KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	-1.1%	7.7%	8.7%	21.6%	20.7%	17.6%	19.6%
J200T	FTSE/JSE Top 40 Index	-1.1%	7.3%	8.5%	22.1%	20.4%	17.8%	18.9%
J210T	FTSE/JSE Resources 20 Index	-2.1%	2.8%	4.0%	3.9%	-0.6%	1.5%	8.1%
J211T	FTSE/JSE Industrials 25 index	0.1%	9.3%	11.4%	35.0%	36.7%	30.8%	29.5%
J212T	FTSE/JSE Financials 15 Index	-3.1%	11.1%	8.1%	24.2%	27.9%	21.7%	19.6%
J403T	FTSE/JSE SWIX Index	-1.6%	8.2%	9.4%	21.7%	21.9%	18.7%	20.5%
J303T	FTSE/JSE CAPI Index	-1.1%	7.7%	8.8%	21.8%	20.8%	17.9%	20.0%
J253T	SA Listed Property	-3.0%	6.7%	3.0%	7.7%	22.0%	17.5%	19.8%
ALBI	BESA All Bond Index	-1.4%	2.9%	-0.6%	1.8%	7.8%	8.5%	8.9%
STeFI	STeFI Index	0.4%	1.3%	2.6%	5.2%	5.4%	5.5%	6.6%
	MSCI World Index in SA Rands	2.7%	9.8%	12.4%	44.2%	34.0%	27.8%	15.5%
	Rand/US Dollar Exchange Rate	0.9%	-1.1%	0.7%	14.1%	11.8%	12.7%	0.2%
	Rand/Euro Exchange Rate	1.3%	1.7%	5.4%	19.6%	12.5%	14.4%	1.6%
	Headline CPI	0.2%	1.0%	2.0%	5.5%	5.5%	5.7%	5.3%
	PPI	0.5%	1.6%	3.3%	6.3%	5.7%	7.3%	4.9%

"A strong recovery will ultimately enable the Fed to reduce its monetary accommodation and reliance on unconventional policy tools such as asset purchases. Supporting the recovery today is the surest path to returning to a more normal approach to monetary policy."

Janet Yellen, vice-Chair of US Federal Reserve, in testimony
before the Senate Banking Committee

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SYGNIA
THE SUM OF ALL THINGS

Global stock markets reached new highs on positive economic data from the US and China, lower interest rates in the euro zone, a growing expectation that the US Federal Reserve will continue the quantitative easing programme for longer and a temporary settlement of hostilities with Iran. Emerging markets, on the other hand, continued to face investments outflows as the muted recovery in the US and the European Union has failed to make a meaningful impact. Domestic factors in South Africa, including some significant accounting revisions and a below expectations third quarter economic growth number, left the rand more vulnerable than most to sentiment swings.

MARKET OVERVIEW

The markets started on a weak note on lower euro zone growth forecasts and better-than-expected US economic data, including the ISM manufacturing index which rose to its highest level since April 2011 and third quarter GDP growth of 2.8% year-on-year. Although the official unemployment rate ticked up to 7.3%, the US economy added double the estimated number of jobs in October. With concerns about the impact of the October government shutdown thus abating, the conversation turned back to the possibility of an earlier scaling back of the bond-buying programme by the US Fed.

In Europe, the ECB surprised markets by halving interest rates to a new low of 0.25% in response to a sharp drop in inflation which came in at 0.7% year-on-year in October. The lack of a meaningful recovery in consumer demand implies that the euro zone's recovery could easily stall. To compound the problem the euro zone third quarter growth number came in at 0.1% quarter-on-quarter, well below the 0.3% registered in the second quarter. Even the German economy slowed to 0.3% quarter-on-quarter (1.1% year-on-year) as trade figures disappointed. The ECB indicated that it is ready to cut borrowing costs even further, including making its deposit rate negative.

On a positive note, China entered the final quarter of 2013 on a strong footing with all the economic indicators pointing to an acceleration in momentum. Industrial output and manufacturing investment strengthened, both the manufacturing and the services sectors grew in October at the fastest pace in a year and exports to the US and the EU rebounded. Even inflation has remained at a benign 3.2% year-on-year.

But the true trigger for an upswing in sentiment can be attributed to Janet Yellen, President Barack Obama's nominee to head the US Fed. Yellen, testifying at a Senate Banking Committee hearing, emphasised the need to bring unemployment down and cautioned against withdrawing stimulus too early. The Dow Jones Industrial Average achieved its first-ever close above 16 000 as a consequence.

The rally paused mid-month after the OECD cut its forecast for world economic growth to 3.6% next year on the back of the slowdown in emerging markets, and after the latest US Fed meeting minutes showed that the central bank was on track to slowing its bond-buying programme. The latter, combined with a lack of visible inflationary pressures globally, put pressure on the gold price.

However, the rally resumed again on the back of Iran agreeing to stop producing near-weapons-grade nuclear fuel and to remove its stockpile of the fissile material in exchange for an ease in Western economic sanctions. The deal does not include any easing of sanctions on Iran's crude imports, but the EU will lift a ban on insurance for tankers transporting Iranian oil. The agreement is valid for six months. The immediate implication is that Iran will be able to sell its gold and silver reserves to raise funds, adding more pressure to the precious metals' prices.

