SYGNALS

KEY INDICATORS

NOVEMBER 2014

		1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS	3 YEARS	5 YEARS
J203T	FTSE/JSE All Share Index	0.5%	-1.1%	2.1%	14.4%	18.0%	18.6%	16.5%
J200T	FTSE/JSE Top 40 Index	-0.2%	-2.1%	0.6%	13.4%	17.7%	18.0%	15.9%
J210T	FTSE/JSE Resources 20 Index	-6.3%	-20.5%	-18.3%	-8.8%	-2.7%	-3.4%	0.4%
J211T	FTSE/JSE Industrials 25 index	1.9%	4.6%	7.8%	20.9%	27.7%	31.2%	27.3%
J212T	FTSE/JSE Financials 15 Index	3.0%	8.2%	12.6%	31.3%	27.7%	29.0%	21.5%
J403T	FTSE/JSE SWIX Index	0.6%	1.0%	5.8%	19.1%	20.4%	20.9%	18.6%
J303T	FTSE/JSE CAPI Index	0.6%	-1.0%	2.3%	14.6%	18.1%	18.7%	16.8%
J253T	SA Listed Property Index	2.8%	12.3%	21.8%	26.5%	16.7%	23.5%	21.5%
ALBI	BEASSA All Bond Index	2.4%	4.2%	9.3%	13.1%	7.3%	9.6%	10.6%
STeFI	STeFI Index	0.5%	1.5%	3.0%	5.8%	5.5%	5.5%	5.9%
	MSCI World Index in SA Rands	2.2%	3.4%	6.8%	18.4%	30.7%	28.6%	20.2%
	Rand/US Dollar Exchange Rate	0.2%	3.6%	4.4%	8.7%	11.4%	10.8%	8.3%
	Rand/Euro Exchange Rate	-0.2%	-1.5%	-4.3%	-0.2%	9.2%	8.1%	4.4%
	Headline CPI	0.2%	0.5%	1.8%	5.9%	5.7%	5.7%	5.3%
	PPI	0.3%	0.3%	1.3%	6.7%	6.5%	6.0%	7.0%

"It is a new world for OPEC because they simply cannot manage the market anymore. It is now the market's turn to dictate prices and they will certainly go lower."

Dr Gary Ross, chief executive of PIRA Energy Group, November 2014

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SYGNIA
THE SUM OF ALL THINGS

MARKET OVERVIEW

The month started with the JSE soaring above the 50 000 level again on the back of a surprise stimulus injection from the Bank of Japan. The S&P 500 rallied from a six-month low in October to an all-time high in November, supported by better-than-estimated corporate earnings and economic data. The rest of the month was fairly volatile on renewed political risk in the Ukraine, economic slowdown in the eurozone and the uncertainty created by falling oil prices. OPEC's decision not to cut production sent oil prices tumbling further, with the JSE eventually closing below the 50 000 level on the last trading day of the month.

On the economic front, the eurozone continued in a slump with Markit's October composite PMI coming in at 52.1, only marginally up from September's 10-month low of 52.0. Eurozone inflation rose only slightly to 0.4% year-on-year in October, up from 0.3% in September, and the unemployment rate remained unchanged at 11.5%. The EU downgraded its own growth forecast for the eurozone to 0.8% for 2014, highlighting weakness in France and Italy.

In response, the ECB's President Mario Draghi once again indicated that the ECB will buy assets for at least two years and study further stimulus measures. The ECB has already unleashed a barrage of stimulus, including a negative deposit rate, long-term loans and asset purchases. However, the market is looking for stronger commitment to sizeable asset purchases, including government bonds.

In the US, Republicans gained control of the Senate in a mid-term election that served as a public referendum on President Obama's job performance. The Republicans now control both chambers of Congress for the remainder of Obama's term, making passage of any meaningful legislation unlikely.

On a positive note, the US economy continued to recover, with the IMS manufacturing index rising to 56.2, unemployment decreasing to a six-year low of 5.8% and the third quarter GDP growth revised up to an annualised 3.9%. The only soft spot that remains is wage growth. Disappointing average hourly earnings partly explain voters' discontent with the economy. The data continues to point to the second quarter of 2015 as the most likely timeline for interest rate increases.

In contrast to the US, China's economy lost further momentum, with slow-down in both factory and investment growth in October. The official manufacturing PMI fell to a five-month low of 50.8 despite a series of government support measures aimed at aiding growth. Consumer inflation remained at a five year low of 1.6%, while the producer price index fell by 2.2%, as sluggish demand curbed the pricing power of companies. Weakness in China added to negative sentiment towards resources and oil as investors projected subdued demand continuing in 2015.

