SYGNALS

KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	1.2%	2.5%	13.1%	22.5%	14.8%	14.9%	9.3%
J200T	FTSE/JSE Top 40 Index	0.9%	2.2%	13.4%	22.7%	13.6%	14.2%	8.2%
J210T	FTSE/JSE Resources 20 Index	-2.8%	-5.6%	1.1%	0.7%	-5.9%	-0.1%	-3.4%
J211T	FTSE/JSE Industrials 25 index	3.0%	6.6%	20.7%	39.6%	29.9%	27.7%	20.2%
J212T	FTSE/JSE Financials 15 Index	2.8%	5.4%	17.2%	28.1%	23.7%	17.4%	14.0%
J403T	FTSE/JSE SWIX Index	1.2%	1.6%	11.8%	22.0%	16.7%	16.3%	11.0%
J303T	FTSE/JSE CAPI Index	1.3%	2.6%	13.2%	22.6%	15.1%	15.3%	10.3%
ALBI	BESA All Bond Index	0.2%	1.0%	3.6%	14.4%	13.8%	11.9%	11.6%
STeFI	STeFI Index	0.4%	1.2%	2.6%	5.4%	5.5%	5.9%	7.5%
	MSCI World Index in SA Rands	4.6%	18.4%	22.7%	34.7%	24.0%	17.3%	5.0%
	Rand/US Dollar Exchange Rate	2.2%	9.9%	11.1%	20.4%	16.9%	8.2%	2.7%
	Rand/Euro Exchange Rate	0.3%	6.9%	10.7%	15.7%	11.1%	6.3%	-1.6%
	Headline CPI	1.0%	1.5%	3.4%	5.9%	6.3%	5.4%	6.1%
	Core CPI	1.2%	1.7%	2.4%	5.4%	5.3%	4.6%	5.6%

"Only an insane person would want to govern this country, which is in a mess and faces a difficult year ahead."
Italy's Democratic Party leader Pier Luigi Bersani after failing to form a coalition government

Markets took cheer from the continued economic recovery in the US where employment data, retail sales, durable goods orders and factory output continued the pickup despite the recent tax increases and the looming US government spending cuts. At mid-month however, the banking crisis in Cyprus dampened enthusiasm for risk, while the subsequent bailout terms set a worrying precedent for other struggling eurozone nations. Concerns about Italy, bleak economic data out of the eurozone and thin trading ahead of the Easter weekend added to the negative tone. However, a seemingly orderly resolution of the crisis lifted the mood by month-end, with the S&P 500 index ending the month at an all time high.

EUROZONE STABILITY THREATENED AGAIN

US economic data continued to reaffirm the view that the recovery has gained permanent traction. Both manufacturing and services PMIs showed expansion, the unemployment rate dropped to 7.7%, its lowest level since December 2008, and little sign of rising inflation eased fears that the US Federal Reserve would halt quantitative easing. Record retail sales in February seem to indicate that consumer demand remains resilient, supported by an improving housing market. The S&P/Case-Shiller index of property values in 20 cities increased by the most since 2006 at 8.1% year-on-year. On the negative side, the US faces the prospect of US$85 billion in spending cuts in 2013, known as the “sequester”, after politicians failed to agree on an alternative deficit-reduction plan. The IMF expects these to reduce US GDP growth by 0.5% in 2013.

The positive news out of the US was offset by disappointing manufacturing and services figures from China which implied moderating growth. The official PMI slipped to 50.1, its lowest reading since September 2012, while the rival HSBC manufacturing PMI came in at 50.4, sharply lower than in January. Both numbers have been distorted by the Chinese Lunar New Year. China’s growth is beginning to show a worrying reversion to the old pattern of a reliance on exports and investment, rather than domestic consumption. Soaring property prices and rising consumer inflation, which came in at 3.2% year-on-year in February, the highest increase since April last year, are also increasing the likelihood of future tightening of monetary policy.

The worst news, unsurprisingly, came from the eurozone where Markit’s manufacturing PMI remained below 50 at 47.9, and where the unemployment rate jumped to 11.9%, a new high. Inflation slipped to 1.8% in February, showing little demand pressure. Most indicators now point to the recession having extended into the first quarter of 2013. The ECB revised its forecast for the eurozone economy to a contraction of 0.5% in 2013.

Italy’s political stalemate continued. Following February’s elections, the Democratic Party’s Pier Luigi Bersani struggled to form a government after efforts to draw Beppe Grillo’s Five Star Movement into an alliance were rebuffed. Grillo’s anti-austerity campaign took votes from both Bersani and three-time premier Silvio Berlusconi, leaving no single force in a position to govern. Ten-year Italian bond yields rose on speculation about a second election. Fitch added fuel to the fire by downgrading Italy’s sovereign credit rating to BBB-plus with a negative outlook, citing an inconclusive election as threatening the country’s ability to respond to a recession and the European debt crisis. Italian debt is rated three levels above junk and one notch higher than Spain’s.

