The Weekly Focus

A market and economic update

19 October 2009

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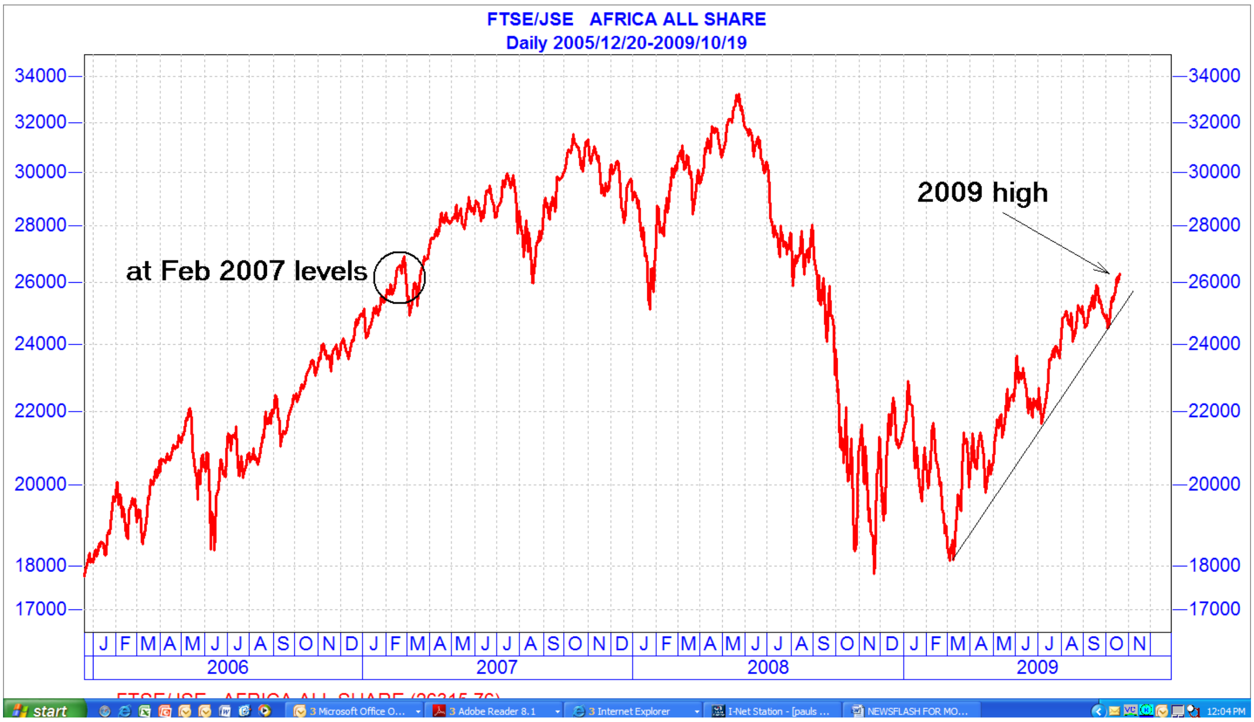
Newsflash

The MSCI Emerging Markets Index and the MSCI World Index reached 2009 highs last week

Market Comment

- The JSE All Share Index gained another 2.4% last week and is today (Monday 19th October) trading at a new 2009 high and is back at both early September 2008 levels and February 2007 levels (see Fig.1 below). Richemont, Billiton and Anglo American are trading at 2009 highs, despite the strong rand. Sasol rose sharply last week as the dollar oil price rose to a 2009 high. The JSE Financials Index is also flirting with a 2009 high.
- Meanwhile, the JSE continues to follow the offshore markets, as both the MSCI Emerging Markets Index and the MSCI World Index reached 2009 highs last week.
- JP Morgan's highly experienced and respected SA strategist, Deanne Gordon, continues to recommend an overweight in SA equities, neutral SA bonds and underweight cash.
- Her case for SA equities is based on a rerating catch-up trade versus the rest of the emerging markets as the SA economy moves out of recession. She says SA has lagged the emerging markets cyclical recovery and rerating.
- Gordon recommends overweighting domestic cyclical shares such as banks, general retailers, industrials and media.

Fig.1



- Foreign investors continue to buy our shares, as part of the flow of funds into emerging markets. As of Friday, foreigners had invested R69.7bn net into our market, including R5.5bn in the last ten days.

BCA View

(BCA is a research house based in Canada. They do not manage money but have been doing research on economies and markets for 50 years).

