~ MARCH 2012 ~

SYGNALS

KEY INDICATORS

		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
J203T	FTSE/JSE All Share Index	-1.4%	6.0%	14.9%	7.5%	11.3%	21.3%	7.2%
J200T	FTSE/JSE Top 40 Index	-2.3%	5.1%	14.0%	5.1%	10.1%	20.0%	6.6%
J210T	FTSE/JSE Resources 20 Index	-8.5%	-3.4%	4.1%	-12.0%	-0.4%	10.5%	1.9%
J211T	FTSE/JSE Industrials 25 index	2.5%	10.4%	20.3%	20.9%	22.1%	30.5%	13.6%
J212T	FTSE/JSE Financials 15 Index	1.8%	13.5%	24.4%	19.5%	12.4%	24.4%	4.4%
J403T	FTSE/JSE SWIX Index	0.0%	7.5%	16.4%	11.6%	13.5%	22.6%	8.0%
J303T	FTSE/JSE CAPI Index	-1.4%	6.0%	14.9%	8.1%	11.8%	21.9%	7.9%
ALBI	BESA All Bond Index	0.1%	2.4%	6.0%	13.2%	10.7%	10.2%	8.7%
STeFI	STeFI Index	0.5%	1.4%	2.8%	5.7%	6.1%	6.8%	8.4%
	MSCI World Index in SA Rands	3.9%	5.9%	13.6%	14.1%	9.5%	11.6%	0.3%
	Rand/US Dollar Exchange Rate	2.5%	-5.0%	-5.3%	13.5%	2.5%	-7.2%	1.0%
	Rand/Euro Exchange Rate	2.7%	-2.3%	-5.6%	6.7%	2.0%	-6.8%	1.1%
	Headline CPI	0.6%	1.3%	2.5%	6.1%	4.9%	5.2%	6.9%
	Core CPI	0.7%	1.3%	1.7%	4.6%	4.0%	4.6%	5.5%
	PPI	0.9%	1.1%	-2.3%	8.3%	7.5%	6.1%	7.4%

"I can honestly say that the environment now is as toxic and destructive as I have ever seen it. The interests of the client continue to be sidelined in the way the firm operates and thinks about making money."

Greg Smith, ex-Goldman Sachs executive resignation letter printed in The New York Times

Over the first half of the month, stocks were buoyed by upbeat US economic figures and easing concerns over Europe's debt crisis as Greece received its second bailout. However, by mid-month the rally flagged amid concerns over China's economic growth, Spain following in Greece's footsteps and the impact of high oil prices on global growth.

CHINA REPLACES GREECE AS THE NEXT BOGEYMAN

The economic data reported in March was mixed. In the eurozone, the February manufacturing PMI rose marginally from January, but remained below the 50 mark that divides growth from contraction, and depended heavily on Germany and France. The PMIs in the periphery countries such as Greece, Italy and Spain continued to decline. Unemployment rose to a euro-era high of 10.7% in the eurozone and 10.1% in the broader 27-nation European Union. The highest unemployment rate was registered in Spain (23.3%), followed by Greece (20.7%). Inflation also edged up to 2.7% in February on rising oil prices. While inflation is below last year's peak of 3%, the ECB had expected prices to fall steadily in 2012, providing some relief to households.

In the UK the modest pick-up in manufacturing was counterbalanced by a fall in the services sector and poor retail sales figures. Inflation hit the lowest annual level since November 2010 at 3.4%. The economy contracted by 0.3% in the fourth quarter of 2012, taking the annual rate of growth to just 0.5%. Most economists, including the OECD, expect the UK to slip into a recession in the first quarter of 2012.

The US also saw a slowdown in manufacturing and although annual inflation at 2.6% remained benign, February saw its highest monthly rise in eleven months on soaring gasoline prices. The housing market continued to struggle with poor new home sales numbers and home prices falling to 2003 levels. On the other hand, the services sector surprised on the upside, as did the unemployment rate which held steady at 8.3% after falling for five straight months. The Federal Reserve retains a cautious view of the economy and the labour market, reiterating its commitment to keeping interest rates near zero until at least late 2014. The Fed chairman, Ben Bernanke, indicated that the US economy needed to grow more quickly to bring down the unemployment rate. He also warned that the US faces a "massive fiscal cliff" at the end of 2012 as a variety of tax cuts expire and the negotiated US$110 billion of spending cuts come into effect. Although there were no signs of further quantitative easing, markets interpreted Bernanke's commentary as supportive of future intervention.

