~ APRIL 2012 ~

SYGNALS

KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	2.8%	3.1%	8.0%	8.1%	12.9%	21.8%	7.1%
J200T	FTSE/JSE Top 40 Index	2.9%	2.0%	6.3%	5.9%	12.0%	21.0%	6.6%
J210T	FTSE/JSE Resources 20 Index	2.8%	-8.3%	-4.0%	-9.6%	1.8%	12.6%	2.6%
J211T	FTSE/JSE Industrials 25 index	3.6%	10.5%	12.9%	20.2%	23.6%	30.0%	13.0%
J212T	FTSE/JSE Financials 15 Index	2.2%	8.9%	19.6%	18.7%	13.4%	23.3%	3.6%
J403T	FTSE/JSE SWIX Index	2.7%	5.6%	11.0%	11.8%	14.7%	22.8%	7.6%
J303T	FTSE/JSE CAPI Index	2.8%	3.2%	8.2%	8.7%	13.2%	22.2%	7.7%
ALBI	BESA All Bond Index	1.8%	2.1%	5.0%	12.7%	11.0%	10.5%	8.8%
STeFI	STeFI Index	0.5%	1.4%	2.8%	5.7%	6.1%	6.7%	8.3%
	MSCI World Index in SA Rands	0.2%	4.7%	5.1%	13.0%	8.9%	12.5%	0.2%
	Rand/US Dollar Exchange Rate	1.4%	-0.3%	-2.3%	18.5%	2.6%	-2.7%	2.0%
	Rand/Euro Exchange Rate	0.6%	0.9%	-6.7%	5.9%	2.4%	-2.7%	1.3%
	Headline CPI	1.1%	2.3%	3.2%	6.0%	5.0%	5.1%	7.0%
	Core CPI	1.2%	2.2%	2.6%	4.7%	4.0%	4.5%	5.6%
	PPI	-0.1%	1.0%	0.9%	7.2%	7.2%	6.0%	7.0%

"SA is widely recognised for its liberal and enlightened constitution, yet we observe the emergence of a strange breed of leaders who are determined to undermine the rule of law and override the constitution,"

Reuel Khoza in Nedbank's 2011 chairman's report

April brought more turmoil in Europe, mixed economic data and a strong change in political tides. The markets moved largely sideways as investors eyed Spain. Positive earnings reports from the US provided some badly needed support.

SPAIN IS THE NEW GREECE

The US economy continued to pick up momentum as manufacturing activity came in above expectations, with the ISM index rising to 53.4. Although manufacturing accounts for little more than 10% of US GDP, it has been one of the cornerstones of the recovery. Americans have more confidence in the economy which has boosted retail sales.

Unemployment declined to 8.2% in March, although the pace of job creation halved relative to the prior four months. Inflation registered a benign 2.7% year-on-year level as energy prices increased at a slower pace. The housing market remained wobbly however, with home construction falling by 5.8% in March, the second straight monthly decline. The US GDP grew by an annual rate of 2.2% in the first quarter of 2012, down from 3.0% at the end of last year, supported by strong consumer spending which grew by 2.9% compared with 2.1% in the last quarter of 2011. But business investment and government spending fell more than anticipated.

In Europe the economic situation is more bleak, with the seasonally adjusted manufacturing PMI falling to a three-month low of 47.7 in March, an eighth monthly contraction in a row. Even Germany's PMI fell below the 50 mark which separates growth from contraction. Retail sales in Europe's three biggest economies (Germany, France and Italy) fell in April at their strongest pace since late-2008, and higher oil and food prices have pushed up year-on-year inflation to 2.6%. Finally, unemployment rose to a euro-era record of 10.8% in February (10.2% for the entire European Union), with Greece and Spain registering the highest levels of joblessness at 21.0% and 24.4% respectively.

France posted no growth in the first quarter of 2012, narrowly avoiding a recession, after growing by 0.2% in the fourth quarter of 2011. The UK, on the other hand, officially slid into a double-dip recession as their GDP shrank by 0.2% in the first quarter. This follows a 0.3% fall in the fourth quarter of 2011, signalling the first double-dip since 1975. Germany released a cautious outlook for its economy as it urged Europe to stick to tough austerity measures and called on the ECB to scale back its activities to prop up beleaguered eurozone countries. The German government forecasts 0.7% growth for this year and 1.6% next year.