- Their view is that a cascading decline in global economic output is giving way to a potentially sharp rebound.
- "It is increasingly likely that in the final quarter of 2009 and the first quarter of 2010, the world economy will show a spurt of strong growth."
- BCA continue to recommend a fully invested position (in equities).
- For equities, we remain at the "sweet" spot, where growth is strengthening while inflation is falling. "Equity investors cannot ask for anything better."
- There is still a large bearish crowd of investors out there that has not yet capitulated. Further evidence of economic recovery and additional gains in shares will likely compel the underinvested into the market.
- "Against this backdrop, we suspect any correction in stock prices will likely turn out to be shallow and short-lived, because the underinvested will likely use price weakness to deploy their excess cash."
- Also short-term interest rates are unlikely to rise for at least the next few months, apart from in a few countries like Australia.
- BCA recommends being overweight in emerging markets and commodities, neutral in the US and Europe and underweight in Japan.
- BCA is quite scathing about Japan: "Japan is not a place where you want to invest a lot of money. The economy is still in decline, definitely in relative terms and possibly also in absolute terms. There are other countries and markets where the growth potential is higher and returns are better. Why bother with Japan?" It appears that the strong yen is hurting badly.

Bottom Line

- STANLIB thinks offshore equities are better value than local equities and is overweight offshore equities and underweight offshore bonds (still prefer corporate bonds to government bonds), relative to risk profiles and benchmarks.
- We have moved from overweight offshore property funds to neutral purely because of the big run that offshore property has enjoyed (up 97% in dollar terms since 9th March). There are still good stock-picking opportunities in offshore property, but property shares are considered to be fairly valued here in the short-term. Value is still there for long-term investors.

Offshore property shares have so far merely recouped half of October 2008's losses (trading at 10th October 2008 levels).

- STANLIB is moderately overweight local equities, thinking that while there is not much value on a one year view, there is plenty of value on a two year view, assuming earnings rise strongly in 2011.
- STANLIB has become more positive on local property funds, moving from neutral to moderately overweight and remains underweight in local bonds because of the excess supply issue.

Paul Hansen
(Director: Group Advisory Services - Investments)

Economic Update

During September US retail sales declined by 1.5%m/m, which was still better than expected. Overall consumer spending appears to be moving past its recent low, which is encouraging. We will continue to monitor US final demand very closely, as it is vital for a sustained economic recovery.

During our Chief Economist Kevin Lings' recent attendance at the IMF (International Monetary Fund) and World Bank conferences held in Turkey; quite a lot of attention was placed on emerging markets and specifically Sub-Saharan Africa. Growth rates have improved; government debt has been managed; inflation is expected to moderate further in 2010; all leaving the medium term outlook more favourable.

Back home, consumers are clearly still under enormous pressure. SA retail sales declined sharply by 7%y/y during August, which was well below expectations. While this pressure will remain a factor for many months, there is an expectation that the pressure will ease modestly into 2010. More pressure in the pipelines came last week from the announcement by Eskom of its proposed price hikes to the National Electricity Regulating Council of South Africa (NERSA), in order to deal with the shortfall of electricity supply over the coming decade. Eskom has asked for a 45% increase in electricity tariffs per year for the next three years; or a once off 146% price hike. This will have a marked impact on consumer spending and inflation. The first casualty emerged during the week with the announcement by Rio Tinto that it is to cancel the proposed building of an aluminium smelter at Coega, near Port Elizabeth.

The main focus in South Africa this week will undoubtedly be on the Reserve Bank's interest rate decision, due out on Thursday. We expect the Repo rate to remain unchanged at 7.0%. This is in-line with the market consensus. In fact, out of 28 analysts surveyed only 3 expect the Reserve Bank to cut rates by 50bps. The rest of the analysts expect rates to remain unchanged. Internationally, key data the markets will focus on during the week include US September housing starts, which should continue to show a steady improvement; China Q3 2009 GDP, which is expected to show an impressive increase of 9.0%y/y; China consumer inflation for September, which is expected to remain in deflation at -0.8%y/y, but moving higher given the rise in global oil prices; the US leading indicator for September, which is expected to record a strong rise of 0.9%m/m. This will be the sixth consecutive monthly increase in the leading indicator. The US weekly jobless claims are expected to hold onto the recent improvement at 517k, while the UK GDP for Q3 2009, is expected to record a welcome increase of 0.2%q/q. This will be the first increase in UK GDP after 5 consecutive quarters of decline.

