KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	4.4%	6.8%	3.4%	23.0%	18.7%	16.8%	11.5%
J200T	FTSE/JSE Top 40 Index	5.1%	8.2%	3.4%	24.9%	18.6%	16.8%	10.4%
J210T	FTSE/JSE Resources 20 Index	9.1%	6.1%	-11.7%	3.2%	-2.3%	1.2%	-2.3%
J211T	FTSE/JSE Industrials 25 index	3.5%	11.9%	15.3%	42.6%	34.9%	30.7%	23.3%
J212T	FTSE/JSE Financials 15 Index	2.4%	0.1%	2.0%	20.0%	25.0%	17.1%	14.7%
J403T	FTSE/JSE SWIX Index	3.3%	5.8%	4.1%	20.9%	19.8%	17.5%	13.1%
J303T	FTSE/JSE CAPI Index	4.3%	6.7%	3.6%	23.1%	18.9%	17.0%	12.3%
ALBI	BESA All Bond Index	-0.7%	-6.7%	-2.1%	1.6%	9.2%	9.0%	10.2%
STeFI	STeFI Index	0.4%	1.3%	2.5%	5.2%	5.5%	5.7%	7.1%
	MSCI World Index in SA Rands	5.1%	12.7%	19.4%	47.0%	33.4%	24.6%	10.7%
	Rand/US Dollar Exchange Rate	-0.2%	9.8%	10.0%	19.3%	21.4%	10.6%	6.1%
	Rand/Euro Exchange Rate	2.0%	10.8%	7.4%	29.0%	17.6%	11.3%	2.7%
	Headline CPI	0.3%	0.4%	2.9%	5.5%	5.5%	5.3%	5.4%
	Core CPI	0.5%	0.9%	3.4%	5.3%	5.1%	4.6%	5.3%
	PPI	0.8%	1.4%	3.4%	5.9%	4.6%	5.5%	4.3%

"Gold is an unusual asset. It's an asset that people hold as a sort of disaster insurance. They feel if things go really badly wrong, at least they'll have some gold in their portfolio. Let me end by saying that nobody really understands gold prices and I don't pretend to really understand them either."

Ben Bernanke during testimony on the economy before the Senate banking panel, July 2013

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SYGNIA
THE SUM OF ALL THINGS

A temperate July followed in the footsteps of a ferocious June as bargain hunters returned to the market and risk aversion lessened. Political upheaval in Europe and Egypt introduced some turbulence, but a few positive economic surprises stabilised the mood. The resources sector staged a recovery, driven up by a weaker US dollar and a higher gold price. The majority of US companies reported earnings well ahead of expectations. And China finally showed some willingness to support its economy.

US FED CALMS THE MARKETS

The month kicked off with some pleasant surprises. In the US, the ISM manufacturing index rose to 50.9 from 49.0 in May, well ahead of expectations. China's manufacturing sector, on the other hand, showed renewed weakness, with the two indices of manufacturing activity coming in below May levels. The official PMI fell to 50.1 in June from 50.8 a month earlier, while the HSBC PMI, which gives more weight to smaller firms and exporters, dropped to 48.2.

Markit’s manufacturing PMI for the 17-nation euro zone increased to a 16-month high of 48.8. The gauge has remained below 50 since July 2011. This might well be the high point for now as the German economy has started to show signs of a summer slowdown after a stronger second quarter. The euro zone GDP growth numbers for the second quarter also came in above expectations, with the UK growing by 0.6%, up from 0.2% in the first three months of the year, and Spain contracting by just 0.1%.

Japan seems to be reaping the benefits of its radical policies, with notable improvements in business sentiment, consumer spending and retail sales. Japan's central bank upgraded its assessment of the nation's economy for the seventh consecutive month, while the IMF upped its growth forecast for 2013 to 2.0%. Most significantly, the consumer price index rose by 0.2% in June and 0.3% in July from a year earlier.

Gold had a volatile month, pushed down by prospects of an end to quantitative easing in the US, boosted again after the US Federal Reserve indicated that the timeline has not as yet been set, and pulled down by better than expected US economic data at month end. Gold is likely to remain volatile in the short term, but offers little upside while a loose global monetary regime persists. To add to its woes, the recent clamp-down on imports by India, and a slowdown in China, do not offer much support to physical demand.