The oil price fell to a six month low after the announcement of the deal. The oil price has been under severe pressure from the overhang of US crude supplies and strong crude exports from Saudi Arabia.

The global rally did not manage to offset a slew of domestic factors which pushed the South African stock market and the rand lower, including disappointing third quarter growth numbers. Foreign selling of local stocks and bonds continued with a net R16.5 billion leaving the equity market. The FTSE/JSE All Share Index dropped below the 45 000 level by month-end as a weaker gold price pulled the gold mining index down by 12%. Gold has suffered a sharp sell-off on the back of a complete lack of visible inflationary pressures in the global economy. The gold price dropped by 6% in November and by more 25% this year, putting the gold price on track to post its first annual loss in 13 years.

On the credit rating side, S&P's upped its outlook for Spain and Cyprus, but stripped the Netherlands of its AAA grade. Moody's cut its ratings of four biggest US banks after deciding the government would be less likely to help them repay creditors in a crisis. The banks included Morgan Stanley, Goldman Sachs, JPMorgan Chase and Bank of New York Mellon.

360 DEGREES ROUND THE WORLD

US: President Barack Obama's job-approval rating has hit an all-time low in a Wall Street Journal/NBC News opinion poll. The abysmal result can be almost entirely attributed to the troubled roll-out of the health-care law. 51% of those surveyed expressed disapproval, up from 47% at the end of 2012.

EURO ZONE: The European Commission has cut its growth forecast for the euro zone for 2014 to 1.1%, with unemployment at 12.2% and inflation at 1.5%. The growth momentum is slowing down with the third quarter growth figure coming in at 0.1% quarter-on-quarter. The German economy grew by 0.3%, while both the French and Italian economies shrank by 0.1%.

GERMANY: Germany has been heavily criticised by both the US Treasury and the IMF for its export-led growth model and resultant trade surpluses. Both institutions urged the government to reduce export surpluses and to focus on stimulating domestic demand. On the political front, Germany has a new government after its biggest political parties agreed to a coalition government led by Angela Merkel.

UK: The UK is on a strong path to recovery, a fact affirmed by its 0.8% quarter-on-quarter growth in the third quarter, and its unemployment rate of 7.6%, the lowest since 2009. The EC expects the UK economy to grow by 2.2% next year, twice the pace of the euro zone.

Interestingly, the Bank of England has moved to head off the risk of a bubble in property by scaling back the Funding for Lending Scheme launched last year. The FLS allowed banks and building societies to access cheap credit from the BoE in proportion to how much they increased lending. The FLS will now focus solely on enabling lending to small firms.

FRANCE: S&P's lowered France's credit rating to AA from AA+ on concerns about the country's growth prospects and insufficient reforms to date. In the past year the government has cut payroll taxes, loosened labour laws and lengthened working lives. France reported a 0.1% decline in its economy in the third quarter. President Francois Hollande's public opinion poll rating fell to a new low of 20% in the Ifop polls, the lowest ratings for a French president since the poll started in 1958.

ITALY: Italy entered its third year of recession with its GDP contracting by 0.1% in the third quarter, the ninth quarterly contraction in a row. Year-on-year the economy contracted by 1.9%. Italian politics are in the spotlight once again after the Senate voted to expel former Prime Minister Silvio Berlusconi following his tax-fraud conviction earlier in the year.

SPAIN: Spain's unemployment rate rose to 26.0% in October after tourist season hires were laid off. The EC expects Spain's unemployment rate to average 26.4% in 2014. Lack of a recovery in employment is being reflected in rising bad debts for Spanish banks where non-performing loans accounted for 12.7% of lending in September, up from 10.7% a year ago.

CHINA: China released a 60-point blueprint for restructuring the economy which pledged to reduce the state's role in the economy, open up the financial sector, reform taxation, relax restrictions on investment and adopt a more market-oriented approach. The headline grabbing items were the relaxation of the one-child policy and abolishment of the "re-education through labour" camps, the two policies that for decades have defined the state's power to control citizens' lives.

JAPAN: Warning lights are flashing for Abenomics, with the economy losing momentum. Japanese companies reduced capital-spending in the third quarter and failed to step up exports even with a weaker yen. The GDP rose at an annualised 1.9%, down from 3.8% the previous quarter, with the gain relying on government spending and an accumulation of inventories. The trade deficit climbed to its highest level on record as fossil fuel imports soared. On a positive note, consumer inflation rose by 0.9% from a year earlier, a five-year high. Prices excluding energy and food rose 0.3%, the most since 1998.

INDIA: India's economy expanded 4.8% from a year earlier in the quarter ended September, versus 4.4% three months earlier. The number came in well ahead of expectations, easing pressure on the government to tighten monetary policy.