The monetary easing advocate, Haruhiko Kuroda, was endorsed as the governor of the Bank of Japan. He started his term by setting a target of 2% inflation in two years’ time. Despite the pledge being met with immediate skepticism, the Japanese market rallied and the yen fell on the news. The yen is now 28% weaker than the postwar high reached in October 2011, which had undermined Japanese export competitiveness.

By mid-month the crisis in Cyprus hit the headlines as the euro-area’s third-smallest economy became the fifth country to tap international aid since the European debt crisis erupted in Greece in 2009. The country’s bankruptcy, if allowed to happen, would have destabilised the eurozone.

The country's business model of attracting foreign investors (in particular, Russians who account for a quarter of bank deposits), with low taxes and lax financial regulation, has been viewed with increasing concern. The country’s economy, at €18 billion, is not large. However, its banking sector has grown to eight times that size.

Cyprus struck a €10 billion bailout deal with the troika of the EU, the IMF and the ECB, by promising to raise €5.8 billion of its own funds. The first plan, calling for a one-time levy on all bank depositors, ignited fierce resistance. Cyprus then withdrew from the negotiations hoping to secure more financial aid from its long-time ally, Russia. When this failed, it was back to the troika. After last-ditch negotiations, Cyprus undertook to drastically shrink its banking sector, cut its budget, implement structural reforms and privatise state assets. The country's second-largest bank was shut down, with all bond holders and depositors with more than €100 000 in their bank accounts facing significant losses.

The Cyprus deal sets an uncomfortable precedent which forces private investors to foot the bill. This may lead other savers, particularly in Spain and Italy, to pull money from their own banks, starving them of already scarce funding.

Markets fell, with a disappointing Italian bond auction and bleak eurozone data adding to the bearish sentiment. The first fall in eurozone economic confidence after four months of gains in March came on top of a continuing slump in Italian manufacturing and retail sales, and confirmation that France's economy contracted at the end of last year.

However, an orderly re-opening of Cypriot banks, after two weeks, stabilised sentiment, sending the S&P 500 index to a record high on thin trading ahead of the Easter break.

NO RECOVERY FOR COMMODITIES

The oil price slipped below US$110 a barrel in March, weighed down by concerns about growth following the political gridlock on spending cuts in the US and disappointing European economic data.

Two of the three most closely watched oil forecasters, the International Energy Agency and the US government's Energy Information Administration, lowered global oil demand growth forecasts for 2013, while the third, OPEC, flagged downside risks to the outlook.

Gold's woes continued as investors sold US$5.4 billion from gold exchange-traded products in February, the most since their creation in 2003. The gold price peaked in mid-March at US$1 616 an ounce as the crisis in Cyprus unfolded, but fell again to US$1 600 when the situation stabilised.

NORTH KOREA

North Korea put its artillery forces on high alert and threatened to attack South Korea, the US mainland, and the US bases in Hawaii and Guam, in the latest escalation of tensions. The angry posturing is seen as a response to the sanctions imposed by the United Nations after North Korea launched a three-stage rocket in December 2012 and conducted its third nuclear test last month.

North Korea's economy is about one-fortieth the size of that of its southern neighbour. Chronic food insecurity and malnutrition affect about two-thirds of the country's 24 million people. The country is reliant on its neighbour China for diplomatic and economic support. Korea does not release its economic data.

ARGENTINA

Argentina had a bad month as its request that the full federal appeals court in New York reconsiders a ruling by a three-judge panel on its US$1.3 billion in defaulted bonds problem was denied. This means that the 2012 ruling, which bars Argentina from treating restructured debt holders more favourably than holders of the defaulted debt, remains in place.

Argentina defaulted on US$95 billion in debt in 2001. Subsequently 91% of its bondholders agreed to accept new, heavily discounted bonds in exchange for the defaulted ones. The remaining 9% decided to hold out for full payment. Elliott Capital Management, the biggest and boldest of Argentina's "vulture fund" bond holders, has sued Argentina over the payment.

Following the ruling Argentina is caught in the unenviable position of either paying back debt which it thought it had defaulted on a decade ago, or defaulting on the restructured debt and offering those bondholders yet another set of bonds, but issued under Argentine law. In reality this will mean that Argentina's reputation, which has been slowly improving, will take another hit.

THE FALKLANDS ISLANDS

In a second blow to Argentina, the Falkland Islands' referendum showed that 99.8% of the population wanted to remain under British sovereignty rather than reverting to Argentinian control. Only three people voted against.

The Falkland Islands have been under UK's control since 1833. However, Argentina has always laid a claim to the islands, which it calls Las Malvinas. Its interest in the Falkland Islands re-intensified after the discovery of significant offshore oil deposits which are expected to come on stream in 2017.