The oil price broke through the US$100 a barrel level buoyed by positive economic data from the US, and Japan and the violent unrest in Egypt. The country controls the key Suez Canal seaway and an adjacent pipeline used for a significant amount of oil traffic. However, once again, the slowdown in China, combined with plentiful supply in the US, make significant price increases unlikely in 2013.

The investment markets started the month on an up as risk aversion declined on a slew of positive economic data from the US, including rising consumer confidence and unemployment at 7.6%. The core consumer price index, which excludes food and fuel, stayed relatively flat at 0.2% year-on-year.

But the positivity was short-lived as political uncertainty brought about unwelcomed turbulence.

In Italy, the fragile coalition government of Prime Minister Enrico Letta looked close to collapse after the Civic Choice party threatened to withdraw, citing frustration with the slow pace of reforms. Greece struggled to convince its creditors that it has made progress in tax reforms and privatisation of state assets, a prerequisite for the release of the next tranche of aid. The troika of international lenders, the EU, the IMF and the ECB, have demanded further cuts before agreeing to pay over the next instalment, while at the same time pointing out that Greece faces a funding gap of approximately €3.8 billion that needs to be filled with spending cuts or more austerity measures. Greece has little room to manoeuvre with the EU and the IMF projecting that the economy will shrink by 4.2% in 2013 and with unemployment at an all time high of 26.8%.

But it was Portugal that caused the most chaos. Held up as the poster-child for austerity, the country was rocked by the resignation of two leading cabinet members. Fears that the government could collapse and hence delay the implementation of reforms required under the €78 billion bail-out drove10-year government debt yields above 7%. The situation stabilised after compromise agreements between coalition partners allowed Portugal to re-commit to the terms of the bail-out program.

And further south, the ousting of the Egyptian President Mohamed Morsi by the military led to violent clashes in the deeply divided country. The situation deteriorated through the month.

By mid-month, political issues faded as the US earnings reporting season kicked-off with more than 70% of reporting companies exceeding profit forecasts.

Investors were cheered after Europe's top two central banks, the ECB and the Bank of England, pledged not to let stimulus withdrawal in the US derail the bloc's recovery. Both banks emphasised that interest rates will remain low for an extended period of time.

This counterbalanced the news that the IMF has cut its global growth forecasts for 2013 and 2014 to 3.1% and 3.8% respectively. The reasons include slower growth in the US, deeper than expected recession in the euro zone, softening of the emerging market economies and a slowdown in China.

The news came at the same time as the S&P's downgrade of Italy's sovereign debt rating to BBB with a negative outlook, two notches above junk. S&P also downgraded most of Italy's banks. Fitch followed suit, while at the same time cutting the ratings of several French banks.

The market see-saw continued as the minutes of the US Fed's June meeting showed that, although a number of members favoured an end to quantitative easing by year-end, many others want to first see more improvement in the labour market. In a clear attempt to moderate June's message, the US Fed chairman, Ben Bernanke, in congressional testimony, emphasised that it is too soon to set the timetable for tapering of asset purchases. Bernanke also communicated that short-term interest rates will stay low even if unemployment falls below 6.5% and that any rate hike cycle will be gradual. He acknowledged that one of his motives in talking about tapering last month had been to head off a possible bubble in financial markets.

The US economic recovery was defined as "modest to moderate" by the US Fed, with weaker than expected retail sales and home construction data reinforcing the picture of an economy that is not out of the woods yet.

Softer economic data from China provided little support in the second half of the month. The second quarter GDP growth, which came in at an annualised 7.5%, below the 7.7% registered in the first quarter, finally forced the

government to drip feed the economy with some easy reforms. The first step involved removing the floor on the interest rates banks can charge for loans. Further "mini" stimulus measures followed, including elimination of taxes on small businesses, reduction of costs for exporters and provision of funding for the construction of railways. But at the same time the government ordered more than1 400 companies in 19 industries to cut excess production capacity this year, part of the effort to shift the economy towards a more sustainable demand driven growth path.

The risk to watch for is social unrest as employment comes under pressure. Social stability is the cornerstone of the Communist Party's justification for its one-party rule. And in a final effort to shore up "confidence", Premier Li Keqiang was quoted as saying that the government will take action to ensure economic growth does not fall below 7% in 2013.

