~ SEPTEMBER 2012 ~

SYGNALS

KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	1.6%	7.3%	8.3%	24.4%	13.5%	16.0%	6.6%
J200T	FTSE/JSE Top 40 Index	1.8%	7.6%	8.2%	23.4%	13.0%	15.3%	5.8%
J210T	FTSE/JSE Resources 20 Index	5.7%	3.0%	-0.4%	3.7%	2.3%	5.6%	-2.0%
J211T	FTSE/JSE Industrials 25 index	-0.4%	11.8%	15.7%	39.1%	23.1%	25.1%	15.0%
J212T	FTSE/JSE Financials 15 Index	0.0%	5.3%	9.2%	35.9%	14.5%	17.3%	7.3%
J403T	FTSE/JSE SWIX Index	1.2%	7.3%	9.1%	27.0%	15.0%	17.2%	8.4%
J303T	FTSE/JSE CAPI Index	1.6%	7.3%	8.3%	24.5%	13.7%	16.3%	7.5%
ALBI	BESA All Bond Index	0.9%	5.0%	10.5%	17.0%	11.3%	12.7%	10.6%
STeFI	STeFI Index	0.4%	1.4%	2.8%	5.6%	5.8%	6.3%	8.0%
	MSCI World Index in SA Rands	1.7%	8.9%	9.8%	24.8%	17.8%	11.1%	1.6%
	Rand/US Dollar Exchange Rate	-1.0%	2.0%	8.4%	2.6%	9.3%	3.4%	3.9%
	Rand/Euro Exchange Rate	1.2%	3.4%	4.5%	-1.4%	6.2%	-1.0%	1.7%
	Headline CPI	0.2%	0.8%	2.4%	5.0%	5.2%	4.6%	6.4%
	Core CPI	0.2%	1.5%	2.9%	4.7%	4.5%	4.2%	5.6%
	PPI	0.7%	6.8%	7.5%	5.1%	7.3%	7.5%	7.2%

"Europe is on the way out of the crisis, but there is still work to do. I see a tendency of losing the sense of urgency both on short-term policies and on longer term. This must not happen."

Herman Van Rompuy, the EC president calling on EU members to maintain momentum

Touted as a key month for the future of the eurozone, September did not disappoint, bringing more monetary relaxation, but few long-term answers. Unfortunately, political events threatened to spoil the party mood. From chaos in the Middle East, and protests in Spain and Greece to the crippling mining strikes in South Africa, the month lurched from one surprise to the next.

EQUITY MARKETS RISE ON UNLIMITED CREDIT ANNOUNCEMENT

The month started on an up as the gold sector attracted some interest after the August sell-off. The gold price rose to above US$1 780 an ounce by month-end, ending the quarter 11.5% up, as investors once again viewed the metal as a hedge against inflation.

Oil prices, on the other hand, struggled to stay above US$110 a barrel as economic data pointed to a further slowdown of the world's second-biggest oil consumer, China, while Opec confirmed rising oil production levels as Angola and Nigeria filled the void left by Iran. Only an incendiary anti-Islamic video posted on YouTube, which triggered violent protests across the Middle East, and more tensions over Iran kept the pricing pressure up.

On the economic front, China's official factory PMI fell to 49.2 in August, the first time since November 2011 that the number has fallen below 50, which separates expansion from contraction. China's imports shrank by 2.6% year-on-year in August, while exports rose by 2.7%, a far cry from the double digits we have become accustomed to. Exports generate 25% of China's GDP and support an estimated 200 million jobs. After lower interest rates and banks' reserve requirements seem to have had little impact, Chinese government announced a new US$150 billion infrastructure spending package to bolster the economy.

Unsurprisingly, the Markit's manufacturing PMI for the eurozone came in at 45.1, above July's three-year low of 44, but still the 13th consecutive month below the 50 mark. August's composite PMI, which measures manufacturing and services together, fell to 46.3. And unemployment held steady at 11.3%. In bad news for the region, Standard & Poor's announced that the eurozone will not return to growth till 2014. The credit rating agency has cut its forecasts for the region, predicting a contraction of 0.8% this year, and stagnation in 2013.