China, on the other hand, surprised on the upside when its official PMI hit an 11-month high with a reading of 53.1 for March. A separate private survey by HSBC, which focuses on smaller factories rather than the large state-owned enterprises captured in the official data, painted a gloomier picture. The index stayed below the 50 mark, coming in at 48.3 in March. Inflation edged up to 3.6%, driven by rising food costs. But it remains low enough to allow for some monetary policy relaxation. In a notable policy departure, China's central bank widened the yuan's trading band against the US dollar from 0.5% to 1% of the midpoint price set by the central bank every day. This follows international pressure to allow its tightly controlled currency to appreciate. On a negative note, China announced its slowest quarterly growth in a decade for the first three months of 2012. The annual rate of GDP growth slowed to 8.1% from 8.9% in the previous three months.

Concerns about Spain weighted on the markets through April. Spain's borrowing costs soared to five-month highs, hovering around the 6% level for 10-year bonds, with two bond auctions disappointing the markets. The fear that the "sugar rush" of the ECB's €1 trillion loan programme has burned off, scared investors who took little notice of new austerity pledges by Premier Mariano Rajoy, less than two weeks after unveiling the most austere budget in three decades. The government confirmed that Spain has tipped back into a recession, with a 0.3% contraction in the first quarter, and did not rule out the need for further rescue funds.

Italian bond yields also moved higher, partly due to fears over Spain and partly because of concerns that Mario Monti is struggling to execute the economic reforms he has pledged.

The disappointing debt auctions were taken as a sign that Spanish banks have exhausted their ECB's LTRO money and can no longer prop up the Spanish state. Spanish banks bought €67 billion of sovereign debt between December 2011 and February 2012, while Italian banks bought €54 billion of Italian debt. The purchases almost certainly continued in March. With yields moving higher these investments are now in negative territory.

S&P downgraded Spain's credit rating to BBB+ with a negative outlook, on the back of escalating sovereign debt levels and the precipitous situation of its banks which may well require an infusion of aid.

The ECB indicated that it could turn to direct bond purchases again to ease the strain on Spain.

Both South African government bonds and the rand rallied after entering a monitoring period for South African government bonds inclusion in Citigroup's World Government Bond Index in October 2012.

All major central banks, bar that of India, held their interest rates steady. India cut the benchmark interest rate by 0.5% to 8% for the first time since 2009, as the S&P lowered its sovereign credit outlook to negative on the back of diminishing growth prospects, deteriorating trade performance and a slow progress on fiscal reforms.

Food inflation is back on the economic agenda as the United Nations' Food and Agriculture Organisation index rose for a third successive month in March. Food prices are affected by oil prices which drive the production of fertilizers, as well as costs related to food distribution and farm machinery use.

Mid-month brought an abrupt change in the political and economic winds in Europe.

On the political front, François Hollande, the leftist presidential candidate in France, scored a narrow victory over President Nicholas Sarkozy in the first round of voting (the final round is on 6 May), and the government in the Netherlands collapsed after failing to agree on budget cuts necessary to bring the country's deficit under the EU's limit of 3% of GDP. In response, Sarkozy promised to hold a referendum on Europe's fiscal pact, while Hollande indicated he would seek to re-write the fiscal pact into a "growth pact". In one weekend Germany lost its two key allies, France and Netherlands.

It is clear that Europe's backlash against austerity is gaining momentum. Whilst Germany continues to argue that its own labour market reforms, wage restraint and debt reduction over the past decade have laid the foundation for their relatively healthy economy today and that this should be a lesson for other eurozone countries, the European Commission has indicated that it might shift its economic strategy by relaxing budget deficit targets.

The rebellion against austerity also brings more attention to the 6 May elections in Greece.

In the US, Mitt Romney emerged as the lead Republican candidate to challenge President Barack Obama in the November presidential elections.

Wealthy nations agreed to increase the lending capacity of the IMF by US$430 billion to defend against the possibility of worsening economic conditions in the debt-laden eurozone. Developed economies such as Japan, Britain, Saudi Arabia and South Korea all agreed to contribute, as did the large emerging economies, such as Brazil, China, India and Russia. The latter however are demanding more voting power within the IMF, including the adoption of the 2010 governance reforms, in exchange for their help. The reforms would make China the third largest shareholder in the IMF after the US and Japan. The US and Canada refused to contribute on the grounds that Europe should be doing more itself. But the meeting ended without a consensus on just how to speed up the economic recovery, stamp out the European debt crisis or lower unemployment around the world.

The Federal Reserve ended its April meeting confirming it will boost spending by holding down interest rates until at least late 2014. However the chairman, Ben Bernanke, dismissed calls for another quantitative easing campaign as "reckless," arguing that the costs would be high and the benefits uncertain. The Fed expects economic growth to remain moderate over coming quarters and to pick up only gradually. Unemployment is expected to remain elevated, while inflation will remain benign despite the impact of rising oil prices, which it regarded as temporary. The Fed forecasts that the economy would grow by between 2.4% and 2.9% this year.

