KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	1.6%	6.2%	12.0%	21.8%	26.2%	18.7%	20.2%
J200T	FTSE/JSE Top 40 Index	1.9%	5.8%	12.7%	22.4%	27.4%	18.7%	19.9%
J210T	FTSE/JSE Resources 20 Index	-4.3%	-0.5%	11.7%	16.2%	12.3%	2.9%	7.5%
J211T	FTSE/JSE Industrials 25 index	5.1%	7.6%	12.1%	24.9%	38.5%	30.7%	30.7%
J212T	FTSE/JSE Financials 15 Index	1.9%	12.6%	16.6%	26.1%	27.7%	24.2%	24.0%
J403T	FTSE/JSE SWIX Index	2.3%	7.3%	12.6%	23.2%	25.9%	20.0%	21.2%
J303T	FTSE/JSE CAPI Index	1.7%	6.3%	12.1%	21.9%	26.2%	18.9%	20.5%
J253T	SA Listed Property Index	-1.3%	5.8%	3.9%	7.0%	16.6%	17.6%	19.6%
ALBI	BEASSA All Bond Index	1.2%	3.3%	3.5%	2.9%	7.1%	8.4%	9.2%
STeFI	STeFI Index	0.5%	1.4%	2.7%	5.4%	5.3%	5.4%	6.1%
	MSCI World Index in SA Rands	2.5%	1.4%	10.9%	24.7%	37.4%	28.1%	21.3%
	Rand/US Dollar Exchange Rate	0.6%	-1.7%	4.1%	4.9%	11.5%	15.8%	5.9%
	Rand/Euro Exchange Rate	-1.2%	-2.9%	4.2%	9.9%	17.1%	13.7%	5.1%
	Headline CPI	0.5%	2.9%	4.0%	6.1%	6.0%	6.0%	5.4%
	PPI	1.0%	3.5%	5.3%	8.8%	7.1%	7.3%	6.8%

"If the future resembles those neutral policy rates, then the investment implications are striking. Low returns yet less downside risk than investors currently expect; an end to bull markets as we've known them, but no perceptible growling from bears."

Bill Gross, PIMCO CIO, in an update to investors, May 2014

MARKET OVERVIEW

The markets started the month muted as concerns increased amid softer Chinese manufacturing data and growing tensions in the Ukraine. The HSBC/Markit manufacturing PMI for China dropped to 48.1 in April, while the official gauge came in at a lower-than-projected 50.4, increasing the risk that China will miss its 7.5% growth forecast in 2014.

Geopolitical sentiment remained on edge during the month as Russian President Vladimir Putin played cat-and-mouse with the West, promising that discussions were possible while amassing troops on the Ukrainian border and stirring conflict internally. The EU finally implemented further sanctions against Russia after pro-Russia separatists in the eastern Ukraine voted on succession.

However, the focus shifted to the EU after the ECB President Mario Draghi indicated that the ECB might ease monetary policy at the next policy meeting. The most likely scenario is an interest rate cut from 0.25% to 0.1%, supplemented by a potential cut of the deposit rate to below zero. The latter would imply that the ECB would essentially charge banks for holding their money overnight, a move designed to spur more lending. Another option to achieve that objective is for the ECB to start buying packaged loans from banks.

The risks of a negative spiral between low inflation, falling inflation expectations and credit remained on the table. However, the expectations of further liquidity triggered a flow of money into emerging markets and overshadowed the US Federal Reserve's taper of its own monthly bond-buying programme by another US$10 billion to US$45 billion a month.

The easing of monetary policy in the eurozone took on more urgency after first quarter growth figures disappointed. The eurozone economy expanded by a mere 0.2% quarter-on-quarter, with Germany's 0.8% expansion constituting most of that growth. France's economy stagnated, while Italy, Portugal, Finland, the Netherlands and Cyprus all contracted.

In the US the focus was firmly on unemployment numbers. The US created 288 000 jobs during the month, the biggest increase in more than two years, while the unemployment rate fell to 6.3%, the lowest since September 2008. However, the recovering unemployment rate came under criticism for not taking into account stagnant wages, the large numbers of long-term unemployed and a drop in labour force participation.

At mid-month markets reacted negatively to the Wall Street Journal's report that Germany's Bundesbank was ready to support "significant" policy easing measures by the ECB in an effort to keep inflation from moving too much lower.

The negativity was reinforced by a mixed bag of economic data releases from the US. Retail sales were softer than expected; consumer spending remained flat in April after a splurge in March and business inventories rose less than expected. But inflationary pressures remained benign, allowing the US Fed to keep monetary policy very accommodative for a while longer. And the ISM non-manufacturing index rose to 55.2% in April, the highest reading in six months.

Weaker US data was followed by disappointing figures from China, including slowing industrial production, sluggish retail sales growth, falling home sale numbers and sub-par fixed asset investment growth. On the other hand, the markets are expecting that despite the rhetoric, authorities will step in to safeguard the 7.5% growth target with some sort of stimulus measures. The flash manufacturing PMI figure for May, at 49.7, showed some improvement on April.

