KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	-5.7%	-0.2%	2.3%	21.0%	15.0%	18.1%	8.6%
J200T	FTSE/JSE Top 40 Index	-6.7%	-0.2%	2.1%	21.8%	14.2%	17.9%	7.0%
J210T	FTSE/JSE Resources 20 Index	-13.5%	-11.1%	-16.0%	-7.3%	-8.6%	0.2%	-8.0%
J211T	FTSE/JSE Industrials 25 index	-3.1%	8.0%	15.2%	45.8%	32.5%	33.3%	22.3%
J212T	FTSE/JSE Financials 15 Index	-4.2%	-2.1%	3.2%	20.9%	22.1%	20.3%	17.0%
J403T	FTSE/JSE SWIX Index	-4.0%	0.7%	2.3%	20.8%	17.0%	19.4%	11.2%
J303T	FTSE/JSE CAPI Index	-5.5%	-0.1%	2.5%	21.3%	15.3%	18.3%	9.9%
J253T	SA Listed Property	4.4%	-0.4%	8.8%	24.0%	25.2%	23.6%	26.0%
ALBI	BESA All Bond Index	-1.5%	-2.3%	-1.3%	6.3%	10.4%	10.7%	12.2%
STeFI	STeFI Index	0.4%	1.3%	2.5%	5.3%	5.5%	5.7%	7.2%
	MSCI World Index in SA Rands	-4.5%	7.6%	27.4%	43.8%	28.3%	23.7%	7.6%
	Rand/US Dollar Exchange Rate	-2.1%	6.9%	17.5%	21.3%	20.8%	8.8%	4.7%
	Rand/Euro Exchange Rate	-2.0%	8.8%	16.1%	24.3%	14.5%	11.1%	0.8%
	Headline CPI	-0.3%	1.3%	2.8%	5.6%	5.6%	5.2%	5.7%
	PPI	0.3%	1.5%	2.4%	4.9%	6.5%	6.6%	4.7%

“He’s already stayed a lot longer than he wanted or he was supposed to.”

President Obama in an interview with Charlie Rose on Bloomberg TV, all but confirming that he would not reappoint the US Fed Chairman, Ben Bernanke, when his term expires at the end of this year.

finsolnet

SYGNIA
THE SUM OF ALL THINGS

The Wimbledon month of June got off to a poor start after a raucous May as lacklustre economic data from the US and China triggered a bout of negative sentiment. Emerging markets, in particular, continued to face strong outflows. But nothing prepared investors for the sell-off that followed the US Federal Reserve's comments on curbing of quantitative easing. A cash squeeze in China did little to help. Bond yields soared, the gold price plunged and stocks fell as investors indiscriminately pulled money out of all asset classes. This left the two central banks with little choice but to backtrack as quickly as possible to stabilise the situation.

MARKETS CALL BERNANKE'S BLUFF

June kicked off with overall weak manufacturing data releases. Starting with China, the official manufacturing PMI accelerated to 50.8 in May from 50.6 in April, but the private HSBC PMI, at 49.6, pointed to the first contraction in seven months. A reading above 50 indicates expansion. The divergence in the two indices is not uncommon given their different focus and coverage, but the mixed signals added to the uncertainty at a time when both the IMF and OECD cut their 2013 growth forecasts for China to 7.8%. Signs of a further slowdown were highly visible, with the latest industrial production, property investments and export figures all coming in weaker than expected. And despite retail sales holding up, consumer inflation slowed to 2.1% year-on-year, the lowest level in three months.

In the US, manufacturing activity shrank at its fastest pace in four years, with the ISM Index falling to 49.0% last month from 50.7% in April, and the unemployment figure increasing to 7.6%, from 7.5% in April. Other data releases were more positive, with rising retail sales figures and further improvements in the housing market supporting the view that the American consumer is in a better shape than expected. There is still very little threat of inflation with consumer prices posting a monthly rise of 0.1% in May (1.1% year-on-year).

The euro zone manufacturing PMI, on the other hand, improved to 48.3 from 46.7 in April, its highest level in 15 months. However, the up-tick was offset by a weaker services sector, slumping retail sales and a record 12.2% unemployment. Worryingly, inflation is also accelerating (1.4% in May from 1.2% in April). The ECB lowered its growth outlook for the euro zone to a 0.6% contraction in 2013.