The positive mood was further supported by the news that Japanese Prime Minister Shinzo Abe's ruling Liberal Democratic Party won a majority in the upper house election. The result puts the LDP in control of both chambers of parliament and allows Abe to tackle structural reforms unopposed.

The resultant weaker US dollar offered some support to the battered gold price. But this was short-lived as India's central bank announced that authorized gold importers, which include banks and gold-trading agencies, can sell gold only to jewellers or dealers who supply gold for jewellery business. Gold importing agencies will have to hold 20% of every lot of imported gold for eventual re-export. This is the next step in an effort to dampen gold imports which are a key factor behind the country's wide current account deficit.

Market reaction to the preliminary July manufacturing PMI readings was mixed. China showed further weakness with the preliminary HSBC PMI sliding to 47.7, an 11-month low. The euro zone showed a remarkable recovery with the PMI releases from France, Germany and the euro zone all coming in slightly better than anticipated. The composite euro zone index climbed to an 18-month high of 50.4 in July from 48.7 in June. The improving economic indicators have eased pressure on the ECB to act. A flash manufacturing PMI in the US climbed to 53.2, a four-month high.

The month ended with weaker US consumer confidence and future home sales figures, but climbing property values and above expectations growth, once again highlighting the patchy nature of the US recovery. The S&P/Case-Shiller index of property values in 20 US cities climbed 12.2% from May 2012, the biggest 12-month gain since March 2006. The GDP rose at by an annualised 1.7% in the second quarter, after a downward-revised 1.1% gain the prior quarter. However the US Fed's commitment to keep the stimulus in place until the recovery is stronger kept the momentum on an up.

Markets have become more difficult to read in recent months. Until recently, any economic weakness has been viewed as positive for the continuation of quantitative easing, and hence positive for equities. Now that the end is looming, investors are looking for a stronger US economy. Hence the irrational volatility.

The G20 meeting in Moscow achieved little beyond a commitment to ensure that any future changes to monetary policy will be clearly communicated. The summit was dominated by BRICS countries fretting about the effects of the market turbulence in June, but plans for joint action remained on the drawing board.

SOUTH AFRICA

President Barack Obama's visit to South Africa brought little bar an announcement that the African Growth and Opportunity Act of 2000, which allows for tariff-free trade between Africa and the US in certain goods, would be extended beyond 2015. Obama also announced the formation of a US$7 billion Africa energy infrastructure fund which aims to partner US government financing with private sector investments. This, unfortunately, might well be the case of too little too late, given China's existing large electricity projects on the continent, including a recent offer of US$20 billion in loans by President Xi Jinping.

The feared wage negotiations in the mining industry have been put on hold after NUM, Solidarity and UASA declared an official wage dispute. This means that the salary talks will be delayed by a 30-day mediation period that could end in an industry-wide strike. Prospects for peaceful negotiation were negligible to begin with as gold mining companies are offering a 5% wage increase against the 100% demanded by workers. The demands have been driven up by AMCU, now the dominant union in the platinum sector. This has forced NUM to up the ante. Early in the month AMCU delayed signing a government-sponsored draft agreement committing all parties to defusing tension in the mining sector. Later it refused to join the other three unions in seeking help from the CCMA, forcing the Chamber of Mines to run two parallel wage negotiation processes.

On the economic front, the Kagiso manufacturing PMI stayed above the 50 mark for the third month in a row, coming in at 51.6 in June. Other positive surprises included retail sales which rose 6.2% year-on-year in May, growth in private sector credit demand which came it at an above-expectations 8.9% year-on-year in June, lower June trade account deficit on the back of stronger exports and headline consumer inflation which slowed to 5.5% year-on-year in June from 5.6% in May. This implies that the effects of a weaker rand have not yet fed through to consumer inflation. Producer price inflation, on the other hand, accelerated more than expected to 5.9% year-on-year in June from 4.9% in May. The probability of a breach of the 6% ceiling in the third quarter remains high. And on another negative note, the official unemployment rate deteriorated slightly in the second quarter, to 25.6% from 25.2% in the first. The expanded unemployment rate, which includes those who have stopped looking for work, came in at 36.8%. The economic and labour policies are coming under more and more criticism, with the Reserve Bank governor Gill Marcus being the latest to warn that labour issues needed to addressed as a matter of urgency.