SOUTH AFRICA

South Africa's economic growth slowed by more than expected in the third quarter to 0.7% quarter-on-quarter, dragged down by a contraction in manufacturing after weeks of strikes in the automotive industry. The figure was released after the Reserve Bank already cut its growth forecast for 2013 to 1.9%. Manufacturing, which contributes 15% to South African output, fell by 6.6% over the previous quarter, although this was offset by an 11.4% rebound in mining as the sector recovered from its own labour disturbances. On an unadjusted year-on-year basis, the economy grew by 1.8% from a revised

2.3% in the previous three months. This level of growth is unlikely to make a dent in South Africa's unemployment rate.

South Africa also posted yet another trade deficit in September as strikes curbed car and mining exports. The trade deficit for the first nine months of the year was 51% larger than for the same period in 2012.

Unsurprisingly, the business confidence index trended down, while consumer confidence plunged to its lowest level since 1993.

Other economic data also reflected a depressed economic environment.

The Reserve Bank kept its key repurchase rate unchanged at 5% as consumer inflation moderated to 5.5% in October. Producer inflation eased to 6.3% year-on-year on lower food prices.

The Reserve Bank came under fire after introducing unexpected data revisions which halved the official trade deficit number. The revisions, backdated to 2010, involved including exports and imports from four neighbouring countries that share a customs union with South Africa. The shortfall in the first nine months of the year was lowered to R64.5 billion rand from R126.4 billion. This came less than a month after Finance Minister Pravin Gordhan announced changes to the reporting of fiscal data, which cut the budget deficit for the year through March 2013 from 5.1% to 4.2% of GDP. The uncertainty caused by the current account numbers left the rand volatile for the rest of the month.

On the corporate side, Glencore Xstrata, one of the world's largest global diversified natural resources companies, listed on the JSE. Glencore already has a primary listing in London and a secondary listing in Hong Kong. With its global market capitalisation of R732 billion, its listing on the JSE makes this the third largest listed company on the exchange.

Turkish communications and technology company, Turkcell, filed a lawsuit against MTN accusing it of corruption in obtaining a licence to provide cellphone services in Iran. MTN owns a 49% stake in Iran's mobile network operator, Irancell. Turkcell lost the licence to MTN in 2005.

ODDS AND ENDS

SOUTH AFRICA'S ECONOMIC PLANNING MESS

Criticism of South Africa's three major economic policies, the National Development Plan (NDP), the economic development department's New Growth Path (NGP), and the trade and industry department's Industrial Policy Action Plan (IPAP) is growing.

The three documents offer contrasting accounts of the constraints faced by the country and proposals on job creation. The IPAP and the NGP talk about jobs in the 'productive sectors' including manufacturing, infrastructure and agriculture, while the NDP expects most new jobs to come from small services firms serving the domestic market.

The IPAP promised over 2.4 million jobs by 2020, the NGP 5 million, and the NDP 5.9 million by 2020 and a further 5 million by 2030. None provide any substantiation for these numbers.

WHAT IS WONGA?

Wonga is a British payday loan company offering short-term, high-cost loans via the internet. The company was founded in 2006 by two South Africans, Errol Damelin and Jonty Hurwitz, and operates in the UK, South Africa, Canada and Poland.

The interest charged by the lender can equate to an annual percentage rate (APR) of more than 5000%. In South Africa a loan of R1 000 over thirty days requires R1 288.56 to repay including "administration" and "initiation" fees.

In the UK the industry has become a focal point in the political debate around how households are struggling to cope with rising prices and stagnant wages. Britain has thus decided to joined Australia, the EU and the US in capping the cost of payday loans through regulation.

LESSONS ON CHINA

What is China's one-child policy?

The one-child policy was introduced in China in 1980 to deal with the government's fears of over-population. The policy, enforced through a vast network of family-planning offices, has reshaped China's demographics, with birth rates plunging from 4.77 children per woman in the early 1970s to 1.64 in 2011, and with the emergence of a hugely unbalanced sex ratio at birth, with boys far outnumbering girls. Additionally, the population of 1.34 billion (2010 census) is aging relatively rapidly. The government says the policy has prevented about 400 million births.

In November China announced that couples can have a second child if either of the parents is an only child. However, the change is marginal as a lot of people were already allowed to have a second child e.g. rural peasants whose first child was a girl, couples who are both ethnic minorities and couples who are both only children.

What is re-education through labour?

Re-education through labour was introduced in 1950s by Mao Zedong to lock away political opponents. Over time it expanded into a system of incarceration of more than 100 000 people, many of them working in prison factories and farms. Sentences are determined by the police without any judicial review, and defendants have a scant chance to appeal imprisonment that can last up to four years.

Xi Jinping, who assumed China's top party leadership post a year ago, has tried to project the image of a leader who can pursue a conflicting policy of making China's economy more responsive to market forces while maintaining the traditional one-party rule. To date, however, his rule has been epitomised by the continuation of a crackdown on political dissent.

AS 2013 COMES TO AN END

As this is the last Sygnals publication this year, we would like to take this opportunity to wish all our readers and clients a joyful Christmas, restful holidays and a prosperous 2014.

DISCLOSURE

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