A glimmer of good news came from Japan which revised its first quarter GDP growth figure to an annualised 4.1% in a sign that Prime Minister Shinzo Abe's strategy of re-inflating the economy might be working.

From an investment perspective unease prevailed through the month, best reflected in the heavy outflows of assets from emerging markets. Markets reacted badly to the news that the World Bank has cut its growth forecasts for this year to 2.2%, down from 2.4% forecast in January and to 3.1% in 2014. Unrest in Turkey and Brazil further exacerbated the concerns. But the true risk-off catalyst came after the chairman of the US Fed, Ben Bernanke, announced that the US Fed may start reducing bond purchases later this year if the economy continued to improve, and end the program altogether in 2014. He re-affirmed that the Fed would keep short-term rates at record lows at least until unemployment reaches 6.5%. The announcement set off the most dramatic spike in borrowing costs for over a decade, with bond yields soaring to their highest level since October 2011, and tremors being felt through the entire global financial system.

Although the message was not unexpected, it is not one that anyone wants to hear. There is also a widespread concern that the US Fed is overestimating the pace of the recovery by using unemployment as a yardstick. Unemployment has fallen mostly because more and more people have stopped looking for work.

The situation worsened after China's central bank indicated that it would not provide more liquidity to the markets despite a short-term cash squeeze and despite the flash manufacturing PMI for June showing general weakness. Interbank lending rates spiked, while bank-to-bank borrowing nearly stalled.

Back in Europe, the smaller Democratic Left party pulled out of Greece's coalition government after Prime Minister Antonis Samaras decided to close the state broadcasting company. This left the government with a razor thin majority in parliament. The move coincided with a new glitch in Greece's EU-IMF bailout with the discovery of a potential funding shortfall due to the reluctance of some euro zone central banks to roll over their holdings of Greek government bonds.

Negotiations over the banking union made little progress as the 27 member bloc's finance ministers failed to agree on how to assign losses should a bank fail, a crucial pillar of the euro zone's new banking architecture. Since agreeing last year to centralise bank supervision in the euro zone and create a system to wind down terminally ill banks, the finance ministers have been snagged on various issues, including how to share the cost.

The sell-off ran out of steam at month-end, but only after three senior US Fed officials stepped in to reassure the markets that the Fed's stimulus campaign is not about to wane and after China's central bank announced that it has provided liquidity to some financial institutions and intends to use short-term liquidity operation and standing lending facility tools to ensure steady markets.

Better than expected US data, including consumer confidence at a six-month high, stronger durable goods orders and an improving housing market, added some support. This was followed by good news from both Japan and Germany. In Japan, factory output and retail sales rose more than expected, while consumer prices halted a six-month slide. In Germany, declining unemployment, rising business confidence and stronger retail sales followed previously reported stronger industrial production and trade figures. Despite better short-term data, however, the German Bundesbank cut its 2013 and 2014 growth forecasts for Germany to 0.3% and 1.5%, respectively, saying much will depend on whether the euro zone emerges from the recession.

Oil prices hovered around US$100 a barrel as OPEC left its output target unchanged.

Gold ended the month at US$1 234 an ounce, a staggering 31.6% down since its peak in August 2011, when an ounce was worth US$1 895. The gold price fell by 11.0% in June as investors continued to pull money from gold-backed ETFs and emerging markets, bringing the year-to-date drop to 26.3%. As much as the recent weakness is overdone, gold seems to have lost its shine for the foreseeable future.

SOUTH AFRICA

The sell-off of emerging markets and in particular, of commodity based countries and commodity stocks, caught investors flat-footed. The mood darkened as the health of the apartheid struggle icon, past-President Nelson Mandela, deteriorated.

In addition to the international forces, the mining industry continued to struggle with domestic labour issues. A miner was shot at a Lonmin mine, leading Impala Platinum's workers to stage a sympathy strike. Glencore Xstrata announced the dismissal of around 1 000 workers after a wildcat strike, while Amplats only temporarily avoided further strike action. And the wage negotiation season, stretching over the next two months, is widely expected to bring more unrest, placing pressure on the rand. AMCU fired its first salvo by announcing that it would demand wage increases of more than 100% for all unskilled and semi-skilled employees in the gold sector. The government-initiated draft pact between mining companies and labour unions to bring order to the sector is still to be tested.

