SYGNALS

KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	4.2%	8.8%	9.8%	18.6%	13.9%	15.4%	6.5%
J200T	FTSE/JSE Top 40 Index	5.0%	10.2%	10.5%	17.4%	13.8%	14.8%	5.9%
J210T	FTSE/JSE Resources 20 Index	6.3%	11.7%	2.9%	-1.1%	1.2%	5.2%	-1.1%
J211T	FTSE/JSE Industrials 25 index	4.7%	10.6%	16.9%	31.9%	25.0%	24.8%	14.7%
J212T	FTSE/JSE Financials 15 Index	2.0%	4.2%	9.0%	30.3%	17.4%	16.2%	5.3%
J403T	FTSE/JSE SWIX Index	3.3%	7.4%	9.7%	21.8%	15.5%	16.8%	7.7%
J303T	FTSE/JSE CAPI Index	4.2%	8.8%	9.7%	18.7%	14.1%	15.7%	7.3%
ALBI	BESA All Bond Index	-0.6%	0.4%	7.8%	13.2%	10.4%	12.5%	10.1%
STeFI	STeFI Index	0.4%	1.3%	2.8%	5.6%	5.7%	6.2%	7.9%
	MSCI World Index in SA Rands	3.7%	9.8%	13.6%	19.3%	17.6%	11.7%	2.8%
	Rand/US Dollar Exchange Rate	4.4%	4.9%	11.6%	9.0%	11.4%	3.5%	5.8%
	Rand/Euro Exchange Rate	5.2%	10.7%	9.3%	2.0%	7.6%	-0.7%	3.6%
	Headline CPI	0.9%	1.5%	2.2%	5.5%	5.6%	4.8%	6.4%
	Core CPI	0.3%	1.1%	2.1%	4.7%	4.5%	4.2%	5.6%

"If we continue to close our eyes to existing 8% of GDP deficits, then we will begin to resemble Greece before the turn of the next decade. The US and its fellow serial abusers have been inhaling debt's methamphetamine crystals for some time now, and kicking the habit looks incredibly difficult."

Bill Gross, Chief Investment Officer of PIMCO, in a monthly investment report

October brought turmoil to South Africa in the strongest challenge yet to the ANC-led government, as a series of strikes in the mining and transport sectors triggered sovereign rating downgrades. Hard-charging markets, spurred by expectations that Greece will not be kicked out of the euro and that the ECB and the US Fed will use their balance sheets to provide support, were rattled by Spain's resistance to ask for aid and an apparent back-pedalling by Germany, Finland and the Netherlands over the recapitalisation of Spanish banks. Month-end brought havoc to the US as Hurricane Sandy swept through the East Coast, leading to a two-day close of the New York Stock Exchange.

EQUITY MARKETS RISE ON UNLIMITED CREDIT ANNOUNCEMENT

The equity markets started the quarter on an up, despite subdued economic data.

China's manufacturing activity contracted for a second month in September, with the official PMI reading at 49.8, a modest improvement on the 49.2 recorded in August - a PMI reading below 50 indicates contraction. However, the wide-ranging opinion is that the economy has bottomed out, with short-term indicators, including exports, inflation and retail sales, all pointing to stabilisation. The third quarter GDP figure of 7.4% year-on-year was in line with expectations, although lower than the 7.6% recorded in the second quarter. China is preparing for a once-in-a-decade leadership change, set to start at a key Communist Party congress scheduled for 8 November, which may well change policy dynamics in the region.

At 4.61 tThe European manufacturing PMI, was broadly in line with expectations and up on the 45.1 registered in August. The individual countries' figures point to most economies stabilising, albeit at very weak levels. France is perhaps the new worry, with its PMI falling to the lowest level in three-and-a-half years. The unemployment rate in the euro zone rose to 11.6% in September, with Spain coming in at 25.8% and Greece at 24.4%. In comparison, German unemployment stood at 5.5%.

