SYGNALS

JULY 2015

KEY INDICATORS

		1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS	3 YEARS	5 YEARS
J203T	FTSE/JSE All Share Index	0.5%	-4.2%	3.0%	4.4%	15.7%	18.1%	16.4%
J200T	FTSE/JSE Top 40 Index	0.9%	-3.3%	4.7%	3.8%	15.8%	18.8%	16.4%
J210T	FTSE/JSE Resources 20 Index	-7.7%	-18.3%	-12.4%	-37.4%	-8.4%	-4.7%	-2.8%
J211T	FTSE/JSE Industrials 25 index	1.4%	-0.8%	6.3%	17.9%	22.0%	28.5%	27.2%
J212T	FTSE/JSE Financials 15 Index	3.5%	-4.1%	6.4%	21.5%	27.0%	24.6%	20.9%
J403T	FTSE/JSE SWIX Index	-0.2%	-4.4%	2.5%	8.6%	18.5%	19.3%	17.9%
J303T	FTSE/JSE CAPI Index	0.5%	-4.2%	3.0%	4.6%	15.8%	18.2%	16.5%
J253T	SA Listed Property Index	5.1%	-1.4%	4.4%	31.0%	21.5%	17.3%	20.1%
ALBI	BEASSA All Bond Index	1.0%	0.1%	-3.6%	8.2%	7.7%	5.6%	8.5%
STeFI	STeFI Index	0.5%	1.6%	3.1%	6.3%	5.9%	5.7%	5.8%
	MSCI World Index in SA Rands	5.8%	7.0%	15.7%	24.1%	25.0%	31.9%	24.8%
	Rand/US Dollar Exchange Rate	3.9%	7.3%	8.8%	18.2%	13.3%	15.3%	11.7%
	Rand/Euro Exchange Rate	2.8%	6.2%	5.9%	-2.8%	3.1%	11.1%	7.9%
	Headline CPI	0.4%	1.6%	3.5%	4.7%	5.7%	5.6%	5.5%
	PPI	0.3%	2.0%	3.0%	3.7%	5.9%	5.9%	5.7%

"Give me money or I'll shoot."

The caption in the German newspaper Handelsblatt over an image of Greek Prime Minister Alexis Tsipras holding a gun to his own head, ahead of the Greek referendum.

MARKET OVERVIEW

July brought two simultaneous crises as Greece veered close to exiting the euro and the Chinese government was forced to prop up its tumbling stock market in an unprecedented manner. The rand hit a 14-year low as the US Fed signalled an imminent interest rate increase, while commodity prices continued to fall on poor growth fundamentals in China.

After defaulting on a 30 June payment to the IMF, the Greek government closed the country's banks to prevent capital flight and called for a public referendum on the austerity measures demanded by the troika of the EC, ECB and the IMF. After winning a "no" vote, Greek Prime Minister Alexis Tsipras did an amazing turn-around, and asked for a three-year bail-out from the eurozone's rescue fund, the European Stability Mechanism, while pledging to start implementing most of the tax changes, pension reforms and budgetary cuts demanded by its creditors within a week. The Greek Parliament approved the measures with little resistance, although a rebellion within the Syriza party continued to test Tsipras' ability to hold his government together.

After a series of tense talks the eurozone agreed to a third bail-out estimated at €86 billion. In response, the ECB lifted its ceiling on emergency liquidity assistance to Greek banks by a nominal €900 million to €89.9 billion allowing the banks to partially reopen.

The IMF estimated that Greece will require debt relief of at least €74 billion to return to financial health, with an additional €25 billion needed to recapitalise the banks. The institution warned that the eurozone must commit to debt restructuring to ensure the long term sustainability of Greece's membership of the euro. Debt restructuring is not on the cards at present.

The bail-out came with a hefty price ticket of punishing austerity measures, including pension overhauls and sales tax increases that the Greek voters had rejected in a referendum just a week before. Greece also agreed to create a fund, supervised by the eurozone, which will hold €50 billion in state-owned assets earmarked for privatisation. The money raised will pay off Greece's debt and help recapitalise its banks. Greece's administration will be modernised and depoliticised. The eurozone also demanded amendments to labour laws to make it easier to fire workers, as well as the liberalisation of markets for products such as pharmaceuticals, milk and baked goods.

