SYGNALS

KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	2.6%	8.7%	16.9%	19.8%	15.7%	15.5%	7.8%
J200T	FTSE/JSE Top 40 Index	2.7%	9.8%	17.9%	18.7%	15.7%	14.7%	7.1%
J210T	FTSE/JSE Resources 20 Index	-2.0%	10.0%	8.7%	-5.0%	0.3%	2.5%	-0.9%
J211T	FTSE/JSE Industrials 25 index	6.1%	10.6%	26.8%	38.4%	28.8%	27.0%	16.4%
J212T	FTSE/JSE Financials 15 Index	2.2%	4.3%	12.6%	31.7%	20.5%	17.6%	7.2%
J403T	FTSE/JSE SWIX Index	2.1%	6.8%	15.7%	22.0%	17.2%	17.4%	8.9%
J303T	FTSE/JSE CAPI Index	2.7%	8.7%	16.8%	19.9%	15.9%	15.9%	8.5%
ALBI	BESA All Bond Index	0.9%	1.2%	8.8%	14.2%	12.0%	12.8%	10.6%
STeFI	STeFI Index	0.4%	1.3%	2.7%	5.6%	5.7%	6.1%	7.9%
	MSCI World Index in SA Rands	4.0%	9.7%	18.1%	24.5%	20.3%	13.7%	3.7%
	Rand/US Dollar Exchange Rate	2.6%	6.1%	4.7%	9.6%	12.0%	6.3%	5.6%
	Rand/Euro Exchange Rate	2.8%	9.5%	9.9%	5.9%	12.0%	1.3%	3.0%
	Headline CPI	0.6%	1.8%	2.4%	5.6%	5.8%	5.0%	6.4%
	Core CPI	0.2%	0.6%	2.0%	4.8%	4.5%	4.2%	5.5%

"South Africa is not matching the growth of its emerging market peers. Nor is it getting anywhere near achieving its full potential. Instead growth is declining. Growth matters. With growth of 7%, you double your income every 10 years. With growth of 3% it takes 24 years to double your income. You don't always get jobs with growth, but you certainly don't get jobs without growth."

Reserve Bank governor Gill Marcus at the pre-national bargaining conference of NUMSA, November 2012

The volatility in the markets continued through November as the eurozone moved deeper into a recession, looming fiscal cliff concerns overshadowed the re-election of US President Barack Obama, and wrangling over Greece highlighted deep divisions over how to handle the eurozone crisis. A once-in-a-decade political transition in China, a military stand-off between Israel and Palestine and a spate of sovereign downgrades added to the market uncertainty.

VOLATILITY IN GLOBAL MARKETS ON THE RISE

After a weak October, markets started the month on an upbeat note on much stronger manufacturing data out of the US and China. The HSBC China Manufacturing PMI rose to 49.5 in October from 47.9 in September, while the IMS PMI in the US topped 51.7 (a reading above 50 indicates expansion). However, the Markit Composite PMI for the European Union fell for the ninth month in a row to a low of 45.7.

Undoubtedly, the US is well ahead of others on the road to economic recovery, a fact attributable to the ultra-aggressive monetary policies implemented by the Federal Reserve. October data reinforced the picture with a rebound in exports, rising consumer confidence and signs of a recovery in the housing market. Inflation has also been on a rise, with a 2.2% year-on-year jump in October. job creation is on an up despite the headline 9.7% unemployment figure. On a cautious note, November data is likely to be weaker as the effect of Hurricane Sandy trickles through into the numbers.

China has also stabilised, albeit at low levels. Stronger factory activity, retail sales and trade figures in October all point to a muted recovery. Inflation has fallen to its slowest pace in nearly three years, giving policymakers scope to loosen monetary policy. But until resource prices signal otherwise, one can assume that the market does not see much in the form of a strong economic recovery at this stage.

The eurozone remains mired in a recession. Of greatest concern is the fact that the slowdown has now spread to Germany, the powerhouse of the EU, with the government predicting weaker economic growth well into the first quarter of 2013. Eurozone unemployment rose to 11.7% in October, while the European Commission cut its growth forecast for the region from 1.0% to just 0.1% for 2013, while predicting a 0.4% contraction in 2012.

On the equities front, the month started with US stocks rallying after Hurricane Sandy, which caused over US$50 billion in damages, forced two days of market closures.

Sentiment wobbled after Barack Obama was re-elected as the US president, beating the Republican Mitt Romney by a wider-than-expected margin. Although the race was too close to call for most of the election period, Obama managed to win the support of key swing states, minorities and women. Congress remained split, with the Democrats maintaining control of the Senate and the Republicans the House of Representatives.