On a positive note, the data out of the US was healthier, with the manufacturing sector expanding for the first time in four months. The IMS manufacturing PMI rose to 51.5 in September, up from 49.6 in August. The unemployment figure came in at a surprisingly low 7.8%, a great boost to President Barack Obama's re-election campaign. The last time unemployment fell below 8% was in January 2009, the month Obama took office. The upbeat momentum continued with stronger retail sales data, improving consumer sentiment and better new home sales numbers, all calling into question the extent of the US Fed's latest bond-buying programme. The US economy grew at an annual rate of 2.0% in the third quarter, up from 1.3% in the previous quarter, largely as a consequence of stronger than expected consumer spending.

On the geo-political stage, the euro zone continued to muddle through.

Greece unveiled a new austerity budget, including a further €11.5 billion of spending cuts demanded by the "troika" of IMF, EC and ECB inspectors, whose approval is vital for the unlocking of the next instalment of aid. In exchange Greece is seeking a two year extension to the original reform programme. However, the inspectors have made it clear that Greece needs to put in more effort to rein in the budget deficit and deregulate the economy.

German Chancellor, Angela Merkel, visited Athens, vowing to stand by the country as "partner and friend". This was interpreted as a sign that Germany has decided not to kick Greece out of the euro. It has been rumoured that Merkel has come under pressure from US and NATO allies to prevent a political upheaval in the Eastern Mediterranean. The Antonis Samaras coalition is seen as a last chance for a stable, pro-European government in Greece. If it were to exit the euro, the next government would most likely be an extremist one, opening the way for a re-armed Russia to gain a foothold in the Balkans. The concerns seemed justified when Russian President Vladimir Putin waded into the debate by saying that Greece would "have a way out" if it could return to the drachma. Putin also criticised Europe for charging ahead prematurely with the euro project "for political reasons".

The Spanish banking system is looking increasingly fragile, with bad loans as a proportion of total lending jumping to a record 10.5% in August, up from 0.7% in December 2006, before Spain's property boom went bust. Both lending and deposits continue to fall. To add to the bleak picture, Moody's warned that Spanish banks may need between €70 billion and €105 billion in capital, twice the official estimate. Germany has once again refused to let the euro zone's future bank supervisor rescue the banks directly, which is very bad news for Spain's soaring public debt.

The S&P downgraded Spain to BBB-, one step above junk, citing the deepening recession and the banking crisis as justification. It also cut the ratings of 11 lenders including Spain's two largest banks. Moody's, although affirming its investment grade rating of Spain, cut the ratings of five Spanish regions.

Spain's economy fell by 0.3% in the third quarter, a fifth consecutive quarter of contraction, as domestic demand slumped. And yet, in a game of ultimate brinkmanship, Prime Minister Mariano Rajoy insisted that Spain has no immediate need to ask for outside aid.

On the other hand, Britain exited the recession, posting its strongest quarterly GDP growth in five years. The 1.0% third quarter figure was flattered by the Olympics Games and an automatic bounce-back from the lost working day due to the Queen's Diamond Jubilee. However, the news was a boost for a government under pressure to show that austerity efforts have not choked off growth.

In the US, the policy debates between President Barack Obama and the Republican-nominee, Mitt Romney, took centre stage. After losing the first debate and, with it, the lead in the opinion polls, Obama came out fighting. The two were running neck-in-neck until the highly visible and competent management of the Hurricane Sandy disaster gave Obama's campaign an unexpected lift.

A sharp fall in Japanese export numbers in September (10.3% in year-on-year), reflected both the global slowdown and the impact of anti-Japan protests in China, triggered by the dispute over the Diaoyu Islands. The islands are surrounded by rich fishing grounds and are adjacent to natural gas resources. By month-end the Bank of Japan announced a US$139 billion expansion to its asset-buying programme in yet another effort to boost the economy.

The South African rand plunged to its weakest levels against the US dollar in more than three years as mining strikes, sovereign downgrades and political tensions battered investor confidence. The rand weakened to R8.93/US$1, its lowest since April 2009, before regaining some ground by month-end. Despite the downgrades the South African equity market roared ahead with a string of record highs reached on foreign buying.