On a positive note, China's manufacturing PMI rose from 50.5 in January to 51.0 in February, in a third straight month of expansion. Weaker domestic and foreign demand helped to lower inflation to a 20-month low of 3.2%, comfortably within Beijing's 2012 inflation target of 4%. Most significantly food inflation came in at 6.2%, the lowest level since June 2010.

All major central banks kept their interest rates unchanged.

Concerns about oil supplies eased, despite clear signs that Western trade sanctions on Iran are having an impact. Kuwait announced that it had Iran's assurance that it would not close the strategically important Strait of Hormuz shipping lane. Saudi Arabia signalled that it was ready to increase supply in order to bring down oil prices. Furthermore, Libya declared a return to pre-war oil export levels, whilst the US, the UK and, by month-end, France, discussed the possibility of releasing emergency oil reserves. The anticipated slowdown by China is also good news. The EU and the US finally accepted Iran's offer to meet to discuss Tehran's nuclear programme.

On the commodities front, the gold price eased after the world's top importer, India, doubled import duties on the bullion. The gold market relies heavily on Indian jewellery demand.

Platinum, however, continued to rally, propelled by supply disruptions in South Africa (the world's largest producer) where safety stoppages and strikes at Impala Platinum eroded output. Concerns are growing about continuing demand as growth slows down in the eurozone (a major market for platinum-heavy diesel auto-catalysts).

On the political front, Vladimir Putin was re-elected as the president of Russia for another six-year term, amid widespread protests and accusations of vote rigging. This effectively kills any hope of Russia adopting a pluralist democracy model any time soon. On the other hand, the election guarantees that Russia will remain stable and fairly predictable for the foreseeable future. In terms of foreign policy, this seems to mean doing the opposite of what the US wants, even if it is counterproductive to Russia's interests. The best example is Russia's obstructionism at the UN over Syria and Iran, despite the fact that this is doing untold damage to Moscow's relations with the Arab world.

President Barack Obama met the Israeli Prime Minister Benjamin Netanyahu to discuss growing tensions over Iran. The two failed to resolve their differences, with Israel expressing deep scepticism that international pressure will persuade Iran's leaders to forsake the development of nuclear weapons.

The Brics countries announced plans for the launch of a joint development bank in the mould of the World Bank and for bringing their stock exchanges closer together. The bank would allow the countries to pool resources for infrastructure improvements and could be used as a vehicle for lending during global financial crises.

Investment markets were jittery as Greece raced to secure a €206 billion "voluntary" bond swap agreement from 95% of its private creditors in order to obtain the €130 billion international bailout. Greece agreed to use the controversial collective action clauses that impose automatic restructuring on all bondholders, provided that 66% of bondholders agreed to the voluntary deal. Eventually 83.5% of private creditors accepted the restructure, exchanging their old bonds for new ones with a much lower face value, lower interest rates and longer maturities. The acceptance level was not high enough however, to stop the activation of the collective action clauses. This led the international swaps and derivatives association to declare that a credit event had occurred, triggering about US$3.2 billion of credit default swap insurance payouts.

The EU and the IMF approved the second bailout and immediately unblocked a €7.5 billion tranche payment to Greece, just in time to allow it to meet the €14.5 billion bond repayment that threatened to trigger a default. This took place against a rapidly deteriorating economic landscape, with the GDP shrinking by a worse than expected 7.5% in the fourth quarter of 2011, bringing 2011 contraction to 6.9%. Unfortunately the bailout only covers Greece to the end of 2014. The EU, the ECB and the IMF have already estimated that the country may need additional €50 billion aid in 2015.

Sadly, the crisis in the broader eurozone rages on. The most serious problem is Spain which announced that it cannot meet the 4.4% of GDP budget deficit target agreed with the EU, and instead will aim for 5.8% in 2012. This was eventually knocked down to 5.3%. This is after the country already missed its 2011 target of 6% with a deficit of 8.5%. It also coincided with 25 member states, excluding Britain and the Czech Republic, signing a fiscal treaty agreeing to a 3% budget deficit target with severe penalties for non-compliance.

The Netherlands followed soon after, warning that it has the "same problems as Italy and Spain" in that its budget deficit could increase to 4.6% of GDP in 2012 and 2013. The announcement was greeted with scorn from its Club Med neighbours as the Netherlands has been one of the eurozone's "hardliners" in terms of insisting on fiscal discipline.

Italy is also under scrutiny , particularly after it confirmed that its economy is officially in a recession. The economy shrank by 0.7% quarter-on-quarter in the fourth quarter of 2011, following a 0.2% decline in the third quarter. Italy's public debt increased to 120.1% of GDP in 2011, a 15-year high.