This is not good news for gold. Combined with better-than-expected economic data out of the US, and reduced demand from India, the price struggled to break above the US$1 650 an ounce level. On the positive side, IMF data showed that central banks have continued to make significant gold purchases, with Mexico, South Korea, Thailand, Russia and Argentina all adding to their reserves. Central banks around the world bought nearly 500 tons of gold last year, making them net buyers of bullion for the first time in 20 years.

More generally, resources shares ended the month at record low PEs relative to other sectors. The market is looking for signs of quantitative easing from China before giving resources the benefit of the doubt. This is unlikely to happen until the fourth quarter when succession battles in Chinese leadership are out of the way.

SOUTH AFRICAN ECONOMY IS "OVER THE WORST" – PRAVIN GORDHAN

The political drama around Julius Malema finally played itself out with his formal expulsion from the ANC. And the implementation of the contentious Gauteng e-tolling system has been postponed for a month while alternative funding mechanisms are considered.

On the economic front, the "worst seems to be over". The seasonally adjusted PMI fell to 55.1 in March from a two-year high of 57.9 in February as business activity and new sales orders declined. However it remains comfortably above the 50 mark. Total new vehicle sales increased by 4.8% year-on-year in March, despite a 20.2% decline in exports on a fall in European sales. Trade conditions continued to improve in March after moving into positive territory in February. Factory output grew by 4.1% year-on-year in volume terms in February from a revised 2.3% in January, and retail sales jumped by 7.2% in February from a revised 4.2% in January.

Inflation fell to 6.0% year-on-year in March, from a peak of 6.3% in January, on the back of moderation in both food and petrol prices. The main wildcard is the outstanding public service wage negotiations. The National Treasury budgeted for 7.1% growth in the overall wage bill.

The IMF revised its growth estimate for South Africa to 2.7% from 2.6% in January.

Concerns around unsecured lending growth in South Africa continues to grow, with the rating agency, S&P, warning that rapid growth in unsecured lending is starting to create a credit bubble. The Reserve Bank was quick to reassure investors that unsecured lending remained small (6.2% of all lending and 11% of credit extended to households as at the end of 2011) and was not a threat to South Africa's banking system. However unsecured lending to households rose by more than 35% in February compared to the same month last year, dwarfing the pace of overall credit growth, which rose by about 8% over the same period.

GLOBAL SNAPSHOTS

Argentina

Argentina announced plans to seize a 51% stake in a leading energy company YPF, currently controlled by Spain's Repsol. YPF has become an attractive target as surging oil prices pushed up the fuel import bill and led Argentina to classify energy as a "vital resource". This follows the nationalisation of the country's private pension funds at the height of the global financial crisis in 2008, and the country's flagship airline, Aerolineas Argentinas.

Although the move is likely to be very popular with ordinary Argentines, who blame free market reforms of the 1990s for the devastating economic crisis and subsequent debt default of 2001/02, it will also contribute to the country's economic isolation and inability to return to global credit markets.

China

The World Bank cut its forecast for China's 2012 economic growth to 8.2%, as slack foreign demand and a government-induced real estate slowdown restrain a recovery. This is a 13-year low. Real estate investment made up about 13% of China's GDP in 2011 and directly affects about 40 different industries.

The forecast foreshadowed the announcement that China's economy grew at its slowest pace in nearly three years in the first three months of 2012 with the annual rate of GDP growth in the first quarter slowing to 8.1%. Growth of 8% is widely regarded as the threshold at which China struggles to create enough jobs for new entrants to its 800 million-strong workforce, raising the risk of social instability.

The GDP data headlined a flurry of indicators showing March industrial output expanded 11.9%, retail sales rose 15.2% and quarterly fixed asset investment, one of the principal drivers of China's economy, grew 20.9%. All these were in line with expectations and confirm the view that China's economy is heading for a soft landing.

Myanmar previously known as Burma

The EU suspended most of the sanctions it had imposed on Myanmar in 1996 over its human rights abuses, citing the "transparent and credible" election and economic reforms as reasons.

After winning its independence from Britain, the country, also known as Burma, faced a 1962 coup which heralded 49 years of unbroken, brutal and inept military rule. This ended a year ago after the transfer of power to a quasi-civilian government dominated by former army generals, as the constitution still assigns 25% of parliamentary seats to unelected members of the military. The new regime surprised its critics with a series of reforms, including pegging the currency to the US dollar, in its first major move to modernise its economy. A further change took place in April when the opposition party, under the leadership of Aung San Suu Kyi, won significant representation in parliament.