The gold price failed to break through a key US$1 800 an ounce level as stronger US economic data tempered expectations of the scope of the Fed's latest stimulus programme. Oil prices, on the other hand, oscillated around the US$110 a barrel level, with tensions in the Middle East outweighing concern over sluggish global demand. Turkey was the latest to enter the fray with tensions between Turkey and Syria increasing after cross-border firing accidentally killed Turkish civilians and Turkey scrambled fighter jets and briefly detained a Syrian passenger plane. Prices also came under pressure from Hurricane Sandy which is expected to depress US oil consumption.

The second half of the month was dominated by the sentiment swings around third quarter earnings reports coming out of the US. On balance these were muted, particularly in the technology industry, with giants such as IBM, Intel and Google all reporting weaker revenue lines. Even Apple disappointed as research and development costs rose more than expected. The announcement coincided with the unveiling of a slew of new products, including the iPad mini and the iPad 4th generation.

Month-end brought more concerns as preliminary October manufacturing and services PMI figures for Germany showed an unexpected fall to 48.1 in October. Adding to the bleak picture, Markit's Composite PMI for the euro zone fell to a 40-month low of 45.8 in October, down from 46.1 in September.

With EU policymakers set to debate the issue of Greece, the reaction to a leaked draft report by the ECB-IMF-EC inspectors once again highlighted the cracks. The draft report proposes that the EU should write off some of its loans to Greece to help bring its debt to a sustainable level. To date, only private investors such as pension funds and banks have suffered write downs. The ECB was quick to point out that this would amount to illegal state financing, while the IMF has never accepted any losses on its balance sheet. Hence the write-downs would fall directly onto the shoulders of the euro zone bail-out fund. The concept is hugely controversial in Germany, where Merkel has promised taxpayers that bail out loans to southern Europe carry no risk.

The US Fed Chairman Ben Bernanke re-affirmed his commitment to buying US$40 billion in mortgage-backed securities each month for an indefinite period and to keeping interest rates low. Despite recent figures pointing to an improvement in the economy, the Federal Open Market Committee said growth remained "moderate".

Stocks fell as investors fretted about Hurricane Sandy, dubbed "Frankenstorm", which led to the closure of the New York Stock Exchange on 29 and 30 October, the first such shut-down since the four-day stretch in the wake of the attacks on the World Trade Centre on 11 September 2001.

In Italy, one day after being found guilty of tax fraud, former premier Silvio Berlusconi called on his People of Liberty Party to "decide whether to immediately withdraw support of the government" as the recession deepened. Berlusconi's Party is the largest in Italy's parliament and the withdrawal of its support would result in an early election.

FOCUS ON SOUTH AFRICA

"The most fundamental problem of the mining industry is that it has a 19th century business model which depends on cheap, low-skilled labour, and therefore a large numbers of workers. It's not sustainable. We need to start the conversation around the medium and long-term restructuring of the industry."

Mamphela Ramphele, the chairwoman of Gold Fields, in an interview

Credit rating shocks

The continuing mining strikes in South Africa triggered unexpected sovereign credit rating downgrades by both Moody's and S&P, and a slew of negative headlines in the Wall Street Journal, The Washington Post, The Financial Times and the Economist. All described South Africa as sliding downhill while much of the rest of Africa was on its way up.

Moody's cut its sovereign credit rating by one level to Baa1 in September, citing increased pressure to boost social spending as job losses mount, the government's "diminished capacity" to handle its political and economic challenges and a more negative investment climate. S&P followed in October by lowering its rating to BBB.

Next came the sub-sovereign cuts. Moody's cut its rating for Eskom, Telkom, the IDC, the DBSA and 12 municipalities, including Cape Town, Ekurhuleni, Johannesburg, Nelson Mandela Bay and Tshwane, which between them account for 25% of the country's population. Deposit ratings of Standard Bank, Absa, FirstRand, Nedbank and Investec followed, as did the rating of Old Mutual. All were also placed on a negative watch, meaning further downgrades are likely unless conditions improve. S&P followed suite.

Fitch plans a rating review in January 2013 after the ANC election.