But the true concern remains in China where all indicators point to a slowdown in 2012. China reported its largest trade deficit in more than 22 years at US$31.5 billion as Europe's crisis subdued exports and high oil prices pushed up import numbers. The property market has slowed down, with property sales falling by 25% year-on-year in the first two months of 2012, as monetary and credit tightening takes its toll. Infrastructure investment is also down, and local governments are finding it harder to borrow to finance infrastructure projects. Finally, rising oil prices pose a real challenge to growth. It therefore did not come as a surprise that the Chinese government reduced its 2012 growth target from 8.0% to 7.5%.

The rand weakened against the US dollar after S&P's downgraded South Africa's outlook from stable to negative, citing structural economic and social problems, including high unemployment and a persistent current account deficit. This was the third outlook downgrade for South Africa in four months after both Fitch and Moody's did the same. The rating agency noted the need to boost investment in order to promote long-term job creation and to control current expenditure i.e. public sector wage increases.

The markets ended the month on a downbeat note on disappointing US economic data, weaker than expected UK growth numbers and an uncomfortable compromise over the size of the European firewall.

In the US, the GDP growth number, at an annualised 3%, missed expectations for an upward revision. US jobless claims came in higher than expected despite falling to a four year low, and durable goods orders, albeit positive, disappointed. On the other hand, consumer spending and confidence numbers were looking healthier.

In Europe, the EU finance ministers agreed to combine the two European rescue funds, the temporary European Financial Stability Facility and the permanent European Stability Mechanism, to make €500 billion of new funds available in case of emergency until mid-2013, on top of €300 billion already committed to bail-outs for Greece, Ireland and Portugal. Many outsiders were pushing for double that amount and it is unclear whether the sum is sufficient, and whether it will nudge donors to the IMF, including the US and China, to pledge more to the fund.

SOUTH AFRICAN ECONOMY IS PERKING UP

The economic data surprised on the upside with tentative signs of stabilisation in key economic indicators.

Manufacturing activity rose to a two-year high, with the PMI moving up by 4.7 points to 57.9. New vehicle sales, another gauge of economic activity, grew by 6.7% year-on-year in February, following record sales in January. Business confidence bounced back in the first quarter of the year. The economy also added a net 23 000 jobs in the non-farm sector in the fourth quarter of 2011, an increase of 0.3% compared with the previous quarter.

Inflation slowed down unexpectedly to 6.1% from 6.3% in January, curbed by a fall in food prices. On a pessimistic note, the Reserve Bank signalled that inflation may have started to reflect demand pressures. However, the short term outlook improved after Eskom announced that it will moderate its annual electricity tariff increase to 16%, instead of 25%. The Reserve Bank kept the repo rate unchanged at 5.5%. It expects inflation to peak at 6.5% in the second quarter of the year and drop to 6.1% in the final quarter. The growth forecast for 2012 and 2013 were marginally upgraded to 3.0% and 3.9% respectively.

The Reserve Bank's Quarterly Bulletin for the fourth quarter of 2011 reinforced the view that the economy is picking up momentum. GDP grew by an annualised 3.2% quarter-on-quarter, after expanding by 1.7% in the previous quarter. Spending by households and government rose at the fastest pace in more than a year, with growth in aggregate real gross domestic expenditure accelerating to an annualised 5.1% from 4.8% in the third quarter. Growth in household disposable income, which has been driving consumer spending, nudged up to 4.7%, while ratio of debt to disposable income fell to 74.6% from 75.6% in the third quarter of last year.

The current account deficit narrowed to 3.6% of gross GDP in the fourth quarter of 2011, from a revised 4.1% in the third quarter, helped by lower dividend payments to non-residents. For 2011 as a whole the shortfall widened to 3.3% of GDP from 2.8% in 2011. However, the deficit has been adequately funded by portfolio flows.

On the regulatory front, the call for prescribed assets has resurfaced, featuring in the ANC's discussion papers drafted for its June policy conference. The documents suggest that the state should regulate a substantial part of retirement and life assurance assets, directing investment in state-owned enterprises and development finance institution instruments to fund infrastructure projects.

GLOBAL SNAPSHOTS

Brazil

Brazil's economic growth slowed more than expected in 2011, with the GDP growing by 2.7%, down from 7.5% in 2010. This was still sufficient for Brazil to overtake the UK as the world's sixth-largest economy, behind the US, China, Japan, Germany and France.