At month-end the European Parliament elections were in the spotlight. As expected, anti-European parties opposing the EU made huge inroads, particularly in the UK and France, reflecting widespread voter frustration over economic austerity and lacklustre growth.

360 DEGREES ROUND THE WORLD

EUROZONE: Inflation remained in the headlines with the preliminary reading for April coming in at 0.7%, well below expectations. The EC lowered its growth estimate for the 18 euro-nations to 1.7% in 2015 and inflation rate projections to 0.8% for 2014 and 1.2% for 2015. The unemployment rate held steady at 11.8% for the fourth consecutive month in March. Greece and Spain reported the highest jobless rates at 26.7% and 25.3%, respectively.

GERMANY: The stand-off in the Ukraine is beginning to show in the economic data, with both trade figures and investor confidence coming in weaker than expected. There is also a growing concern that growth will slow in the eurozone, the country's biggest export market. On the unemployment front the 6.7% unemployment rate is the lowest in a decade. The EC expects the German economy to grow by 1.8% this year and 2% in 2015, outpacing forecast average growth in the 28-nation trade bloc of 1.2% and 1.7% for those years.

FRANCE: France's economic recovery flatlined in the first quarter as tax increases used by President Francois Hollande to cut the budget deficit squeezed consumer spending. GDP was unchanged in the period, compared with a revised 0.2% gain in the previous three months. The IMF has warned that the French government runs the risk of failing to carry out a budget savings drive as planned, thereby threatening its public sector deficit targets. President Hollande's government aims to find €50 billion in savings over the next three years, vital to bring the deficit in line with an EU-agreed target of 3% of GDP next year.

ITALY: Italy's GDP fell by 0.1% in the first three months of the year from the previous quarter and by 0.5% from the same period a year earlier. The economy remains weak, with the EU forecasting growth of just 0.6% this year and an unemployment rate of 12.8%.

SPAIN: Spain's economy grew by 0.4% over the first quarter of 2014 on a strong rebound in household spending, its strongest quarterly growth since 2008. However, although growth forecasts are optimistic (GDP is expected to grow by 2.1% in 2015), inflation is set to remain too low at 0.1% this year and 0.8% in 2015 and unemployment is set to stage a mild recovery to 24;%.

UK: The UK economy grew by 0.8% in the first quarter, driven by stronger consumer spending bolstered by the buoyant property market. The OECD expects growth of 3.2% in 2014. The BOE left forecasts unchanged and moved to cool expectations of an early interest rate hike indicating it only saw borrowing costs rising in about a year's time. However, expectations are growing that it may try to prevent a housing bubble by tightening standards for mortgage lending.

USA: The US economy contracted for the first time in three years over the first quarter of 2014 as companies slowed down inventory build-up and curtailed investment. GDP fell at an annualised 1%. However, more robust retail sales, stronger manufacturing data and faster job creation indicate the first-quarter setback will prove temporary. The economy is expected to expand by 3.5% in the second quarter. Inflation remains benign, with consumer prices rising by 2% year-on-year. The main issue on the table for the US Fed is the recent weakness in the housing market, driven by high mortgage rates, tightness of credit and scarcity to buyers.

JAPAN: Japan's GDP rose at a rate of 5.9% p.a. in the first quarter, the fastest pace since 2011 and well ahead of expectations. This marks the sixth straight quarter of expansion by the world's third-largest economy. Core consumer prices rose the most in almost 23 years in April after an increase in the nationwide sales tax. Excluding the impact of the tax, the data is expected to show underlying inflation remained on track to meet the Bank of Japan's 2% inflation target. However, the BoJ has been careful to play down the expectations, projecting that the assessment of inflation can only be done in October 2016, after the impact of the sales-tax rises has ended. The quantitative easing programme means that the BoJ is buying up 70% of newly issued government bonds from the market each month, keeping bond yields low despite improvements in the economy, with the yield on the benchmark 10-year JGB now hovering around 0.6%.

Consumer spending, which makes up about 60% of the economy, rose by 2.1% during the quarter as consumers accelerated purchases ahead of the 1 April sales tax increase. The figure came down sharply in April. Capital expenditure increased 4.9%, the most since an 8.2% jump in the last three months of 2011.

INDIA: Hindu nationalist Bharatiya Janata Party and its leader, Narendra Modi, defeated the Indian National Congress Party which has headed India's government for nearly all of its post-colonial history. The victory is regarded as a triumph for voters tired of corruption and flagging economic growth. More than half a billion people voted in five weeks of staggered balloting - the largest ever exercise in democracy. The BJP won enough seats to form a government without brokering a coalition deal, giving Modi the strongest mandate to change the political landscape. Modi is a conservative regional leader known for maintaining tight control over the bureaucracy and political system in Gujarat, the state he has led for 13 years.