Global

- In September 2009, **US retail sales fell by 1.5%m/m. This was actually ahead of expectations for a decline of 2.1%m/m**. Vehicle sales plunged by 10.4%m/m in September mostly as a result of the ending of the 'Cash for Clunkers' deal, whereby the US government offered between $3500 and $4500 for all old, fuel inefficient cars traded in.
- **If motor sales are excluded, retail sales rose by a welcome 0.5%** compared with expectations for a rise of 0.2%. It is also worthwhile to note that 'General Merchandise sales', which is the largest single category of retail spending, rose by a very impressive 0.9%m/m in September.
- On an annual basis, US retail sales are still down a substantial 5.7%y/y in September; but retail spending appears to be moving past the worst. In other words, retail sales are now less worse, which is fairly encouraging in terms of the sustainability of the economic recovery.
- **The US consumer is still under very significant pressure;** which is partly reflected in the still weak labour market. However, the latest US retail spending data is, after adjusting for the various anomalies, more encouraging.

The following points below are an extracted and edited summary of the IMF's latest economic assessment of Sub-Saharan Africa

- Overall, growth rates have improved markedly, but understandably 2009 was a poor year:
- Between 2002 and 2007 sub-Saharan Africa's output grew annually by around 6.5%; the highest rate in more than 30 years. But with the onset of the global credit crisis, economic growth in the region has struggled, with many economies in the region slipping into recession. As a result; total output for Sub-Saharan Africa is expected to expand by just 1% in 2009.
- The effect of the global recession was initially felt most strongly in those economies more highly integrated into global financial markets, including South Africa.
- Two of the economies in the Sub-Saharan Africa hardest hit by the global recession have been Botswana and Seychelles. Botswana's economy has been hit by the collapse in international demand for diamonds; in Seychelles the economy has been affected by a sharp contraction in tourism.
- The region benefited enormously by being able to use fiscal balances as shock absorbers:
- Many governments in Sub-Saharan Africa have been able to use fiscal balances as shock absorbers, sustaining some aspects of domestic demand and helping to contain employment losses. As a result, the fiscal balance of the region is projected to switch from a surplus of 1.3% of GDP in 2008 to a deficit of 4.8% of GDP in 2009. Government debt levels will rise fairly noticeably.
- Inflation is expected to moderate further in 2010:
- Inflation in the Sub-Saharan African region is projected to fall from about 11.6% in 2008 to 10.5% in 2009, before easing to 7.2% in 2010.

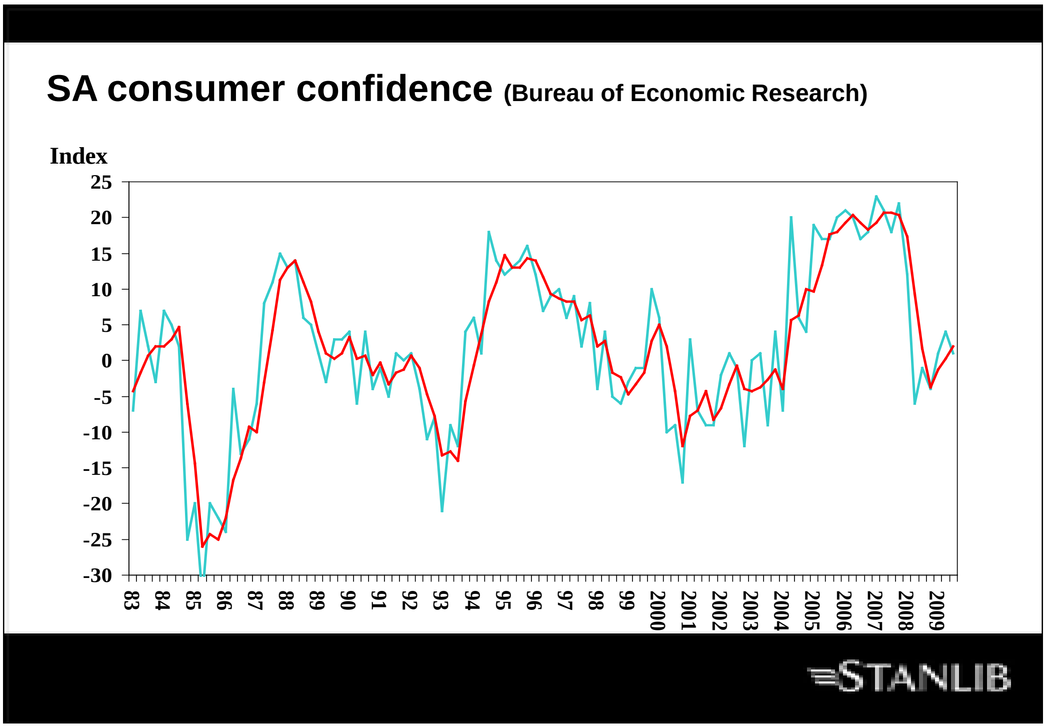
- GDP growth is projected to improve in 2010, but remain below recent averages:
- GDP growth in Sub-Saharan Africa, helped by relatively effective policy responses (both fiscal and monetary policy), is projected to rise to just over 4% in 2010 and to 5.5% in 2011.
- Risks to the recovery:
- There are still significant risks to growth outlook for the region given continuing uncertainty about the global economy. Although the possibility of a deepening and self-sustaining world recession has decreased markedly since early 2009, the October 2009 World Economic Outlook is projecting only modest global GDP growth of 3% in 2010 and 4.3% in 2011. This implies that export demand will remain well below previous trends and thus surplus capacity in the global economy could again hurt Sub-Saharan African producers and delay investment plans.
- Domestic demand in the region may also be restrained by the limited availability of social safety nets to mitigate the long-term impact of the downturn on the poor. And how quickly credit to the private sector will resume is questionable.
- Medium term outlook is very favourable
- Sub-Saharan Africa's recent growth takeoff seems to have been built on major improvements in factors fundamentally important for economic growth. That is better political governance, reduced macroeconomic imbalances, openness to trade, etc. Even if the world economy becomes less supportive for the region, there should still be a relatively forceful impetus to growth from the much-improved domestic economic environment.
- Some of Sub-Saharan Africa's most important export markets may prove to be extremely buoyant over the medium term. China and other relatively high-growth Asian (India) and Latin American (Brazil) economies are increasingly the main source of sub-Saharan African export growth.