Spain

Spain is facing multi-faceted problems. The country has been plagued by risky mortgages and the highest unemployment rate in the eurozone, at nearly 25%. The percentage of home mortgages, totalling €663 billion, at risk of default is climbing, and many economists contend Spain's biggest banks will eventually need a bailout. Non-performing loans as a proportion of total lending jumped to 8.2%% in February, the highest level since 1994, and the total credit that the central banks list as "doubtful" stands at €144 billion, or about 10% of GDP. Spain's government, hobbled by its own debt and budget deficit, is unlikely to be able to come to the rescue.

Spain's debt level, at 68.5% of GDP at the end of 2011, is relatively low, but it is expected to reach 84% in 2012 as conditions deteriorate. The government expects the economy to shrink by 1.5% in 2012, after GDP contracted by 0.4% in the first quarter, tipping the nation into its second recession since 2009.

Spain is in a similar position to Ireland where the government's rescue of its banks forced it to take €80 billion from the EU and IMF. A similar rescue for Spain would cost at least €200 billion, nearly double the €113 billion given to Greece.

WORLD STAGE EVENTS EXPLAINED

Mayhem and murder in China

China's Communist Party suspended a high-flying politician, Bo Xilai, from its top ranks and named his wife, Gu Kailai, as a suspect in the murder of a British businessman in revelations which have rattled the leadership succession plans. Prior to the scandal erupting, Bo was widely seen as a candidate for a position within the Politburo Standing Committee, the innermost core of power within the Communist Party which effectively runs the country.

The tussle over Bo has turned what should have been a seamless political transition year into what seems to be part of a broader ideological struggle over China's future.

On one side is a movement led by Bo Xilai's faction, dedicated to maintaining a heavy role for the state, redistribution of wealth, emphasis on broad social welfare policies over growth led by the private sector, and, in practice, a heavy-handed authoritarianism, including a crackdown on crime that often trampled on the rule of law. On the other, closely identified with the outgoing Premier Wen Jiabao, is the faction determined to accelerate economic and political reform designed to ensure long-term sustainable growth.

Wen, President Hu Jintao and five other leaders of the nine-member Politburo Standing Committee are scheduled to retire this year in a once-in-a-generation power shift that will see Vice President Xi Jinping take over as president. Bo, the charismatic son of a Mao-era revolutionary hero, Bo Yibo, had been widely assumed to be in line for one of the seven vacant slots on the Standing Committee. Chinese authorities have said that Bo was removed from the Central Committee and the Politburo and is being investigated for "serious violations" of the party's discipline rules.

Wen has deftly used the scandal surrounding Bo to discredit his governing philosophy and to reinvigorate what had until recently seemed a lonely campaign for Western-style economic liberalisation and a battle against corruption before he steps down as prime minister.

Emerging markets lose their bid for the World Bank top spot

The emerging economies lost their fight for leadership of the World Bank when the institution named an American, Jim Yong Kim, as its next president. Dr Kim is a lauded health expert, a physician and anthropologist by training. He is a founder of Partners in Health, a non-profit organisation that runs community-focused health programs in poor countries. He also worked at Harvard University and the World Health Organization where he spearheaded a program to deliver antiretroviral treatments to people living with HIV/AIDS. Since 2009, he has been the president of Dartmouth College.

Eurozone debt levels update

The debt levels in the eurozone have hit record highs as governments increased borrowing to plug budget deficits and fund bailouts. The debt of the 17 euro nations climbed to 87.2% of GDP in 2011 from 85.3% the previous year. Greece topped the list with debt at 165.3% of GDP, while Estonia was best placed with debt at 6% of GDP. Italy ended last year with the second-highest debt at 120.1% of GDP, while Spain's debt rose to 68.5%. Germany posted one of the only declines, with its debt shrinking to 81.2% of GDP.

Only five countries, Estonia, Luxembourg, Slovenia, Slovakia and Finland, meet the EU limit of 60% of GDP.

IMF growth forecasts update

According to the IMF the global growth is slowly improving as the US recovery gains traction and dangers from Europe recede, but risks remain elevated and the situation is fragile. Global economy is on track to expand by 3.5% this year and by 4.1% in 2013.

The eurozone is likely to endure a mild recession this year, shrinking by 0.3% before posting 0.9% growth in 2013. The IMF lifted its forecast for the US to 2.1% this year, and 2.4% for 2013. China is expected to grow by 8.2% in 2011 and 8.8% in 2013.

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