South Africa's large trade deficit kept pressure on the rand despite the fact that the current account deficit narrowed to 5.8% of GDP in the first quarter, helped by increased external demand and depreciation of the rand which boosted exports. The trade balance is expected to deteriorate throughout 2013 on the back of strike action in the mining sector and subdued exports of manufactured goods to the euro zone.

On the economic front the seasonally adjusted Kagiso PMI remained unchanged at 50.4 in May, with the manufacturing sector struggling to gain any real momentum.

Domestic consumer prices increased at a slower pace than expected with the CPI easing to 5.6% year-on-year from 5.9% a month before. Producer inflation also came in lower than expected, at 4.9% year-on-year. According to the Reserve Bank, inflation is expected to peak at an average of 6.3% in the third quarter of the year. The rand exchange rate and wage pressures have now overtaken food and oil price developments as the main upside risks to the inflation outlook.

On the corporate front Africa's largest pharmaceutical manufacturer, Aspen soared after announcing it would pay US$1 billion to acquire drugs and a plant from US firm Merck, a deal which will bolster its presence in Europe, Latin America and Asia.

Shares in the construction sector rallied as the market welcomed the settlement between the Competition Commission and a number of construction firms regarding collusive tendering on infrastructure projects. Fifteen construction companies agreed to pay penalties totalling R1.46 billion. Group Five was one of three firms that did not accept the settlement offer. The Commission had been investigating 65 bid-rigging cases in the construction sector, involving infrastructure projects with a value of close to R30 billion, since 2009.

The major gold producers recovered somewhat on the last day of the month as bargain hunters returned to the market.

GLOBAL SNAPSHOTS

Greece

Morgan Stanley Capital International, the provider of indexes such as the popular MSCI World Index, has set a historical first by downgrading Greece from a “developed market” to an “emerging market”. The question is how appropriate it was classifying Greece as “developed” to begin with. The country remains deep in the throngs of a crippling recession (the economy shrank by 5.6% quarter-on-quarter in the first quarter, unemployment stands at 27.4%), with little hope of a short-term recovery. It is probably of little help that the IMF has publicly acknowledged that mistakes were made in forcing Greece to adopt a punishing austerity programme.

India

India, the world's top gold consumer, has once again increased the import duty on gold, from 6% to 8%, in order to slow down demand. Gold imports have been blamed for the country's ballooning current account deficit which now stands at just under 5% of GDP, up from 4.2% the previous year. Last year the government doubled the duties to 4%.

Turkey

The wave of protests sweeping through Turkey was sparked by outrage at a brutal eviction of a peaceful sit-in demonstration at Istanbul's Taksim Gezi Park protesting the park's demolition. Subsequently, supporting protests took place across Turkey with the issue broadening to encompass a wide range of concerns, including freedom of the press, freedom of expression, freedom of assembly, and the government's encroachment on Turkey's secularism. The root cause of this lies in what many regard as Prime Minister Recep Tayyip Erdogan's "increasingly authoritarian" style of rule and interpretation of the concept of democracy. Although Erdogan is unlikely to be swept from power any time soon, his personal and political standing have been badly damaged.

Brazil

Similar anti-government protests took place in Brazil against the administration of President Dilma Rousseff. The protests have focused on government’s lack of basic health care and education delivery while spending millions to organise the 2014 World Cup.

China

China’s central bank has been trying to rein back credit to banks for some time now in an attempt to control housing prices and weed out the weaker banks, especially those in the so-called shadow banking system.

Shadow banks in China operate outside of the formal regulatory framework, borrowing money from state-run banks and re-lending it at high interest rates to private companies and property developers. The growth of this sector has been an indirect consequence of the fact that the government sets interest rates at artificially low levels thereby discouraging saving whilst simultaneously directing banks to lend money to state-owned firms and agencies. This means that private firms have had to seek more expensive capital elsewhere, while would-be savers look to speculative activities to generate returns.