South Africa

- Last week Stats SA released the retail sales data for August 2009. According to this latest survey, **retail sales fell by a very substantial 7.0%y/y in real terms in August.** The latest decline is especially disappointing and highlights the fact the SA consumer is still under enormous pressure. **In the three months to August 2009, retail sales were down a hefty 6.0%y/y**, in real terms.
- The latest declines in retail spending, the recent weak motor vehicles sales, falling house prices and sluggish bank credit activity all still point to ongoing weakness within the consumer sector of the economy.
- **There is no doubt that SA consumers remain under pressure.** Consumers are still effectively deleveraging, although some banks have indicated a willingness to slowly relax lending criteria.

- While this pressure will remain a factor for many more months, **there is an expectation that the pressure will systematically ease, albeit modestly, during 2010**. This is based on the current low interest rate environment being sustained well into 2010, a further moderation in inflation (at least in the short-term), wage increases that are now rising well above inflation (leading to a real increase in consumer income), less job losses as world growth (SA exports) improves and the natural boost that is associated with hosting the Soccer World Cup.

Fig.2



Kevin Lings and Melissa Dyer (née Rankin)
(STANLIB Economics and Group Advisory Services)

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 16/10/09	Weekly Move (%)	YTD (%)
	Indices		
*MSCI World – US Dollar	1156.20	1.43	25.64
*MSCI World – Rand	8526.53	0.69	-1.97
*MSCI Emerging Market – US Dollar	966.04	2.09	70.36
*MSCI Emerging Market – Rand	7124.17	1.33	32.92
All Share Index – US Dollar	3545.54	3.26	57.01
All Share Index – Rand	25997.65	2.43	20.87
All Bond Index	290.80	-1.11	-3.73
Listed Property J253	322.48	0.88	4.03
US Dollar/Rand	7.33	-0.80	-22.57
Euro/Rand	10.94	0.34	-17.12
Sterling/Rand	11.97	2.42	-13.80
Euro/US Dollar	1.49	1.19	7.06
Oil Brent Crude Spot Price ($/bl)	76.03	8.80	101.89
Gold Price $/oz	1053.25	0.38	19.71
Platinum Price S/oz	1343.50	0.67	44.93

Source: I-Net Bridge

* MSCI - Morgan Stanley Capital International

Rates

The following yields are calculated using an annualised seven-day rolling average as per the unit trust industry standard. These rates are expressed in nominal and effective terms and should be used for indication purposes ONLY.