In the US, the same PMI measure notched a disappointing 51.5. On the upside the unemployment rate fell to 8.1%. In yet another revision, the US economy grew by 1.3% in the second quarter, less than previously forecast, reflecting slower gains in consumer spending and farm inventories.

Moody's lowered the European Union's long-term credit rating outlook from stable to negative on the back of the credit risks posed by the bloc's key budget contributors, including Britain, France and Germany, all of which have been slapped with negative outlooks this year.

On the political front US President Barack Obama continued to campaign against Republican challenger Mitt Romney to remain in the White House for a second term, while British Prime Minister David Cameron reshuffled his cabinet in an attempt to revive the Conservative government's flagging fortunes.

In an escalating game of brinkmanship Spain indicated that it will not accept a full bail-out from Europe if the terms are too harsh. Having implemented a series of austerity measures Spain is very concerned about how hard its EU partners will push for additional spending cuts in return for rescue funding. Unfortunately, willing or not, markets believe that Spain is heading for a bail-out. With unemployment at 24.6%, an unstable banking system dependent on loans from the ECB and the real prospect of secession of Catalonia, Spain is in no position to bargain. In fact, by month end, Catalonia had asked for guidance from the EU on the legality of secession and called for a snap poll on 25 November deemed as a proxy referendum on independence. The Bank of Spain reported that bad loans in the banking system rose to a record 9.9% in July and lending fell 4.5% from the year earlier. Social unrest intensified as thousands demonstrated in Madrid against Prime Minister Mariano Rajoy's handling of the country's financial crisis.

Meanwhile, the Greek economic situation deteriorated as the Greek government failed to agree on an additional €11.5 billion of spending cuts needed to secure the next €31 billion tranche of international aid (although apparently only €2 billion is contentious). This is not helpful at a time when, in addition to waiting for aid, Greece is trying to negotiate cheaper rates on its €130 billion aid deal and at least two more years from the EU and IMF to meet its targets. Meeting with the troika of the IMF, EU and ECB, Greece also admitted that only 22% of the country's planned austerity cuts were implemented last year and that it will need a third bail-out. The troika put off making a firm decision on Greece until after

the US elections, but tensions are running high. The government is worried that the next round of cuts will be too severe to be viable politically and that the EU, with the help of the IMF, is setting Greece up for a fall.

But economic fundamentals and political strife were overshadowed by major policy decisions.

In Europe, ECB President Mario Draghi announced that the bank will launch a potentially unlimited bond-buying programme to lower struggling EU countries' borrowing costs. The scheme will focus on bonds maturing within three years. Details as to the timing and size were left blank. Draghi left interest rates unchanged at 0.75%.

The German Constitutional Court declared the permanent bailout fund, the European Stability Mechanism, as legal, clearing the way to use it to recapitalise troubled banks and governments. The Dutch re-elected pro-euro parties in the parliamentary election.

And across the Atlantic, the US Fed embarked on an unlimited third round of quantitative easing. Announcing a purchase of US$23 billion of mortgage bonds by the end of September (a pace of US$40 billion in purchases a month), the Fed confirmed it will announce a new buying target at the end of this month, and every subsequent month, until the labour market outlook improves "substantially". The emphasis on mortgage-backed bonds is a shift from more recent stimulus efforts that focused primarily on buying Treasury bonds. This was supported by a stated intention to hold short-term interest rates near zero at least through the middle of 2015, roughly half-a-year longer than before.

Commodities and equity markets rose on the announcement. Even the news that the US budget deficit for fiscal 2012 crossed the US$1 trillion mark in August, marking a fourth consecutive year of US$1 trillion-plus deficits, was largely discounted. The S&P 500 and the Dow Jones both registered their best closing levels since December 2007, while the effective interest rate on Spanish 10-year bonds fell below 6% and Italian bonds below 5% for the first time since April.