The problem is that since the start of the financial crisis, China’s economy has grown addicted to excessive credit, with state-owned banks encouraged to finance as many new skyscrapers, highways, airports and ghost towns as needed to pump up the GDP. Local governments have been borrowing from state owned banks at a record rate. According to the Bank for International Settlements, debt levels in China have grown by an astounding 50% of GDP since 2007.

The latest crisis arose after the US Fed’s action triggered a reversal in the inflow of money, and the central bank, following its policy, re-affirmed it would not inject more cash into the system. Banks, already nervous, stopped lending to each other, with the overnight repurchase rate zooming to a record 13.9%. This forced the People’s Bank of China to intervene, hastily injecting fresh funds to stem the turmoil.

The truth is that nobody really knows how healthy China’s giant, state-owned banks are, or how big its shadow-financing system has grown. But as June illustrated, the risks are increasing.

ODDS AND ENDS

End of an era

Silvio Berlusconi has been left in a political vacuum after a harsher than expected conviction whereby he was sentenced to seven years in jail and given a lifetime ban on holding public office after being found guilty of paying for sex with an underage escort. Berlusconi, who is 76-years-old, also fears that Italy's Supreme Court could, within a few months, confirm a four-year prison sentence he received last October for tax fraud relating to his Mediaset television network.

What is PRISM?

Prism is a surveillance system launched in 2007 by the US National Security Agency. It allows the agency to "receive" emails, video clips, photos, voice and video calls, social networking details, logins and other data held by a range of US internet firms, including Microsoft and its Skype division, Google and its YouTube division, Yahoo, Facebook, AOL, Apple and PalTalk on request without a court order. The programme was enabled when the Bush administration secretly gave the NSA permission to bypass the court and carry out warrantless surveillance of al-Qaeda suspects post 9/11. As an example, Facebook says it received 9 000-10 000 Prism-requests from US authorities over the last six months of 2012.

Officially PRISM cannot be used to target any US citizen or anyone located within the US. This of course means that everyone else in the world is fair game.

Details of the programme were leaked by Edward Snowden, a former technical assistant at the CIA.

Victim of sexism

Australian Prime Minister Julia Gillard has lost a leadership challenge to her predecessor, Kevin Rudd, who reclaimed his old job almost three years after he was ousted. This was his third attempt to regain the leadership. Gillard faced serial abuse as she rose to power in the male-dominated culture of Australia. She will be remembered for a memorable speech in parliament last year in which she attacked the opposition leader, Tony Abbott, as a sexist and misogynist.

She was seen as a highly skilled, pragmatic negotiator who oversaw the introduction of controversial carbon and mining taxes, while presiding over an economy heralded as the strongest in the advanced world.

DISCLOSURE

The information and opinions contained in this document are of a general nature and are not intended to address the circumstances of a particular individual or entity. Sygnia does not act as advisor or in a fiduciary capacity towards the recipient(s).

Whilst reasonable care was taken in ensuring that the information contained in this document is accurate, Sygnia does not warrant its accuracy, correctness or completeness and accepts no liability in respect of any damages and/or loss suffered as a result of reliance on the information in this document. Sygnia does not undertake to update, modify or amend the information on a frequent basis or to advise any person if any information provided in this document is found to be inaccurate or subsequently becomes inaccurate.

No one should act on the information contained in this document without having obtained appropriate and professional investment, legal, tax and such other relevant advice as may be required in each instance.

The figures and values are calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Limited ('JSE') in accordance with standard criteria. Figures and values quoted are the proprietary information of FTSE and the JSE. All copyright subsisting in the Figures and values vests in FTSE and the JSE jointly. The data was obtained from I-Net Bridge.

SYGNIA ASSET MANAGEMENT Registration No. 2003/009329/07

Directors: N. Govender | S Mkhwanazi | S. Peile | W. van der Merwe | M. Wierzycka

CAPE TOWN I 7th Floor I The Foundry I Cardiff Street I Green Point I 8001
T +21 446 4940 I F +21 446 4950 I W www.sygnia.co.za I E info@sygnia.co.za

JOHANNESBURG I 9th Floor I 15 Alice Lane I Sandton I 2196
T +11 290 9360 I F +11 290 9365 I W www.sygnia.co.za I E info@sygnia.co.za