Unlike sovereign downgrades in the EU, South Africa's downgrades are not a function of a tougher economy, but rather a reflection of thedomestic political environment, which has created a high degree of uncertainty. Perversely, the ratings downgrades have been useful for the National Treasury on two fronts, firstly in convincing the Constitutional Court to overturn the e-tolling interdict, and secondly in convincing politicians that profligate spending has consequences.

On the economic front the IMF cut its forecasts for South Africa's GDP growth to 2.6% this year, and 3.0% in 2013, while Africa is expected to grow at 5.0% and 5.7% respectively. Short-term data in September supported the longer term outlook, with the manufacturing PMI falling to its lowest level in three years (Kagiso PMI fell to 46.2 in September, from 50.2 in August), on falling demand for exports.

Consumer inflation accelerated to 5.5% year-on-year on higher food and petrol prices. Going forward the above-inflation wage settlements in the mining sector and a surge in unsecured lending are likely to continue to fuel consumer spending, which remains robust, exerting an upward pressure on inflation and making further interest rate cuts unlikely.

On the corporate front strike action slowly dissipated as platinum miners, Lonmin and Implats, reached direct settlements with workers. Gold Fields, AngloGold and Harmony, however, have remained adamant they will not negotiate outside of

the collective bargaining forum for fear of rendering future wage agreements worthless. They have committed to starting collective wage negotiations earlier than normal. The current deal expires at the end of June 2013. The current agreement does leave room for negotiations on the lowest-paid category of wages and hence the agreement to eradicate the category.

The government's response has been to promise to roll out "an action package" to address the housing needs of mining communities, the high levels of personal debt and the challenge of high income and wage disparities which create resentment. President Zuma announced that approximately R4 trillion would be spent over the next 15 years on infrastructure projects. This, by and large, is a repeat of the spending figures already announced in the February budget.

SAA announced that it is in a far more serious financial position than previously thought and will need much more than the R5 billion guarantee it controversially secured from the government. The airline is expected to report a loss of R1.25 billion for the past financial year as rising fuel costs now account for 34% of its expenses.

Eskom has asked the NERSA to increase electricity tariffs for the next five years by an ambitious 16% a year, starting in April 2013. Given its healthy balance sheet Eskom is more than likely hoping to settle on something closer to 10% per annum.

Anglo American's share price reacted positively to the news that its CEO, Cynthia Carroll, had resigned.

And e-Tolling is set to commence on 12th December or thereabouts, albeit at lower tariffs than initially suggested.

Medium Term Budget Policy Statement

The MTPBS had to rise to the challenge of reassuring local and foreign investors of South Africa's political and economic stability. Although, by itself, it will not stablise the country's credit rating, it is an important first step. The next steps are an end to labour unrest and a clear outcome from ANC's elective conference in Mangaung.

The main theme of the MTPBS, presented by the Finance Minister Pravin Gordhan, was to restrain spending over the next three years. Unlike previous years when, the MTPBS always increased the main budget's spending allocations, this time around there was no upward adjustment of the 2012 budget's spending of R1.15 trillion. In fact, Gordhan ordered government departments to prepare 2013 spending plans within 2012 expenditure baselines. Given that the government has concluded a three-year public sector wage settlement of increases of 7% plus pay progression this year, and CPI plus 1% in the coming years, Gordhan indicated that personnel numbers will need to be controlled. The National Treasury seems confident that there has been a widespread buy-in from the politicians on the need to contain public sector remuneration.