This was also welcome news for the South African rand which, until then, had trended weaker on the continuing mining crisis. The strikes which flared up at Lonmin's Marikana mine in August spread to Amplats' Rustenburg operations, AngloGold Ashanti and Gold Fields' KDC and Beatrix mines in September. The unrests, widely televised globally, have damaged foreign perceptions and are likely to reflect in the third quarter growth numbers. The news that the second-quarter current account gap widened to its largest level in three years at 6.4% of GDP added to the negative momentum.

A mid-month meeting of the EU finance ministers sobered the mood. Spain, bolstered by the ECB initiative, demanded a quick timetable and favourable terms for its bank rescue program. Germany rejected the idea, insisting that the rescue can only happen after a single regulator working under the ECB's supervision is in place in January 2014. But the devil is in the detail. Germany is particularly reluctant to give such a regulator oversight of their Sparkassen, the hundreds of small and midsize savings banks that do much of the lending to consumers and small businesses.

The markets moved down as concerns about Spain's desire for an international aid package grew. Taking such aid is a precondition for the ECB buying Spanish bonds to lower its debt yields. However, unless Spain makes a move soon, markets will force the spreads up again, forcing Spain's hand. In the meantime, Spain cashed in on the current benign conditions with a number of bond auctions through the month.

"Flash" September manufacturing PMI for China, at 47.8, signified an 11th straight month of contraction, while Markit's US PMI came in unchanged at 51.5.

But there was also some positive economic news. US existing home sales rose at their fastest pace in two years, and housing prices climbed by the most in a year in the latest indication that a recovery in the housing market is gaining traction. Confidence among American consumers rose more than forecast in September to a seven-month high.

By month-end concerns about European and Chinese growth came to the fore again, while Germany and France clashed over the timetable for the introduction of joint oversight of the region's banking sector, with Germany rebuffing France's appeal to activate it as quickly as possible. Another point of contention was the terms on which ailing states should request bailout assistance, with Germany taking a much tougher stance.

There are other cracks in the system as well. Germany's central bank accused the IMF of spraying around money like confetti and overstepping its legal mandate as the IMF's chief, Christine Lagarde, called for urgent measures across the world to head off a fresh global slump. At the same time the non-EU members of the IMF expressed concerns about the way it has been dragged into badly-constructed rescue packages.

Most worryingly Germany, Holland and Finland seemed to renege on the June summit deal by announcing that the ESM could not be used to cover "legacy assets" from past banking crises, even after the eurozone's banking supervisor is in place. This effectively prevents the ESM from directly recapitalising Spanish banks under the €100 billion loan package. The extra burden, estimated at 6% of their GDP, will fall entirely on the Spanish state, upping the ante for a bail-out.

On the commodities front platinum prices fell after Lonmin agreed to a 22% wage increase at its stricken Marikana mine, but rose again as problems at Amplats continued. Amplats warned that the prolonged strike action in the face of a two year wage agreement which only expires next year threatened the viability of its mines, while AngloGold Ashanti suspended production at all of its operations in South Africa.

Markets fell following violent protests in Spain ahead of the 2013 budget announcement and a general strike in Greece. Spain's borrowing costs edged back past 6% as the Bank of Spain warned that the recession in the country is deepening with economic output sliding at a "significant pace" in the third quarter. As expected, Spain announced a detailed timetable for economic reforms and a tough 2013 budget based primarily on spending cuts in what was interpreted as an effort to pre-empt the likely terms of a bail-out. In addition the latest independent audit showed that Spanish banks have a capital deficit of €59.3 billion, less than previously estimated. Both events steadied market sentiment.