The Reserve Bank kept interest rates unchanged at 5.0% while cutting its outlook for GDP growth to 2% this year, 3.3% in 2014 and 3.6% in 2015. The Reserve Bank also indicated that the growth forecast could be lowered further, particularly given electricity constraints. The downgrade came after the IMF cut its economic growth forecast for South Africa to 2.0% from 2.8% on a slowdown in exports due to weak demand from Europe and the problems in the mining sector.

On the corporate front both S&P and Moody's warned that South African banks will see increasing credit losses in the next 18 to 24 months, particularly in the unsecured lending space, as economic growth wobbles and the labour unrest continues. Unsecured finance to workers in the mining sector accounts for roughly 7% of all loans in the country. However, the risk is mitigated by the fact that the big banks have fairly limited exposure to unsecured lending as a percentage of their total loans.

The retail sector continued to suffer on poor sales numbers from retailers such as Shoprite and Truworths as tighter credit conditions continue to affect demand. We do not expect a recovery in the short term.
And another scandal hit banks and asset managers, including Investec, FirstRand, Nedbank, Sanlam and Standard Bank after the collapse of the First Tech Group, a manufacturer supplying the transport, mining and power industries, whose chairman, Jeff Wiggill, died in an apparent highjacking last month.

GLOBAL SNAPSHOTS

Italy

Unemployment in Italy climbed to 12.2% in May, the highest number since record-keeping began in 1977. The IMF expects the economy to contract by 1.8% this year, recovering by 0.7% in 2014. Italy's central bank cut its growth forecasts for the country to a 1.9% contraction in 2013. The Italian economy shrunk by 2.4% in 2012.

Portugal

The political crisis in Portugal started when the former Finance Minister Vitor Gaspar, a proponent of austerity, resigned citing lack of support. His proposed replacement, treasury secretary Maria Luis Albuquerque, another austerity fan, triggered the resignation of Foreign Minister Paulo Portas. Portas heads a junior coalition party critical to the current government maintaining a parliamentary majority. To resolve the crisis Prime Minister Pedro Passos Coelho promoted Portas to the post of Deputy Prime Minister and put him in charge of economic policy coordination. Any threat to the stability of the government is a threat to the terms of the €78bn bailout programme agreed with the EU and the IMF in 2011.

France

The French president Francois Hollande used Bastille Day, France's national commemoration of the French Revolution in 1789, to fight increasing pessimism over France's economy after Fitch stripped the country of its AAA rating. His argument that France was "in recovery" was widely derided, coming at the same time as the Bank of France’s forecasts of rising unemployment, sluggish domestic demand, falling household consumption, and just 0.2% growth in the second quarter.

Latvia

Latvia, a nation of just 2.2 million people, became the 18th member of the euro zone after joining the EU and NATO in 2004. Latvia was hard-hit by the drying up of cheap credit in 2007. Faced with a choice between quantitative easing and austerity, it chose the latter with the result that the economy shrank by a massive 17.7% in 2009. However, by late 2010, the economy was growing again and in 2012, it expanded by 5.6%, the fastest of any country in the EU.

The last nation to join the euro was Estonia, Latvia’s northern neighbour, on 1 January 2011.

ODDS AND ENDS

Insider trading does not pay

SAC Capital Advisors, a hedge fund run by the billionaire Steven A. Cohen, was arraigned on a raft of criminal insider trading charges by the Federal District Court in Lower Manhattan, making it the first large American company to face an indictment in more than a decade. Prosecutors called the company a “veritable magnet of market cheaters.” SAC pleaded not guilty to the charges. SAC has more than 1 000 employees and some US$10 billion in assets under management.

Woody Allen takes on Madoff

Woody Allen's "Blue Jasmine" packed US theatres after Cate Blanchett scored glowing reviews for her role as the wife of a Bernie Madoff-like swindler. Blanchett plays Jasmine French, a trophy wife who lands broke and broken on her sister's doorstep in San Francisco after her Fifth Avenue lifestyle evaporated due to her crooked and philandering husband, played by Alec Baldwin.

Facebook Inc Update

Facebook Inc's price rose to the highest level since its May 2012 IPO amid optimism that it can bolster sales from mobile advertising. Facebook reported that ads on smartphones and tablets generated 41% of its revenue in the second quarter, up from 14% a year earlier. The company is now trading at about 152 times earnings.

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