Mid-month, markets reacted negatively to the news that regulators in the US, Britain and Switzerland fined five major banks a total of US$3.4 billion for manipulating foreign-currency markets. Those affected were Citibank, JPMorgan Chase, Royal Bank of Scotland, HSBC and UBS. Barclays is yet to settle with regulators on a fine.

The negative sentiment was further fuelled by the announcement that Japan, the world's third-largest economy, slipped into a technical recession with third-quarter GDP contracting by an annualised 1.6%, after shrinking by 7.3% in the second quarter. In addition, inflation slowed for the third month in a row, with the October index increasing by 2.9% from a year earlier. Stripping out the effects of April's 3% VAT increase reduces the figure to 0.9%. The weak economic data reinforces the view that the positive effects of Japan's quantitative easing programme were badly dented by the tax increase, a proposal approved under a previous government to bring national debt under control.

The news prompted Prime Minister Shinzo Abe to call an early election in a bid to extend his term in office from the remaining two years to four years. Abe has also delayed the introduction of a second planned VAT increase. The ruling Liberal Democratic Party holds more than 60% of the seats in the lower house of parliament and is likely to be re-elected, giving Abe more time to implement "Abenomics", a move considered positively by investors.

The sentiment boost from Japan was reinforced by the news that China has finally admitted to having a growth problem by lowering interest rates. The People's Bank of China cut their one-year benchmark lending rates by 0.4% to 5.6% and one-year benchmark deposit rates by 0.25%. It also gave commercial banks flexibility by allowing them to offer 1.2 times the benchmark to attract deposits.

The rand firmed on the news, while the JSE All Share Index breached the 50 000 level once again. The gold price, on the other hand, remained under pressure as the US dollar strengthened.

The Brent crude oil price fell to US$72 a barrel, a four-year low, as a mounting oil glut created by the US shale boom continued to outweigh concerns about supplies from Libya, Iran and Syria. The slowdown in China cast doubt on future demand and OPEC decided not to reduce output. The oil price has fallen by 30% since June.

The 12-nation OPEC cartel is responsible for a third of world's oil production. Although Venezuela, Ecuador and Iran supported a cut in production, Saudi Arabia, Opec's de facto leader and the world's top producer, resisted the pressure, moving instead to cutting prices on crude oil exports to the US to maintain market share. The price war is designed to make US shale oil projects uncompetitive due to high production costs, easing competitive pressures on OPEC in the longer term. The US shale oil drilling has a break-even price of about US$70 a barrel. A third of US shale oil production is estimated to be unprofitable at US$80 a barrel.

A new era of abundant and cheap energy supplies has the potential to redraw the world's geopolitical landscape. In the short term it is great news for consumers. However, it will have a negative impact on smaller economies highly dependent on oil, such as Russia and Nigeria.

360 DEGREES ROUND THE WORLD

GERMANY: German manufacturing and services expanded at their slowest pace in 16 months in November, signalling that growth in Europe's largest economy is struggling in the fourth quarter. Markit's combined PMI for both industries declined to 52.1 from 53.9 in October.

GREECE: Greece's new budget has been widely criticised as being over-optimistic after government forecast that the economy will grow by 2.9% in 2015, after shrinking by 25% since 2008, that the primary surplus before debt repayment will fall to 3% of the GDP and that debt will reduce to 171% of GDP. The upbeat assessment lacked the approval of the country's international creditors, who remain sceptical that Greece can meet its economic targets amid political uncertainty.

RUSSIA: After fighting to protect the ruble, which has fallen to record lows against the US dollar, the Bank of Russia announced that it has formally abolished structured currency market interventions. The central bank has also cut its growth forecast for 2015 to zero on the back of the damage wrought by both a slump in oil prices and sanctions.

UKRAINE: Ukraine cut its gold reserves by more than a third in October as the near-bankrupt country continued to fight pro-Russian separatist movements in the east. To date, Russia has all but ignored the cease-fire agreement signed in September and continues to mass troops and military equipment in eastern Ukraine.

US: The Republicans enter the post-election session of Congress with an agenda that includes extending government financing, reviving lapsed tax breaks, funding the fight against Ebola and providing money for the US fight against ISIS. Their priorities also include striking at Obama's health-care law and blocking environmental regulations.

INDIA: The world's second largest buyer of gold, India, has eased controls on imports of gold after its current account deficit narrowed sharply. India imposed the import restrictions last year to avert a trade deficit crisis which pushed the rupee to record lows.

CHINA/RUSSIA: China and Russia concluded a second energy deal that will lessen Russia's reliance on European exports, while securing almost a fifth of the gas supplies that China needs by the end of the decade. The deal is slightly smaller than the US$400 billion deal reached earlier this year, shortly after Russia annexed Crimea.