Within days of the election, however, attention swung to concerns about the "fiscal cliff" issue, a series of automatic tax increases and spending cuts amounting to US$607 billion which are to come into effect on 1 January 2013. The US is also about to hit its debt ceiling of US$16.4 trillion, a legal limit on the amount the government is allowed to borrow. The non-partisan Congressional Budget Office estimated that the fiscal cliff could reduce growth by around 3% in 2013.

November was therefore spent in negotiations between the two parties but, to date, no firm agreement has been put on the table. Republicans are reluctant to entertain tax increases, while the Democrats do not want reductions in entitlements and spending. The prospects for a definitive agreement by the end of December remain poor. The more likely scenario is an incremental strategy of some short term compromises, with the extension of some tax cuts and delaying of certain spending cuts. Negotiations on deeper structural tax and spending reforms will take longer.

The news that the eurozone has slipped back into a recession, with the third quarter GDP contracting by 0.1% quarter-on-quarter, triggered a heavy mid-month sell-off.

Other news out of Europe was equally negative as co-ordinated anti-austerity strikes rocked Greece, Spain, Italy and Portugal.

In addition, Greece remained deadlocked in negotiations with the EU, the IMF and the ECB about the unlocking of the next €43.7 billion tranche of its bailout, despite the fact that the Greek parliament pushed through the approval of a €13.5 billion package of spending cuts and the 2013 budget in an attempt to appease the troika.

The Greek issue brought to light a fundamental disagreement between the EU and the IMF over the deadline by which Greece's debt levels must fall to 120% of GDP, a level generally considered sustainable, from the current 176% level. The original date was set as 2020. The IMF has argued for a shorter period and further debt write-offs (private creditors have already written off more than €100 billion of Greek debt), while the EU made it clear it would rather extend the period than see sovereign states, such as Germany, having to take balance sheet losses.

Eventually Greece was granted two more years till 2022 to restore its debt level. Unfortunately, extending the deadline means that the country will need an extra €15 billion in aid until 2014 and another €17.6 billion between 2014 and 2016. Heading into the sixth year of a deep recession, with more than a quarter of Greeks unemployed, Greece has little prospect of growing and collecting enough in taxes to put a dent in its debt levels without help. To that effect the EU and the IMF agreed on a series of measures to bring down the country's debt. These measures include a reduction in the interest rates on Greece's bilateral bail-out loans, a decade-long suspension on interest on loans from the eurozone's EFSF rescue fund, and a pledge to finance a buy-back of Greek government bonds.

Spain is also not out of the woods, although a successful €4.8 billion bond auction in November has allowed it scope to hold out longer before asking for international aid. But politically it is looking more stable after Catalan President Artur Mas's bid for a referendum on independence from Spain failed as his party lost the necessary majority in the regional parliamentary elections.

Portugal is looking weak again, with the government predicting a third consecutive year of recession in 2013, and with unemployment reaching 15.8%. According to the OECD, Portugal's economy will contract twice as much as previously expected in 2013 (1.8% contraction) after a 3.1% contraction in 2012. This is Portugal's worst recession since the country returned to democracy in 1974.

Moody's lowered France's sovereign rating by one notch to Aa1, stripping it of its coveted triple-A rating, on the back of concerns about France's long-term growth outlook being negatively affected by multiple structural challenges, including its loss of competitiveness and the rigidities of its labour, goods and services markets. An uncertain fiscal outlook was also cited as a reason. The rating outlook remains negative.

The Bank of Japan published a bleak outlook for the Japanese economy which is seen as weakening amid softer exports and industrial production figures.

Month-end brought some upward momentum to the markets on the back of stronger November manufacturing surveys in the US and China, and indications of some progress in the fiscal cliff negotiations. In fact, the FTSE/JSE All Share Index closed the month at a fresh all-time high after weak trade figures pushed the rand lower with the rand-hedge stocks gaining as a result.

Spain's ten year bond yields fell to an eight-month low of 5.21%, while the rate on similar maturity Italian securities dropped to 4.50%.

Oil prices remained under pressure through the month as investors assessed the impact of Hurricane Sandy on demand and as violent clashes between Israel and Palestine in the fractious Gaza Strip escalated. Last minute intervention by the US and Egypt defused the situation, although previous ceasefire deals have all proved temporary. Eight days of fighting between Israel and Hamas in the Gaza Strip killed more than 140 Palestinians and five Israelis.
The gold price fluctuated through the month, finally settling slightly up for the month at US$1 723 an ounce. The next move will depend on the outcome of the fiscal cliff negotiations. A failure would enhance its safe haven status, while a resolution would dampen the demand for the metal.

The South African rand flirted with the R9/US$1 level as the wildcat strikes spread from the mines to farms in the Western Cape and bond investors took flight.

