of the agreement gave Hong Kong a high level of autonomy for 50 years after the hand-over. 15 years on, Hong Kong has seen enormous societal and economic changes brought about by China's extraordinary economic growth. In 1997 Hong Kong's GDP equalled about 20% of that of China. By 2011 this has shrunk to about 3.3% of China's GDP, even as Hong Kong's economy had itself expanded 38% over the same period. This has brought an inevitable economic and political shift towards China, well ahead of the 50 years timeline.

Germany

The German Constitutional Court may take up to three months to rule on an injunction by professors, politicians and activist citizens aimed at stopping Germany from taking part in the EU Fiscal Compact or the European Stability Mechanism,. The court will decide on the injunction first, and then issue a full decision of the constitutionality of the rescue machinery in early 2013. That means efforts to rescue Europe's common currency will remain in limbo for almost two more months.

The Constitutional Court is tasked with ensuring that all laws comply with Germany's Basic Law, the foundation of German democratic system.

Although the court authorized the original EMU bail-outs in September 2011, it also ruled that the budgetary powers of the parliament, or Bundestag, cannot be alienated on a permanent basis to any supra-national body and that the government must obtain prior approval from the Bundestag before committing to further bail-outs. While Chancellor Angela Merkel agreed to let the EMS rescue banks directly, starting with Spain, in reality she did not have the authority from the Bundestag to do so. The court has decided to take its time because its ruling on the temporary injunction in this case will be tantamount to a final decision on the participation in the rescue.

WORLD STAGE EVENTS EXPLAINED

IMF slashes growth forecasts

The IMF warned that the world economy appeared weaker since its assessment just three months ago, and that "downside risks continue to loom large," especially from inadequate policy reactions in major economies.

The IMF cut 0.1% off their global growth projection, although the figure remains at 3.5% for this year due to rounding. For 2013, the forecast is 3.9%, down from 4.1%.

The global cut is a result of sharp cuts to growth forecasts for the large emerging economies like China, India, Brazil and newly industrialised Asia. In addition the IMF saw slower-than-expected growth in the US, Britain and France. The US forecast was dropped by 0.1% to 2.0%, France was down 0.1% to 0.3% and Britain was projected to grow at just 0.2%, compared with 0.8% forecast three months ago.

On a brighter note, forecasts for this year for Germany and Japan were revised higher to 1.0% and 2.4%, respectively. Also getting an upgrade was the Middle East and North Africa region.

Why does LIBOR matter?

The Euribor and Libor rates are both inter-bank lending rates. Libor (London Interbank Offered Rate) is a flagship London rate used throughout the world. Euribor (Euro Interbank Offered Rate) is the eurozone equivalent. The interbank market enables banks to lend money to other banks, or to borrow funds, when the amount of deposits exceeds or falls below customer credit demand.

Libor and Euribor levels are fixed once a day, around midday, based on submissions made by individual banks.

The rates are crucial to the global financial system because they act as a benchmark for the pricing of derivative products. They also indirectly affect loans and mortgages for households and businesses, and many other contracts.

….And the fallout

The LIBOR scandal escalated as Robert Diamond, the CEO of Barclays, having been forced to resign, placed some of the blame for rate manipulation on regulators and other major global financial institutions. He was followed by Jerry del Missier, the chief operating officer, while Marcus Agius, Barclays chairman, announced his intention to retire. The problems continue to mount as the British bank disclosed that it was facing a number of lawsuits related to the rate-rigging scandal and that regulators were investigating a number of current and former employees over the disclosure of fees during the bank's fundraising efforts in 2008.

Regulators in the US and Europe are probing more than a dozen banks worldwide over alleged rate-fixing.

Should you have invested in Facebook?

Facebook's share price has plunged to a record low since its IPO on 17 May after its first earnings report as a public company showed a slower sales gain and narrower profit margins than expected. Revenue rose 32%, the slowest pace on record, at US$1.18 billion, while marketing expenditure surged to US$392 million. The company reported a net loss of US$157 million. Facebook CEO, Mark Zuckerberg issued no growth forecasts and said little else to reassure investors. The largest social network is adding users faster than it can generate ad sales as more people access the service via mobile phones which do not have ads.

Facebook shares fell to US$23, down 29% from its US$38 IPO price.

God particle found with 99.99% probability

The "god particle" is the nickname of a subatomic particle called the Higgs Boson. In layman's terms, different subatomic particles are responsible for giving matter different properties. One of the most important properties is mass. The Higgs Boson is believed to be the particle which gives mass to matter.

Finding the Higgs Boson plugs a gaping hole in the Standard Model of Particle Physics, the theory that describes all the particles, forces and interactions that make up the universe. It was first theorised in the 1960s by Edinburgh-based physicist Peter Higgs. But until now, it has proved impossible to pin down. To find the particle scientists smash protons together at almost the speed of light and scour the debris for traces of particles that sprang into existence for just a fraction of a second before disintegrating.

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