CHINA/USA: The US and China reached an agreement to drop tariffs on a range of technology products including medical devices, global positioning systems, and video game consoles at the Asia-Pacific economic summit in Beijing. At the same time President Xi Jinping won approval from the 21 countries of the Asia-Pacific Economic Cooperation forum to study the creation of a China-led free-trade zone that would be an alternative to Obama's Trans-Pacific Partnership, a 12-nation trading bloc.

SOUTH AFRICA

Politics overshadowed economics as Cosatu moved to expel its biggest labour group, Numsa, from the federation based on Numsa's unrelenting criticism of the government's economic policies and the Nkandla project. Seven other affiliates, including Fawu and Saccawu, suspended their participation in the federation while seeking a new mandate from members. A divided labour movement in South Africa is a clear positive both for political and labour reform. In addition, chaotic scenes in Parliament triggered a barrage of open criticism levied at government by the media, the business sector and the opposition.

This came after Moody's cut South Africa's credit rating by one notch, citing poor growth prospects and rising debt. The latest downgrade leaves the rating just two notches above junk status and on a par with Fitch's rating. S&P's rating places South Africa just one notch above junk status. Both Fitch and S&P are due to review their ratings in December.

The economic data was mixed. The seasonally adjusted Kagiso manufacturing PMI rose for a third consecutive month in October to 50.1, its best level since March 2014. Both manufacturing and mining production rebounded following the bruising strike season, but insufficiently to save the sectors from a quarterly contraction. At the same time consumer spending remained under pressure, reflected in the weak retail sales figures in September.

The consumer price index rose by 5.9% year-on-year in October, unchanged from September, on the back of lower fuel prices. Given yet another expected fuel price cut in December, the Reserve Bank had the latitude to keep interest rates unchanged. Producer inflation moderated to 6.7% year-on-year in October supported by lower global oil and food prices.

Growth remains elusive, with the seasonally adjusted annualised third-quarter GDP increasing by 1.4% quarter-on-quarter, up from a revised 0.5% rise in the second quarter. Looking forward, the economy is unlikely to expand sufficiently to create jobs in the near term.

ODDS AND ENDS

WHAT IS SPOTIFY?

Spotify, the company at the forefront of streaming music around the world, reported earning revenue of $1 billion in 2013 and net losses of US$80 million. The company pays about 70% of its revenue to record companies and music publishers in royalties.

Started in Sweden in 2008, Spotify expanded to the US three years later and is now available in 58 countries around the world. It makes millions of songs available by subscription, usually at around US$10 a month, or free with advertising. The growing popularity of streaming has led to a drop in sales of CDs and downloads around the world.

Controversially, however, more people listen to Spotify for free than paying for it. The royalty rates Spotify pays to music companies for the free streams are substantially lower than those for the paid ones. This has led to backlash from artists, such as Taylor Swift who removed her entire catalogue from Spotify in November.

THE GLOBAL WARMING AGENDA

US President Barack Obama and Chinese President Xi Jinping signed what could be the third-most-significant climate change deal in the past 25 years.

The first significant step in climate diplomacy came in 1992 when 165 nations agreed on how the UN would conduct negotiations on a treaty to limit climate pollution. This was followed by the Kyoto treaty that held developed nations to carbon dioxide emission cuts while only encouraging developing nations to adopt cleaner processes. China, despite being the world's biggest carbon polluter, remained exempt from carbon cuts.

Under the new agreement both US and China have pledged to reduce their carbon emissions. China committed to braking the rise in its emissions so that they would peak around 2030 and then remain steady or begin to decline. The US promised to emit 26% to 28% less carbon dioxide by 2025.

Many scientists have expressed a concern that this is too long a time-frame to keep the average global temperature from rising more than 2 degrees Celsius above the pre-industrial average, the goal adopted by governments worldwide in Copenhagen in 2009. To compound the problem, the US agreement is not a formal treaty, but rather a relatively weak pledge. It could thus be easily cancelled by the next occupant of the Oval Office.

WORLD'S MOST EXPENSIVE WATCH

The Patek Philippe Supercomplication pocket watch, hailed as the world's most complicated watch made entirely by hand, sold for US$24 million at Sotheby's in Geneva, setting the new record price for any timepiece sold at auction. The watch's 24 functions include playing the melody of the Westminster chimes and displaying the night sky over New York's Central Park. It was made for a New York banker, Henry Graves Jr., in 1933, who paid US$15,000 for the watch. He is often credited with keeping the Swiss watchmaker in business during the Great Depression.

RHINO HORN – THE NEW GOLD

A record 1 020 rhinos have been killed by poachers for their horns in South Africa this year, more than the 1 004 killed in 2013 and triple the number of four years ago. The Kruger National Park has seen 672 rhinos killed since January. The horns are more valuable than gold by weight. Prices for a kilogram of rhino horn range from US$65 000 to as much as US$95 000 in Asia.

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