KEY INDICATORS — JUNE 2014

		1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS	3 YEARS	5 YEARS
J203T	FTSE/JSE All Share Index	2.8%	7.2%	11.8%	32.7%	26.7%	20.6%	21.6%
J200T	FTSE/JSE Top 40 Index	3.0%	7.4%	12.4%	35.2%	28.3%	20.8%	21.6%
J210T	FTSE/JSE Resources 20 Index	3.5%	2.8%	13.5%	39.0%	13.5%	5.1%	10.3%
J211T	FTSE/JSE Industrials 25 index	2.8%	9.5%	10.5%	32.6%	39.0%	32.5%	31.4%
J212T	FTSE/JSE Financials 15 Index	2.7%	8.7%	16.4%	35.2%	27.8%	26.3%	23.5%
J403T	FTSE/JSE SWIX Index	2.8%	6.7%	11.8%	31.9%	26.2%	21.8%	22.2%
J303T	FTSE/JSE CAPI Index	2.8%	7.2%	11.8%	32.6%	26.8%	20.8%	21.8%
J253T	SA Listed Property Index	3.4%	4.4%	6.3%	6.0%	14.6%	18.4%	20.9%
ALBI	BEASSA All Bond Index	1.0%	2.5%	3.4%	5.4%	5.9%	8.7%	9.5%
STeFI	STeFI Index	0.5%	1.4%	2.8%	5.4%	5.3%	5.5%	6.0%
	MSCI World Index in SA Rands	2.4%	5.8%	9.1%	33.6%	38.6%	30.0%	22.6%
	Rand/US Dollar Exchange Rate	0.6%	0.9%	2.7%	7.7%	14.3%	16.3%	6.6%
	Rand/Euro Exchange Rate	1.0%	0.3%	0.9%	13.3%	18.7%	14.1%	6.1%
	Headline CPI	0.2%	2.0%	4.1%	6.6%	6.1%	5.9%	5.4%
	PPI	0.2%	2.4%	5.3%	8.7%	6.8%	7.2%	7.1%

"Are we finished? The answer is no. If required, we will act swiftly with further monetary policy easing. The Governing Council is unanimous in its commitment to using unconventional instruments within its mandate should it become necessary to further address risks of prolonged low inflation."

Mario Draghi, ECB President, June 2014 ECB meeting

MARKET OVERVIEW

The month started with a slew of weak economic data from the eurozone and the US.

The eurozone composite PMI missed expectations, with both the manufacturing and services sectors disappointing. Preliminary inflation data for May showed consumer price increases falling to a four year low, with deflation reported in Portugal, Cyprus, Slovakia and Greece.

In the US the effects of the first quarter cold weather spell came through in the second quarter data, including a two-year peak in the trade deficit number in April. Job creation numbers were also weak in May, although the official unemployment figure remained unchanged at 6.3%.

The markets recovered momentum after China reported stronger than expected output growth and retail sales figures. In addition the HSBC/Markit manufacturing PMI rose marginally to 49.4 in May. At this point any positive economic news was being interpreted as a sign of China stabilising and hence helped to boost sentiment on a short term basis.

However, all attention was really focused on the ECB meeting. As expected the ECB injected a number of monetary stimulus measures including cutting the headline interest rate to a new record low of 0.15% p.a., and introducing a negative interest rate of -0.1% p.a. on banks “parking” money at the ECB. The latter is designed to encourage banks to lend the money rather than simply hoarding it at the ECB.

The announcement cheered the markets, with inflows to emerging markets pushing the FTSE/JSE All Share Index above the 51 000 level, a new record.

The second half of June brought some concerns that the US Federal Reserve could start hiking interest rates earlier in 2015 than previously anticipated, in response to higher consumer inflation numbers. US consumer prices rose by 2.1% year-on-year in May, the highest level in two years. The US Fed targets long-term inflation of 2% p.a.

Concerns were short-lived however, as the US Fed expressed confidence in the US economic recovery despite cutting its growth forecast for 2014 to 2.9%. It also continued to taper its bond-buying programme, reducing monthly purchases by a further US$10 billion to US$35 billion. At the same time it hinted at a slightly faster pace of interest rate increases starting next year, but lowered projections for the long term target interest rate, a step once again seen as positive for the markets.

The positive momentum was reinforced by the news that China’s preliminary HSBC/Markit manufacturing PMI for June rose to the 50.8 level. This supports Premier Li Keqiang’s contention that the economy might avoid a hard landing as the government steps up efforts to spur growth.

By the end of June markets came under pressure after a top US Fed official suggested that the US economy would be ready for an interest rate hike in early 2015 and after the US revised its first quarter annualised GDP growth figure from negative 1.0% to negative 2.9%, its strongest contraction in five years. Weaker than expected US consumer spending data, and an unexpected decline in the eurozone’s business and consumer confidence figures added to the loss of confidence.