Fitch cut Argentina's credit rating five notches to one level above default, predicting that the country will default. Argentina is locked in a court battle in New York over its debts. The US federal court ordered Argentina to set aside US$1.3 billion for bond investors who did not accept its debt restructuring offer related to its 2001 default, by 15 December. The Court of Appeals subsequently gave the parties a two month staying order. If Argentina is forced to pay some investors in full, other bondholders, totaling more than US$11 billion, are also likely to demand immediate repayment. Argentina indicated that it will not pay.

The eurozone was dealt a fresh blow as Moody's downgraded the credit ratings of the region's two rescue funds, with the ratings of the European Stability Mechanism and the European Financial Stability Facility cut from AAA to AA1. Moody's based its decision on its recent downgrade of France, as the credit risk and ratings of the rescue funds were "closely aligned to those of its strongest supporters".

In an interesting twist, the US Treasury has issued a damning criticism of Germany's chronic trade surplus in its annual report on worldwide exchange rate abuse, although it stopped short of labelling the country a currency manipulator. It criticised the internal imbalances within the eurozone as holding back global recovery. According to the report the eurozone surplus states like Germany have room for fiscal stimulus but continue to cling to fiscal austerity policies that constrict internal demand. Germany's permanent surplus of 6.3% of GDP is in stark contrast to China which has partially succeeded in shifting away from a reliance on exports for growth, and has slashed its surplus to 2.6% from 10.1% in 2007.

On the political front China witnessed a once-in-a-decade leadership change with an announcement that Xi Jinping will take over as the next general secretary of the Communist Party from Hu Jintao, while Li Keqiang is set to replace premier Wen Jiabao. Both are regarded as conservatives.

In Japan, Prime Minister Yoshihiko Noda dissolved parliament, triggering an election on 16 December. Speculation is rife that victory will go to the opposition, the Liberal Democratic Party, which advocates more aggressive monetary easing than the ruling Democratic Party.

The EU squabbled over its 2014-2020 budget as meeting after meeting collapsed in acrimony. Richer countries, led by Britain, insist on severe cuts to the proposed €1.047 trillion budget. Southern nations, however, are pushing for the preservation of their infrastructure budgets, while France and Italy are clutching onto the EU's massive farming subsidies.

At the same time thousands of Egyptians rallied against President Mohamed Mursi after he gave himself unlimited powers and put his decisions beyond judicial challenge, saying this was a temporary measure to speed Egypt's democratic transition until the new constitution is in place. To diffuse tensions the Islamist-led assembly then pushed through the approval of the new constitution. The constitution limits the president to eight years in office and introduces a degree of civilian oversight over the military. However, critics argue that the constitution has been hijacked by the Muslim Brotherhood which backed Mursi. Egypt now has 15 days to hold a referendum on the constitution.

SOUTH AFRICA

The effects of the mining and transport strikes in September came through in the economic data at the same time as the strikes spread to the farm workers in the Western Cape. The most significant effect has been the lower than expected third quarter GDP growth figure which came in at 1.2% on a seasonally adjusted and annualised basis. On an unadjusted year-on-year basis, economic growth stood at 2.3%, down from a revised 3.1% in the second quarter. The Reserve Bank expects that the fourth quarter is likely to be even weaker, a view supported by the shorter term economic indicators.

Manufacturing activity has slowed with the Kagiso PMI falling to 47.1 in October from a revised 48.3 in September, growth in borrowing by households and private companies fell more than expected and retail sales grew by a disappointing 4.3% year-on-year in September, down from 6.7% in August.

The trade account deficit widened to its worst level in years in October, with a R21.2 billion deficit following a R13.8 billion deficit in September. This can be attributed to both a slowdown in exports in response to the mining strikes, as well as the economic slowdown in the EU, South Africa's largest trading partner.

According to Statistics SA unemployment rose to 25.5% in the third quarter, up from 24.9% in the previous quarter, with the number of unemployed people reaching 4.7 million, the most since 2008. The expanded definition of unemployment, which includes people who have stopped looking for work, increased to 36.3%. Further deterioration is likely given the mass dismissals of mine workers who participated in illegal strikes.

Export revenue from the mining sector is expected to be about R12.5 billion lower this year, with the mining stoppages subtracting 0.5% from the projected growth in GDP in 2012 (currently forecast at 2.5%).

Consumer inflation also ticked up in October to 5.6% year-on-year, with the Reserve Bank warning that labour unrest, credit rating downgrades, a widening current account deficit, higher food prices and higher wage settlements, as well as the re-weighting of the CPI basket in January 2013, do not bode well for the future.