Other key features of the MBPS were:

- GDP growth for 2012 has been revised downward from 2.7% in February to 2.5%. The growth rate is set to improve to 3% next year, 3.8% in 2014 and 4.1% in 2015.
- Consumer price inflation is forecast to remain below the target limit of 6% over the next three years, at 5.7% this year, 5.5% in 2013, 5.1% in 2014 and 4.9% in 2015. But food price inflation will rise to 9% in 2013, up from 5.1% in August this year.
- The current account deficit is expected to widen to 5.9% of GDP in 2012, up from 3.3% in 2011, as the trade balance deteriorates, narrowing to 5.5% in 2015/16.
- Slower economic growth and falling tax revenue have also forced the National Treasury to raise its budget deficit forecasts for the next three years. Budget deficit has been revised upward to 4.8% of GDP, falling to 4.5% in 2013/14 (again significantly higher than the 4% budget forecast), to 3.7% in 2014/15, and to 3.1% in 2015/16.
- Gross debt is set to increase to 42.4% of GDP in 2013/2014, peaking at 42.7% in 2013/14. Public debt will rise from 35.7% of GDP this fiscal year to 39.2% in 2015/16, while the cost of servicing the debt will climb from R89 billion this year to R114.8 billion in 2015/16, more than the budget allocations to policing and schools and second only to welfare payments.
- National Treasury estimates that the total value of production lost to the platinum and gold mining strikes since the start of the year has amounted to about R10.1 billion.

2011 Census highlights

According to the 2011 Census data, South Africa's population increased by 7 million to 51.77 million people between 2001 and 2011. Nearly 52 million people are under 39 years of age. Th eproportion of the population that has completed higher education has increased to 11.8%, from 8.4% in 2001. There are 14.45 million households across South Africa, averaging 3.4 people.

The census showed the average annual household income had more than doubled in the past decade, to R103 204. Gauteng has the highest employment rate at 70%, followed by the Western Cape at 67.9%. The Eastern Cape comes in the lowest at 43.4%.

According to official 2011 Census data, 29.8% of South Africans are unemployed, with the figure increasing to 40% once those who have given up looking for work are included. The figures are significantly higher than the Statistics SA's quarterly labour force survey estimates, due to different calculation methodologies and the fact that the QLFS captures more short-term and casual workers in its sample.

Revised BEE codes lift the bar higher

The draft revised BEE codes, which have been made available for public comment for 60 days, will wreck havoc with the BEE ratings of companies who do not meet minimum targets with regard to newly introduced "priority elements": ownership, enterprise development and skills development. If companies do not achieve a minimum compliance of 40% of the targets for these elements their overall contributor status will be reduced by two levels if they are large entities and by one level if they are qualifying small enterprises. It is therefore key for business to comment as soon as possible.

WORLD STAGE EVENTS EXPLAINED

IMF growth forecasts

The IMF cut its global growth forecast to 3.3% in 2012 and 3.6% in 2013 The US's growth is expected to equal 2.0% in 2012 and 2013, the euro zone's -0.4% and 0.2%, and China's 7.8% and 8.2%. Emerging economies are expected to expand by 5.3% and 5.6% in 2012 and 2013 respectively, with the sub-Saharan Africa's GDP set to grow at 5% in 2012 and 5.7% in 2013.

European Union's path of austerity bears fruit

On a positive note, European countries sharply reduced their deficits last year as governments pushed ahead with austerity measures. The deficit of the 17 euro zone governments fell to 4.1% of GDP in 2011, down from 6.2% in 2010, while debt rose to 87.3% of GDP at the end of 2011 from 85.4% a year earlier. For all 27 EU nations, the deficit shrank to 4.4% in 2011 from 6.5% a year earlier, even as debt grew to 82.5% of GDP from 80%.

The Magic Wand

It seems there is a magic wand to debt elimination after all. A controversial research paper claims that one could eliminate the net public debt at a stroke by replacing the system of private bank-created money, roughly 97% of the money supply, with state-created money simply by forcing banks to put up 100% in reserves to back deposits. The IMF study, entitled "The Chicago Plan Revisited", by Jaromir Benes and Michael Kumhof, came out in August and has begun to acquire a cult following around the world. The original authors of the Chicago Plan were responding to the Great Depression.

The theory also has strong critics who point out that banks are already being forced to increase reserves by EU rules, Basel III rules, and gold-plated variants in the UK. The effect has been to choke lending to the private sector.

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Sygnia Asset Management Registration No. 2003/009329/07

Directors: S. Mkhwanazi* | S. Peile | M. Wierzycka | M van der Merwe | *non-executive directors
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

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