Geopolitical risks also remained on the table. Apart from the conflict in Iraq, Russia cut off gas supplies to the Ukraine in a dispute over unpaid bills. The Ukraine has enough gas in storage until December. However, a long term reduction of supply could hit the EU which gets about a third of its gas from Russia, around half of it through pipelines that cross the Ukraine. At month end Russia warned of "grave consequences" after Ukraine signed a trade and political agreement with the EU.

The oil price had a volatile month, rising to above US$115 as violence in Iraq escalated. Iraq is the second biggest OPEC oil producer after Saudi Arabia. Prices fell below US$113 by month end as the jihadist militants faced resistance and the oil supplies seemed unaffected by the conflict. Price gains were also limited by abundant supplies and surging production in the US.

The gold price rose through the month on the US Fed's lack of commitment to increasing interest rates and continued tensions in the Middle East and the Ukraine.

The World Bank trimmed its 2014 global growth forecast to 2.8% from its January forecast of 3.2%.

360 DEGREES ROUND THE WORLD

GERMANY: Germany's consumer price index rose by 0.6% year-on-year in May, the lowest figure since the aftermath of the global financial crisis of 2009. This is bad news for the overall outlook for the eurozone's inflation.

FRANCE: The EU has ordered France to "step up" austerity measures, including cuts to healthcare and social security, and instructed President François Hollande to explain why he has fallen behind in meeting the eurozone's spending targets. France needs to meet a budget deficit target of 3% of GDP next year.

SPAIN: Spain seems to have turned its back on austerity after the government announced a package of income and corporate tax cuts scheduled to take effect before next year's general election. This is a reversal of some of the tax increases imposed by Prime Minister Mariano Rajoy shortly after he came to power in 2011. This move is likely to come under close scrutiny from the EC which is already concerned about Spain's ability to cut its budget deficit from 5.6% expected in 2014 to 3% of GDP by 2016.

UK: The Bank of England held rates at a record low of 0.5% p.a. despite worries over a potential bubble in the housing market. The central bank has been accused of behaving like an "unreliable boyfriend" by a disgruntled member of Parliament. In February the consensus was that it would start raising interest rates in May 2015, close to the general election. In May Governor Mark Carney suggested that rates would remain on hold for as long as possible while the recovery became entrenched. This month Carney changed his tune again indicating that interest rates could rise "sooner than markets currently expect", but would not recover to the pre-crisis levels. By month end he was back to playing down speculation of an imminent rate rise, as he stressed that soaring employment and robust economic growth were not matched by higher wages and rising productivity.

UKRAINE: The Ukrainian crisis took on a new dimension after Russia imposed a sharp gas price increase on the Ukraine and demanded payment in advance. Later in the month Russia's Gazprom cut off further gas supplies, citing US$5 billion in unpaid bills. To make matters worse, the Ukraine joined Georgia and Moldova in signing a trade agreement with the EU. The refusal to do so by the former president Viktor F. Yanukovych set off protests that toppled him and triggered Russia's annexation of Crimea. Russia bitterly opposes the agreement, viewing it as a threat to its own economic and strategic interests. However, the signing of the accord represented a huge symbolic victory for the Ukraine.

IRAN: June saw the US contemplating talks with its arch enemy Iran to support the Iraqi government in its battle with Sunni Islamist insurgents who seized the north of the country. Joint action between the US and Iran would be a major breakthrough in hostilities dating back to Iran's 1979 revolution, and demonstrates the seriousness of the lightning insurgent advance.

JAPAN: Japan's consumer price inflation rose by 3.4% year-on-year in May, the fastest pace in 32 years. Stripping out the effect of April's sales tax hike, the figure stood at 1.5%. Japan's unemployment rate edged down to 3.5% in May, the lowest level in nearly 17 years. The reversal of 15 years of deflation comes at a cost. The quantitative easing programme has meant that the Bank of Japan has become the government's biggest creditor for the first time on record, surpassing insurance companies. The BoJ holds 20.1% of all government-issued bonds.

CHINA: China's annual inflation rose sharply in May to its highest level in four months, easing concerns about deflationary risks. The consumer price index increased 2.5% year-on-year last month, accelerating from 1.8% in April. Despite the rebound, the CPI is still well below the 3.5% annual target set by Beijing.

SOUTH AFRICA

After several more rounds of stop-start negotiations AMCU finally agreed to end the five-month platinum strike after reaching an agreement with the three platinum producers. After the dust has settled various calculations clearly show that the workers are the losers. Platinum producers agreed to increase the salary of the lowest paid workers by R1 000 each year for two years and R950 in the third year, excluding benefits. The salaries of officials, artisans, and miners would increase by 8% in the first year and by 7.5% for the remaining two years. The proposed settlement is for three years. The lowest paid underground workers only receive R356 more each month than what they would have received if they had accepted the initial offer. This needs to be balanced against approximately R45 000 in lost earnings. The strike is also likely to speed up mechanisation plans and retrenchments by the platinum producers.