The Reserve Bank left its benchmark repo rate unchanged at 5.0%, whilst trimming its 2012 growth forecast to 2.6%. Inflation is expected to average 5.6% in the final quarter of 2012 and 5.5% in 2013.

The IMF report on South Africa warned that the country will have to increasingly rely on monetary policy to support growth as it has used up its fiscal tools given the present size of the budget deficit and the level of public debt. The IMF advised the government to restrain growth in the public sector wage bill in favour of investment in infrastructure, and to look at labour market reforms as a way of addressing structural unemployment.

GAUTENG

The 2012 Provincial Economic Review and Outlook report showed that Gauteng remained the largest contributor to the economy in 2011, contributing 35.6% to the country's GDP. The City of Johannesburg was the fastest growing municipality in the country. Gauteng also accounted for 68% of all exports from the country and 61.4% of imports, with China its biggest trading partner.
The province was one of the biggest economic hubs in the continent, having contributed 7.7% to Africa's GDP last year.

TURKEY

Turkey received its first investment-grade ranking since 1994 after Fitch raised the country by one level, citing an easing in economic risk and lower government debt.

US

Colorado became the first US state to legalise the possession and sale of marijuana for recreational use. Personal possession of up to an ounce (28.5g) of marijuana would be legal for anyone at least 21 years of age. The legalisation puts the state in direct conflict with the federal government, which classifies cannabis as an illegal narcotic.

WORLD STAGE EVENTS EXPLAINED

Political power-shift in China

China's ruling Communist Party unveiled its new leadership team, an all-male cast of cautious politicians with Xi Jinping at the helm.

Xi Jinping, 59, is considered to be a cautious reformer, having managed the coastal Fujian and Zhejiang provinces, both at the forefront of China's economic reforms. Currently China's vice-president, he will take over as head of state in March 2013.

Xi belongs to the Party's "princeling" generation, the offspring of communist revolutionaries. He studied chemical engineering at Tsinghua University in Beijing and later obtained a degree in Marxist theory from Tsinghua and a doctorate in law. He joined the Party's Standing Committee in 2007.

Li Keqiang, 57, another conservative reformer, is to take over as China's next premier. A son of a rural official, he studied law at Peking University, followed by a PhD in economics. Li came to prominence as the Party leader in Henan, one of China's most populous provinces. He is known to be outspoken, and his economic policies in Henan helped to transform it into an attractive area for investment. He was also appointed to the Standing Committee in 2007.

Other members of the Standing Committee of the Politburo include:

Zhang Dejiang, 65, a conservative, replaced the disgraced politician Bo Xilai as Chongqing party boss earlier this year. He cut his teeth as a party chief of the Guangdong province which maintained its position as a powerhouse of China's economic growth even as it struggled with energy shortages, corruption-fuelled unrest and the 2003 severe acute respiratory syndrome epidemic.

Yu Zhengsheng, 67, a cautious reformer, currently heads the Communist Party in China's financial hub, Shanghai.

Liu Yunshan, 65, a conservative with a background in media, is expected to take over the Party's propaganda and ideology portfolio. In the past Liu has sought to control China's internet usage.

Wang Qishan, 64, is a financial reformer with experience in tackling tricky economic and political problems. Wang led the state-owned China Construction Bank from 1994 to 1997 and is an experienced negotiator with the US.

Zhang Gaoli, 65, is an economist and party chief of the northern port city of Tianjin. Zhang is seen as an advocate of greater foreign investment and financial reforms.

Randelas hit the market

New bank notes featuring an image of former president Nelson Mandela flooded the market in November. The notes carry an image of Mandela on the front and pictures of the "Big Five" animals on the back. The old bank notes will remain legal tender.

The CPI basket calculation

Statistics SA released the new CPI basket which will take effect on 1 January 2013 (the last change was implemented in 2009). Items in the CPI basket represent the main categories of goods and services typically bought by households as measured by the Income and Expenditure Survey for 2010-11.

The most significant changes include the fact that separate baskets will now be calculated for each primary urban area, secondary urban area, and rural area within each province, as opposed to one basket for each province.

The weighting of electricity and fuels will almost double to 4.1%, reflecting a steady rise in Eskom electricity tariffs and the petrol price.

The weighting of food and non-alcoholic beverages will fall to 17.5% from 18.3% at present.

Transport costs will fall to 15.4%, down from 17.8%, reflecting a reduction in the importance given to purchases of motor vehicles.

Goods will account for just 49% of the weight of the overall CPI, compared with 54% currently, while services will make up 51% of the weight, compared with 46% at present.

The changes are expected to result in an increase in the inflation rate.

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Sygnia Asset Management Registration No. 2003/009329/07

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