Stock markets around the world rallied on the news.

The second drama played out in China where the stock market lost a third of its value since mid-June. The central bank's move to drain some liquidity from the country's overheated stock market, which had soared almost five-fold over the past year, was interpreted as a foreshadowing of monetary tightening. This led to a sharp sell-off exacerbated by so-called "margin financing", a practice which has soared in popularity over the past year. Margin financing involves granting loans to investors to buy shares using existing shares as collateral. Any drop in share price automatically lowers the value of collateral, forcing investors to sell more stocks to cover their margin calls.

As the market tumbled, the Chinese government stepped in with a series of extreme measures, trying to restore stability. These include the suspensions of all new IPOs, setting up a market-stabilisation fund supported by the country's stockbrokers, lifting restrictions on mortgage lending for the purposes of share trading and promising unlimited liquidity support to China Securities Finance Corporation, a company owned by the securities regulator, to channel money to brokerages to support more buying. In addition, securities regulators ordered listed companies to submit plans to stabilise their stock prices and banned all shareholders with stakes exceeding 5% and corporate executives and directors from selling shares in listed companies for six months. Over 40% of Chinese listed firms simply suspended trading in their shares, locking up US$2.6 trillion in value or 40% of China's market capitalisation.

Although the measures seemed to stabilise the situation over the short-term, month-end brought another 10% fall on fears that the measures would be unwound. China's Shanghai Composite index ended July down 13.4%. The Chinese government is likely to pay a heavy price for their market interference in the form of lost reform credentials and very negative investor sentiment.

China's growth remained at 7.0% in the second quarter amid broad signs that the slowdown is far from over. The Caixin/Markit China Manufacturing PMI fell to 47.8 in July, marking a two-year low, reinforcing the need for further policy support and leading to wide-spread doubts about the veracity of the 7.0% growth figure.

In Europe, the ECB kept its main interest rate unchanged at 0.05% as inflation eased to 0.2% year-on-year in June, highlighting the region's vulnerability to deflationary pressures. Other economic data was more positive, with unemployment remaining at 11.1% in May, manufacturing activity hitting a 14-month high and retail sales rising on improved economic confidence numbers.

The US also continued to recover, albeit at a modest pace. US June retail sales numbers disappointed, but job creation data came in stronger than expected with the ADP survey showing 237 000 private-sector jobs being created in June, the biggest gain in six months. The official unemployment rate fell to 5.3%, a level last seen before the global financial crisis, although wage growth data continued to show weakness. Consumer spending, which accounts for more than two-thirds of economic output, rose by 2.9% in the second quarter, ahead of expectations. The housing market continued to improve with prices of existing homes topping the high water mark set in 2006 as sales increased at their strongest pace in more than eight years. Inflation has also firmed, with the price index for personal consumption expenditure, the US Fed's preferred measure of inflation, rising by 2.2% year-on-year in the second quarter. On a negative note, GDP grew at a below-expectations annualised 2.3% in the second quarter, after 0.6% growth in the first three months of the year. The US Fed revised its 2015 GDP growth forecast to 1.55%, substantially lower than the previous estimate of 2.3%.

The minutes of the US Federal Reserve meeting showed a broad belief that the first quarter economic problems were overstated due to the methodology used by the government. Improvements in the labour markets were viewed as encouraging to an interest rate hike later this year. Later in the month US Fed chairwoman Janet Yellen indicated that she was inclined to increase interest rates sooner and proceed more slowly, rather than to wait a long time and have to move aggressively if the economy overheats.

Unsurprisingly, the markets remained highly volatile through the month. In South Africa, the resources sector took a huge hit on concerns about China's growth, while the rand weakened to a 14-year low of US$12.78 to the US dollar as the latter strengthened on the expectations of US interest rates increases.