CHINA: The risks of China missing its 7.5% growth target for 2014 are increasing. The first quarter growth came in at 7.4% year-on-year as the government struggles to rein in the shadow banking sector, while dealing with overcapacity in industries such as steel and cement and a cooling property market. The government announced a raft of measures to support the wobbly trade sector, including giving more tax breaks, credit insurance and currency hedging options to its exporters.

The economic data releases in May were muted, although trade figures came in slightly better than expected and consumer inflation moderated to an 18-month low at 1.8% year-on-year in April.

China's biggest banks are poised to report the highest proportion of bad debts since 2009 after late payments on loans surged to a five-year high as borrowers struggle to cope with the economic slowdown.

SOUTH AFRICA

The ANC returned to power, having won a 62.2% majority in the May elections. This, in turn, brought a new Cabinet, with the most significant change being Nhlanhla Nene, the former deputy finance minister, replacing Pravin Gordhan as the Minister of Finance. Nene is regarded as a safe choice, and is unlikely to alter the fiscal course embarked upon by Gordhan.

Strikes in the platinum belt continued, with the mine workers shunning the employers' calls to return to work. In a small concession, both parties agreed to court-mediated wage talks, while the new Mineral Resources Minister, Ngoako Ramatlhodi, announced the establishment of an inter-governmental technical team to resolve the strike. However, that is far away from a resolution to the longest and costliest mining strike in South Africa's history which is estimated to have deducted 0.8% from GDP growth in 2014.

The South African economy shrank by 0.6% quarter-on-quarter in the first three months of 2014 as a massive decline in output from the platinum sector triggered the first overall quarterly contraction since the 2009 recession. This brings year-on-year growth to 1.6%. The economy expanded by 3.8% in the fourth quarter of 2013.

Consumer inflation increased to 6.1% year-on-year in April, while producer inflation rose to 8.8%, both figures coming in higher than anticipated. The Reserve Bank kept the repo rate unchanged, but downgraded its growth forecasts for 2014 from 2.7% to 2.1%.

Other economic data was equally troubling, with the Kagiso manufacturing PMI contracting to 49.4 in April from 50.2 in March, and the unemployment rate rising to 25.5% in the first quarter from 24.1% in the previous quarter. This amounted to 5.067 million people without work in the first quarter, up from 4.83 million in the previous three months. South Africa's recorded a R13.0 billion trade deficit in April after a R11.4 billion deficit in March.

However, net foreign buying meant that the FTSE/JSE All Share Index rose above the 50 000 level a number of times, but failed to keep onto the gains by month end. Foreign buying kept the rand surprisingly strong relative to the US dollar.

On the corporate front ABIL shares continued to shed value after the company issued another profit warning and after a Moody's downgrade to below investment grade. Capitec, in partnership with SA Home Loans, is set to introduce a home loan offering. And Naspers staged a recovery after the Chinese internet group Tencent, of which it owns 34%, delivered strong first quarter results.

ODDS AND ENDS

PIMCO'S NEW NEUTRAL

The latest three to five year outlook sketched by the world's biggest bond manager PIMCO has shifted from the firm's long-standing 'New Normal' view of slow growth and low returns into a 'New Neutral' period of "exceedingly low" official interest rates over time. The gist is that official interest rates will not return to pre-crisis norms in a way that financial markets still assume they will over the coming years. Zero percent neutral real policy rates will become the norm for many developed and even some emerging countries.

WHAT IS A MONOPSONY?

Amazon has come under fire for refusing to accept pre-sale orders on books released by the publisher Hachette and by understocking its titles. But the battleground is a lot more complex with Amazon effectively being a "monopsony", a mirror image of a monopoly. A monopsony occurs when a buyer of goods has the power to unlawfully lower the prices of what it buys. Amazon has built up its 65% market share of all online books by selling e-books below their cost price and linking them to their Kindle devices. When publishers objected, Amazon would block their sales.

A temporary truce ensued after Apple entered the e-book market and persuaded all major book publishers to change their e-book business model to its "apps" model, whereby the publisher sets the price rather than allowing Apple or Amazon to do so. However, urged on by Amazon, the US Justice Department filed an ill-advised lawsuit against Apple and five of the major book publishers for antitrust violations and "price fixing". Buckling under the threat, publishers settled and agreed to restrictions enabling Amazon to resume many of its practices. These restrictions are now set to expire, and a new round of negotiations between Amazon and the publishers have ensued. The move against Hachette is the first shot. Unless Amazon backs down, through public pressure or government intervention, publishers might have no choice but to comply or to pull all their books from Amazon and throw their weight behind alternative providers.

LONDON TOPS THE CHARTS (ALMOST)

Central London is the second most expensive place in Europe to live after Monaco. An average house now costs £458 000, as opposed to £347 000 in Sydney and £476 000 in New York. A luxury penthouse at London's One Hyde Park development sold for £175 million last month.

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