France followed suit with what has been billed as the toughest and most ambitious budget in three decades with over €30 billion of austerity cuts and tax hikes designed to cut France's deficit to 3% of GDP by next year. But the budget dismayed business by opting for tax hikes, including a 75% tax on those earning over €1 million a year, rather than cutting spending. France is on the verge of a recession, but with public debt at 90% of GDP, it has little choice but to eventually cut spending.

The South African bond market ended the month on a negative note after Moody's unexpectedly downgraded South Africa's sovereign credit rating, quoting the government's "diminished capacity" to handle the evolving political and economic situation and a more negative investment climate in the wake of strikes in the mining sector, as reasons. The ratings agency lowered its A3 rating by one notch to Baa1 and kept a negative outlook over the "policy uncertainty" ahead of the ANC conference in December. Credit ratings help to determine a country's cost of borrowing. The decision brings Moody's rating in line with that of Fitch and Standard & Poor's.

SOUTH AFRICA

The South African economy continued to slow down with the key indicator, the manufacturing PMI, falling to 50.2 in August, from 51.0 in July. On the demand side, retail sales growth slowed to 4.2% year-on-year in July compared with a revised 8.6% in June. The continuing instability in the mining sector is likely to reinforce the trend in the third quarter.

The global economic slowdown is beginning to have a visible impact, with the current account recording its largest deficit in four years in the second quarter of 2012 on falling exports. The current account gap widened to 6.4% of GDP from 4.9% in the first quarter. The figure has highlighted South Africa's enormous dependence on foreign investment inflows. The inflows into the South African bond market have by and large funded both the current account and the budget deficit over the past three years. South Africa received R78 billion in foreign bond inflows year to date in 2012, following on from R45 billion in 2011 and R56 billion in 2010. The picture may well change if the mining situation is not contained.

Consumer inflation picked up to 5.0% year-on-year in August. Inflation is expected to trend upwards on higher petrol and food prices, but to remain within the Reserve Bank's 3% to 6% band until the end of 2014. Real GDP growth is expected to average 2.6% in 2012 and 3.4% in 2013. The Reserve Bank kept interest rates steady at 5.0%.

The unrest within the mining sector continued to dominate the news. What started as a tragic incident at a platinum mine spread to the gold sector through September. The key issues highlighted by the situation have been the large disconnect between the NUM leadership and its members, the large (60%) income disparity between permanent and contract workers employed by most mines and the appalling living conditions of most mine workers. Thuggish policing merely incited an already volatile situation. The most worrying aspect for the already struggling gold industry has been the failure of the central bargaining forum to offer protection against strikes and wage demands as workers sidelined traditional representatives for direct negotiations with management. One of the features of the gold industry, as opposed to the platinum industry, is that all gold mining companies negotiate jointly with the trade unions. Gold Fields' Driefontein mine had little choice but to threaten dismissals. Amplats and AngloGold followed suit. By month-end strikes spread to the transport industry, with truck drivers swelling the ranks of those on strike in South Africa to 100 000.

On the environmental front, the government task team investigating hydraulic fracturing in the Karoo recommended its conditional approval, while a monitoring committee was constituted to develop a supervisory framework for the future.

And in a bad news for Gauteng residents, the Constitutional Court rescinded the interim interdict preventing e-tolling granted by the Pretoria High Court in April.

GLOBAL SNAPSHOTS

Japan vs China

An unexpected territorial dispute between Japan and China has led to widespread demonstrations and the closure of Japanese shops and manufacturing plants in China. The dispute was triggered by the Japanese cabinet's approval of a US$26 million purchase of uninhabited islands claimed by both countries, known as Diaoyu in Chinese and Senkaku in Japanese, from a private Japanese owner. China called the move "blatantly illegal". The possible retaliatory action threatens the US$340 billion trade relationship between Asia's two biggest economies.