SLOVENIA

Slovenia has come under the spotlight as the next candidate for a bailout, as its new government struggles to restructure the country's ailing lenders burdened by rising bad debts. The former Yugoslav nation needs about €3 billion of funding this year, while its banks need a further €1 billion of capital.

Slovenia adopted the euro at the start of 2007, becoming the first post-Communist European nation to make the switch. However, its dependence on exports of consumer goods to the eurozone pushed the country into two recessions since the 2008 debt crisis exploded.

SOUTH AFRICA

Consumer weakness, continuing labour unrest in the mining sector and an increasingly unsustainable current account deficit contributed to the spectacular fall in the value of the rand.

The currency weakened to a four year low after South Africa's trade account deficit reached R24.5 billion in January on a significant rise in imports and a decrease in commodity exports. The rand fell further after Exxaro advised of strikes at five of its mines which supply coal to Eskom; and even further after a surprise upward revision of the Reserve Bank's estimate of the current account deficit in the third quarter of last year, and news that it remained wide in the fourth quarter at 6.5% of GDP. Slowing household consumption spending did not help sentiment as retail sales numbers came in below expectations at 1.9% year-on-year growth in January. Month-end brought some respite after the announcement that the trade account deficit narrowed to R9.52 billion in February as exports increased while imports dropped.

The producer price index for final manufactured goods, the new "headline PPI", slowed to a 5.4% increase year-on-year in February from 5.8% in January. Stats SA introduced distinct PPIs to cover agriculture, mining, electricity and water, and manufacturing in January. However, consumer inflation is creeping up, coming in at 5.9% year-on-year in February.

The Reserve Bank left interest rates unchanged and signalled that further easing would be constrained by high inflation which is expected to breach the upper end of its 3%-6% target range in the third quarter of this year.

On a positive note the seasonally adjusted Kagiso manufacturing PMI improved for the second consecutive month in February to 53.6, breaching the key 50-point level for the first time since August last year. Furthermore, manufacturing output quickened more than expected in January on renewed optimism among producers expecting the sector to benefit from a pick-up in global growth, coupled with a weaker rand.

Adding to the speculation that South Africa's growth could surprise on the upside in 2013, the leading indicator of business activity rose in January, its seventh monthly gain in a row. The Treasury expects economic growth of 2.7% this year.

The wildcards are, of course, further labour unrest and electricity supply, with strikes at Exxaro potentially translating into serious electricity shortages in the forthcoming months.

S&P defended its decision to keep a negative outlook on South Africa's sovereign credit rating, saying that the entrenched social and development challenges could not be addressed overnight.

South Africa hosted the fifth Brics summit in Durban. The attendees included the newly elected Chinese President Xi Jinping and President Vladimir Putin of Russia. The most significant announcement related to an agreement to create a development bank to rival Western-backed institutions such as the IMF and World Bank. The development bank will be used to encourage trade and help countries in times of financial crisis.

Together, Brazil, China, India and Russia account for more than a third of G20 economic output, a figure that is expected to rise to almost 50% by 2050.

ODDS AND ENDS

Chinese Girl to come home

The original of one of the most reproduced pictures in the world sold for a record sum for a work by the artist. Vladimir Tretchikoff's Chinese Girl fetched £982 050 at a Bonhams auction. It was bought by a British businessman, Laurence Graff, owner of the Delaire Graff estate near Stellenbosch, who plans to bring the painting back to South Africa to join the rest of his art collection on public display.

Tretchikoff, a Russian émigré who settled in South Africa and who died in 2006, often faced criticism for painting colourful kitsch. Despite that, he became one of the most commercially successful artists of his day on the back of print sales of paintings such as the Chinese Girl.

The original painting was bought by an American, Mignon Buhler, when Tretchikoff toured the US in 1954. It remained in the Buhler family until now. The girl in the painting is based on Monika Sing-Lee, a young girl spotted by Tretchikoff in a Cape Town launderette.

The Cyprus experiment

Cyprus has embarked on an unprecedented financial experiment - imposing controls on money transfers in an economy that does not have its own currency. In practice, any money that leaves the banking system can be taken out of Cyprus. Consequently, the government has limited daily withdrawals to €300 euros and restricted transfers overseas. It also banned cheque cashing and terminating time deposits.

Cyprus has committed to keeping the controls in place for seven days. In reality, all the other economies which imposed capital controls, such as Iceland and Argentina, ended up keeping them in place for years.

Cyprus may yet leave the euro, beating Greece to the punch. Dependent on tourism and banking, with the latter having flat-lined, Cyprus needs to consider whether being stuck with an overvalued euro is of any advantage.

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Sygnia Asset Management Registration No. 2003/009329/07

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