United Kingdom

Chancellor George Osborne unveiled a third austerity budget, with cuts in income and corporate taxes, funded via levies on banks and wealthy property owners. The Chancellor kept to his "austerity plan", which aims to cut the annual budget deficit to zero by 2016/17. The main growth-promoting measure was a more rapid cut in corporation tax, to a relatively low 22% by 2014/15. The most politically controversial was the cut in the top income tax rate from 50% to 45%.

The UK economy is expected to expand by 0.8% in 2012, with unemployment peaking at 8.7% before falling to 6.3% in 2016. The budget deficit is forecast to drop to 7.6% of GDP in the next fiscal year.

However, in a move that puts the UK's coveted AAA rating under further pressure, Fitch followed Moody's in cutting the country's outlook to "negative", citing the very limited fiscal space to absorb further adverse economic shocks in light of elevated debt levels and a slower economic recovery. The credit rating agency put a slightly greater than one-in-two chance on a downgrade for the UK over the next two years.

United States

The US economy may well be more fragile than the headline numbers suggest. Most of the improvement has come from the supply side: job creation, lower unemployment claims, stronger manufacturing activity and stronger vehicle sales. The demand indicators have been weaker. Real consumption has been flat for the past three months. Capex spending has fallen in January (based on the durable goods orders and the latest factory orders data) after tax incentives expired at the end of 2011. Construction spending is still falling and real government spending is starting to contract.

The full effect of rising oil prices is still to be felt. On the housing front, construction spending remains down, home prices continue to fall and unless fiscally costly legislative action is undertaken (unlikely in an election year), there may be a renewed surge in foreclosures. Finally, next year is set to see the introduction of draconian spending cuts and an expiry of many tax cuts of the past decade.

The risk is that some of the stronger growth that the US has enjoyed last year may well have been stolen from the future, with tougher times ahead.

Spain

For the moment, the ECB is keeping Spanish banks on life support. Since the central bank started offering cut-rate three-year loans, Spanish financial institutions have been among the most enthusiastic recipients, borrowing about €150 billion. Of that sum, about a third has been used to buy Spanish government debt at considerably higher rates than the 1% interest they pay, helping the bottom line. This has also taken the pressure off government financing.

While public debt is relatively modest, private debt has soared to 227% of GDP. Banks also remain reluctant to lend to the private sector.

At the same time, escalating fiscal austerity and a worsening real estate market threaten to set off a downward economic spiral similar to the one that brought Athens to its knees. Although government is forecasting a contraction of 1.7% in GDP in 2012, analysts are predicting a figure closer to 2.7%.

Protests against austerity are on an increase, with the Popular Party losing a key regional election in March, and facing a massive general strike against labour reforms. That was before the unveiling of the latest budget, a toxic mixture of more tax increases and spending cuts. Unfortunately the budget has already been judged as insufficient for Spain to be able to reduce its budget deficit from 8.5% to 5.3% of GDP.

Investors are growing visibly concerned about the government's ability to survive without help, with bond yields spiking up in March. Spain's future has never looked this fragile.

WORLD STAGE EVENTS EXPLAINED

Muppets hit back at Goldman Sachs

Goldman Sachs saw US$2.2 billion of its market value wiped out after a mid-level executive Greg Smith assailed the firm's treatment of clients (referred to internally as "muppets") and its money-driven culture by resigning in an open letter published in The New York Times. Smith ran Goldman Sachs's US equity derivatives business in Europe, the Middle East and Africa. Goldman denied Smith's assertions. Smith, in the meantime, is said to be pitching a book proposal to major publishers in New York. But many have expressed concerns about the thicket of legal issues that could be involved in taking on a large, deep-pocketed company, Smith's ability to sell "derivatives" concepts to an average reader and the timing of the release many months after Smith's moment of fame has passed.

Good bye to an institution

After 244 years, the Encyclopaedia Britannica has decided to stop its print editions and focus on online encyclopaedias and educational curriculum for schools as its relevance has declined in the face of information availability via the internet and the emergence of specialised web sites such as Wikipedia.

Battle for the World Bank post heats up

President Obama nominated a Korean-American known for work fighting HIV/AIDS in impoverished countries to lead the World Bank. Jim Yong Kim is a president of Dartmouth College in New Hampshire and a former director of the Department of HIV/AIDS at the World Health Organisation. Despite the challenge from emerging nations, with Angola, Nigeria and South Africa endorsing the nomination of Nigerian Finance Minister Ngozi Okonjo-Iweala, the US is expected to continue to lead the World Bank when Robert Zoellick steps down in June.

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