US crude oil prices tumbled to below US$ 50.00 per barrel, losing about 20% from a high of US$62 reached in June on concerns about Greece and China, and strong production figures from Russia and the OECD. The potential return of Iran to the world stage also dampened sentiment.

Gold fell to a five-year low of US$1 082 an ounce after the US Fed's emphasis on increasing interest rates this year strengthened the US dollar. The platinum price fell below the US$1 000 an ounce level for the first time since 2009 due to oversupply, sluggish demand and weaker gold prices, which encouraged speculative selling.

According to the World Bank the outlook for commodities is looking grim for yet another year. The institution expects the average prices for fuels such as crude oil, natural gas and coal to fall 39% this year from 2014 levels, while those for materials like metals and fertilizers to fall by 12%.

Month-end saw some recovery in the rand on the back of disappointing US employment data. The US Employment Cost index rose by 0.2% in the second quarter, the slowest rise in three decades, pushing the expectations of the first US rate hike out to December. The rand finished the month at R12.60 to the US dollar.

360 DEGREES ROUND THE WORLD

UK: Britain's economic data points to a pick-up in the second half of the year with the services, manufacturing and construction sectors topping forecasts. On a negative note, inflation fell back to zero in June, as prices of food and summer clothing dropped. Chancellor George Osborne's first post-election budget focused on cutting the welfare bill by £12 billion and boosting employment and productivity. He revealed plans to introduce a new national living wage for workers over 25 years old, as well as corporate tax rate cuts to 19% in 2017 and 18% in 2020.

FRANCE: The French service sector and manufacturing activity were weaker than expected as concerns about Greece weighed on fragile business confidence in the eurozone's second-biggest economy. Inflation fell to 0.3% year-on-year.

GERMANY: A rise in exports in May saw Germany's trade balance hit its highest surplus since records began in January 1991 at €22.8 billion. Germany's inflation slowed sharply in June to 0.1% year-on-year from 0.7% in May, a sign that the ECB's bond purchase program has yet to affect Europe's largest economy.

RUSSIA: Fitch affirmed its investment-grade rating for Russia, forecasting that the economy will contract by 3.5% this year. S&P's and Moody's both downgraded Russia to junk status earlier this year. A worsening outlook for the oil price, the country's biggest export, and international sanctions have pushed Russia toward its first recession since 2009 with core inflation running at 16.7%. The IMF expects Russia's GDP to contract by 3.4% in 2015, while the government warned that capital outflows may reach US$90 billion in 2015 after last year's record of more than US$150 billion.

JAPAN: The Bank of Japan maintained its stimulus program and lowered its inflation projection for the fiscal year through March 2016 to 0.7%, while forecasting 1.9% for the following year.

SOUTH KOREA: The central bank of South Korea, Asia's fourth-largest economy downgraded its growth forecast to 2.8% in 2015. South Korea is a member of the G20 and ranks 11th in the world by nominal GDP.

NORTH KOREA: North Korea is one of the most secretive countries on earth and does not release official economic data. However, according to South Korea's central bank, the economy grew at 1% in 2014.

ANGOLA: The World Bank agreed to provide Angola with US$650 million in financial support for the first time since 2010 to help stabilise the economy. Africa's second-largest oil producer is struggling to cope with a more than 40% plunge in oil prices over the past year.

KENYA: Kenya's new central bank Governor Patrick Njoroge showed his commitment to fighting inflation by raising the benchmark interest rate for a second month in a row to shore up the shilling. He increased the rate to 11.5% from 10% after a 1.5% increase in June.

IRAN: The US, EU and United Nations agreed to lift sanctions against Iran in exchange for Iran placing curbs on its nuclear program for a period of between 10 and 15 years. Iran's President Hassan Rouhani has yet to persuade Iranians to support the deal in the face of mixed reaction from the Supreme Leader Ayatollah Ali Khamenei, who has the final say in most matters of state. US President Barack Obama faces similar hurdles in building veto-proof support in Congress. The Republicans have criticised the agreement as being ineffective in stopping Iran from acquiring a nuclear weapon and not addressing broader concerns about Tehran's behaviour in the region.