As for the effect on the rest of South Africa, according to the Reserve Bank the first quarter contraction of 0.6% in the GDP would have been an annualised 1.6% growth if not for the strike.

Unfortunately, as soon as one conflict finishes, another one flares up. NUMSA has announced plans to strike indefinitely following a deadlock in negotiations with the metals and engineering industries on wage increases. The strike could cripple production in the auto industry for the second straight year.

On the economic front all indicators point to a slowdown, increasing the likelihood of a negative growth rate over the second quarter and an official recession for South Africa.

The Kagiso Manufacturing PMI fell from 47.4 in April to 44.3 last month, its lowest level since August 2009. The decline in South Africa's factory activity is in stark contrast to other countries where the PMIs are showing an improvement.

Consumer inflation accelerated to 6.6% year-on-year in May, with food prices rising at 7.8% year-on-year as retailers passed on some of their higher administered and labour costs to consumers. However, contrary to expectations, the producer price index fell back slightly to 8.7% last month. Higher consumer inflation makes interest rate increases at the next MPC meeting a very high probability, in particular that the Reserve Bank now expects inflation to remain above 6% for the next four quarters.

The composite leading indicator, which provides a good guide to economic activity for at least six months ahead, remained unchanged in April compared to March. It has now declined in seven of the last 12 months.

On a positive note South Africa's current account deficit narrowed to its smallest in over two years in the first quarter of 2014 on lower dividend payments to offshore investors. The deficit came in at 4.5% of GDP in the first three months of the year, compared with a 5.1% gap in the fourth quarter. The news bolstered the rand and temporarily allayed investors' concerns.

The worst news came in the form of S&P's downgrade of South Africa's credit rating by one notch to BBB with a stable outlook, just one level above junk. South Africa now ranks at the same level as Brazil, India and Russia. This was preceded by Fitch downgrading its rating outlook from stable to negative. Fitch cited the worsening growth outlook, rising government debt and high deficits on the current account as the reasons. Fitch indicated it was disappointed with the new cabinet.

The World Bank has lowered South Africa's projected economic growth rate for 2014 from 2.7% to 2.0% and predicts the economy to grow 3% next year and 3.5% by 2016. Sub-Saharan Africa's GDP is projected to remain stable at 4.7% in 2014 and to rise to 5.1% in 2015 and 2016.

On the corporate front the advisory financial services group PSG Konsult listed on the JSE with a market capitalisation of R10 billion on a forward PE of 38. Woolworths struggled to conclude the takeover of the Australian firm David Jones despite overwhelming shareholder approval on hostile moves by minorities. Naspers shares fell sharply after the announcement of flat full-year results.

ODDS AND ENDS

A MASSIVE SETBACK FOR SOVEREIGN DEBT RESTRUCTURING

The US Federal Court delivered a stern warning to Argentina after the country deposited US$539 million with the Bank of New York Mellon for the purpose of paying interest to its main class of bondholders.

The deposit is the latest twist in a legal battle between the country and a group of holdout bondholders, mainly hedge funds that purchased the bonds from the original bondholders, who refused to agree to restructure their bonds after Argentina, defaulted more than a decade ago. Following the record US$95 billion default 13 years ago, Argentina in 2005 offered to exchange its defaulted securities with bonds worth about 30 cents on the dollar and made a similar proposal in 2010. 92% of bondholders agreed to the restructure.

Unfortunately for the future of restructurings, the US Supreme Court ruled that Argentina cannot pay the main class of bondholders, those who agreed to accept restructured bonds, without simultaneously paying the holdouts. The ruling has major implications for future restructures and was opposed by numerous countries.

Argentina faces a 30 June deadline to make a payment to the main bondholders or default. The government announced a proposal to swap securities subject to New York laws into local debt, but the timing is too tight to implement.

The long impasse in the US courts has kept the country from accessing international capital markets as its economy stagnates, inflation soars and central bank reserves fall.

THE UK EDGES CLOSER TO EXIT

The EU leaders nominated former Luxembourg Prime Minister, Jean-Claude Juncker, for the position of the EC President despite opposition from the UK. This is the first time this decision has not been taken unanimously. The EC is the engine of the EU, proposing and enforcing EU laws, monitoring national economies and negotiating trade deals.

EDUCATION FAILURE IN SOUTH AFRICA

A World Economic Forum report placed South Africa's maths and science education last out of 148 countries surveyed, well behind less-resourced countries such as Haiti, Lesotho, Chad, Zimbabwe, Nigeria and Kenya. The overall perceived quality of South Africa's education system has also plummeted from 140 to 146 of 148 countries surveyed.

DISCLOSURE

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.

SYGNIA ASSET MANAGEMENT Registration No. 2003/009329/07
Directors: N. Giles | N. Govender | S Mkhwanazi | S. Peile | M. Wierzycka

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

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