Iran

Iran's currency fell to a new record low against the US dollar as the central bank announced it was trying to manage the plunge amid an "economic war with the world". The situation is likely to worsen after the US government officially linked

Iran's state oil company to the country's Islamic Revolutionary Guard Corps, allowing Washington to apply new sanctions on foreign banks dealing with the company. The move means Iran could struggle to find ways to ship its oil to consumer nations, especially in Asia, where buyers are already being deterred by a lack of European insurance cover. And Britain, France and Germany have officially called for new EU sanctions against Iran over its nuclear programme, while the US, Britain and France warned at the UN Security Council that time is running out for a negotiated solution.

Spain vs Italy

There is mounting speculation that Spain is waiting for Italy to join it in seeking aid. But the two countries face different challenges. While Italy's deficit was 3.9% of GDP last year, its €1.9 trillion debt amounts to 120% of GDP, the highest burden in the euro region after Greece. Spain, on the other hand, is struggling to rein in a deficit that reached 8.5% of GDP last year, even as its €735 billion of debt, or 69% of GDP, is the lowest of the four biggest euro members. Italy's economy contracted by 0.8% in the second quarter, twice the pace of Spain's, even as Italy's jobless rate is less than half the 24.6% suffered by Spain.

Catalonia

The wealthiest of Spanish region, Catalonia, which borders France and has its own language, contributes a fifth of the Spanish economy. Its capital, Barcelona, is the second largest city in Spain after Madrid. The region contributes €15 billion, or 8% of its economic output, to the rest of Spain each year. Catalonia has been part of a united Spain since 1714, although its level of autonomy has varied over the years.

WORLD STAGE EVENTS EXPLAINED

French tycoon applies to be Belgian

Bernard Arnault, France's richest man and chief executive of luxury group LVMH, applied for Belgian nationality, citing personal and business reasons. He announced the move a day after French President Francois Hollande said he would press ahead with a new tax on the super rich of 75% on revenue exceeding €1 million per year.

Sunday Times Rich List

Patrice Motsepe, worth R20 billion, topped the Sunday Times' Rich List for the second year running. Second ranked was retail mogul Christo Wiese with R15 billion, and third was Lakshmi Mittal with his stake in ArcelorMittal valued at R13 billion. Each person on the top 20 list was worth more than R2 billion, with the top 30 each worth more than R1 billion. 16 of the top 20 are self-made entrepreneurs.

All the calculations are based on disclosed investments in listed companies.

Former Goldman banker to publish a book

Greg Smith, the South African-born former Goldman Sachs banker who claimed staff at the investment bank called their clients "muppets", has written a memoir to be published in October. The book, entitled "Why I Left Goldman Sachs," will provide an interesting "insider's" track on how Goldman operates.

iPhone 5 has arrived

Apple's market capitalisation rose above US$650 billion as record first-day orders for the latest iPhone 5 fuelled revenue growth expectations. The iPhone 5, which features a bigger screen, a faster chip and a lighter body, sold 2 million units in first-day orders, more than double the record set by the previous model. However the "first weekend" sales of five million were lower than analysts' expectations. The iPhone 4S sold more than four million units during its first three days on sale.

Apple surpassed Exxon Mobil Corporation to become the biggest company in the world by market capitalisation last year after overtaking Microsoft as the most valuable technology provider in 2010. If Apple continues on its current trajectory, it will become the first company to break the US$1 trillion barrier in 2015.

Some scary numbers

At the end of 2008, when President Barack Obama took over, the US debt stood at US$9.9 trillion, or 69.7% of GDP, and the budget deficit at US$683 billion. Since then, all the key indicators have worsened markedly. By the end of this year, gross debt is forecast to reach US$16.3 trillion, more than 100% of GDP, or a rise of two thirds under Obama. The annual deficit is close to US$1.5 trillion, or 10% of GDP. Worse still, according to official forecasts, US debt is on course to hit US$20 trillion by 2016. This will make a sustained period of exceptional growth, which has rescued the country before, far harder to achieve this time around. With nearly half of publicly-held US debt in the hands of foreigners, the borrow-to-consume game is almost up.

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