SOUTH AFRICA

As rolling load-shedding continued, the government sold its 13.9% stake in Vodacom to the PIC at a 10% discount in order to provide funding for Eskom. The energy regulator, NERSA, turned down Eskom's bid for a 9.58% rate hike to buy diesel and pay independent power producers, saying the application lacked crucial information. However, Eskom can reapply next year.

Manufacturing production fell for the second consecutive month as business activity remained under pressure. Retail sales grew by 2.4% year-on-year in May, below market expectations, after expanding by 3.4% in April. However, the seasonally adjusted Bureau for Economic Research PMI, formerly known as the Kagiso PMI, rose to 51.4 in June from 50.8 in May.

The Consumer Confidence index fell deeper into negative territory, hitting its lowest level in more than 14 years in June, while the Business Confidence index dropped to its lowest level in 16 years, as higher petrol prices, a rise in debt servicing costs and unemployment dented sentiment.

Consumer price inflation accelerated to 4.7% year-on-year in June from 4.6% in May.

On a surprising note, unemployment decreased to 25% in the second quarter from a ten-year high of 26.4% in the first quarter. Unfortunately, much of the drop can be attributed to people ceasing to actively search for formal employment, rather than to job creation. South Africa also recorded a second consecutive trade surplus in June, as exports grew faster than imports. The trade surplus came in better than the expected R3.5 billion, after recording a R5.8 billion surplus in May. The cumulative deficit for 2015 is R24.6 billion compared to R46.8 billion in 2014.

The Reserve Bank increased its repo interest rate by 25 basis points to 6% on the back of concerns over the inflation outlook towards the end of 2015 and into 2016, and a weak rand. The Bank downgraded its growth projection for this year to 2%.

ODDS AND ENDS

GREEK BANKS ARE IN TROUBLE

Despite the bail-out talks, worries about Greek banks persist. Greece has high rates of homeownership, mostly financed with mortgages. The crumbling economy has resulted in soaring delinquencies on loans. In the first quarter the four big Greek banks reported that between 32% and 39% of their loans were non-performing. According to a 2010 personal bankruptcy law, judges can suspend or reduce debt payments on application. The courts are clogged with such cases, many delayed for many years. Until then, petitioners pay a fraction of their debt each month. The minimum is €40 a month. There is also a moratorium on foreclosures on primary residences. This leaves banks with few options in the event of loan defaults.

TAX CHANGES ON THE CARDS FOR SOUTH AFRICANS

The Davis Tax Committee has made sweeping tax recommendations, rejecting increases in VAT as hurting the poor, and in personal and corporate tax as affecting growth and employment. The Committee proposed an overhaul of tax applicable to trusts, with taxation at beneficiaries' level falling away, and trusts becoming separate taxpayers. It also recommended that all distributions of foreign trusts be taxed as income. The principle of inter-spouse exemptions and roll-overs should either be withdrawn, or limited. The Committee criticised the donation of substantial amounts to retirement annuities in anticipation of death. It recommended the tax-free estate duty abatement of R3.5 million be raised to R6 million. The 20% flat tax rate for trusts in deceased estates would be maintained, as would the flat rate of 20% for donations tax. All or partial recommendations are expected to be implemented in the next budget.

MINING SECTOR SHEDS JOBS

The world's biggest miners are shedding jobs at an unprecedented rate as prices of almost all commodities slide down, driven by China's abrupt economic slowdown. Anglo American announced it would slash 53 000 jobs over the next several years in a reduction of 35% of its current workforce of 151 000. Lonmin said it would cut 6 000 workers over the next two years. BHP Billiton has recently cut hundreds of jobs linked to its giant copper, gold and uranium mine, Olympic Dam, in South Australia. More announcements are due to follow.

UBER TOPS THE CHARTS

Uber Technologies completed a new round of funding that values the five-year-old ride-hailing company at close to US$51 billion, equalling Facebook's record for a private, venture-backed start-up. Uber's valuation reflects its aggressive global expansion into more than 300 cities.

DISCLOSURE

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