Standard Bank Money Market Fund

Nominal: 7.39% per annum

Effective: 7.64% per annum

A constant unit price will be maintained. Past performance is not necessarily a guide to future performance. A schedule of fees and charges and maximum commission is available on request from the Manager. Commission and incentives may be paid and if so, are included in the overall costs. The yield is calculated using an annualised seven-day rolling average as at 16 October 2009.

STANLIB Cash Plus Fund

Effective Yield: 7.85%

This is a current yield as at 16 October 2009.

STANLIB Dividend Income Fund

Effective Yield: 5.51%

This is a current yield as at 16 October 2009.

Glossary of terminology

Bonds	A bond is an interest-bearing debt instrument, traditionally issued by governments as part of their budget funding sources, and now also issued by local authorities (municipalities), parastatals (Eskom) and companies. Bonds issued by the central government are often called “gilts”. Bond issuers pay interest (called the “coupon”) to the bondholder every 6 months. The price/value of a bond has an inverse relationship to the prevailing interest rate, so if the interest rate goes up, the value goes down, and vice versa. Bonds/gilts generally have a lower risk than shares because the holder of a gilt has the security of knowing that the gilt will be repaid in full by government or semi-government authorities at a specific time in the future. An investment in this type of asset should be viewed with a 3 to 6 year horizon.
Cash	An investment in cash usually refers to a savings or fixed-deposit account with a bank, or to a money market investment. Cash is generally regarded as the safest investment. Whilst it is theoretically possible to make a capital loss investing in cash, it is highly unlikely. An investment in this type of asset should be viewed with a 1 to 3 year horizon.
Collective Investments	Collective investments are investments in which investors‟ funds are pooled and managed by professional managers. Investing in shares has traditionally yielded unrivalled returns, offering investors the opportunity to build real wealth. Yet, the large amounts of money required to purchase these shares is often out of reach of smaller investors. The pooling of investors’ funds makes collective investments the ideal option, providing cost effective access to the world’s stock markets. This is why investing in collective investments has become so popular the world over and is considered a sound financial move by most investors.
Compound Interest	Compound interest refers to the interest earned on interest that was earned earlier and credited to the capital amount. For example, if you deposit R1 000 in a bank account at 10% and interest is calculated annually, your balance will be R1 100 at the end of the first year and R1 210 at the end of the second year. That extra R10, which was earned on the interest from the first year, is the result of compound interest ("interest on interest"). Interest can also be compounded on a monthly, quarterly, half-yearly or other basis.
Dividend Yields	The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. The higher the yield, the more money you will get back on your investment.
Dividends	When you buy equities offered by a company, you are effectively buying a portion of the company. Dividends are an investor’s share of a company’s profits, given to him or her as a part-owner of the company.
Earnings per share	Earnings per share is a measure of how much money the company has available for distribution to shareholders. A company’s earnings per share is a good indication of its profitability and is generally considered to be the most important variable in determining a company’s share price.
Equity	A share represents an institution/individual’s ownership in a listed company and is the vehicle through which the are able to “share” in the profits made by that company. As the company grows, and the expectation of improved profits increases, the market price of the share will increase and this translates into a capital gain for the shareholder. Similarly, negative sentiment about the company will result in the share price falling. Shares/equities are usually considered to have the potential for the highest return of all the investment classes, but with a higher level of risk i.e. share investments have the most volatile returns over the short term. An investment in this type of asset should be viewed with a 7 to 10 year horizon.

Financial Markets	Financial markets are the institutional arrangements and conventions that exist for the issue and trading of financial instruments.
Fixed Interest Funds	Fixed interest funds invest in bonds, fixed-interest and money market instruments. Interest income is a feature of these funds and, in general, capital should remain stable.
Gross Domestic Product (GDP)	The Gross Domestic Product measures the total volume of goods and services produced in the economy. Therefore, the percentage change in the GDP from year to year reflects the country's annual economic growth rate.
Growth Funds	Growth funds seek maximum capital appreciation by investing in rapidly growing companies across all sectors of the JSE. Growth companies are those whose profits are in a strong upward trend, or are expected to grow strongly, and which normally trade at a higher-than-average price/earnings ratio.
Industrial Funds	Industrial funds invest in selected industrial companies listed on the JSE, but excluding all companies listed in the resources and financial economic groups.
Investment Portfolio	An investment portfolio is a collection of securities owned by an individual or institution (such as a collective investment scheme). A funds' portfolio may include a combination of financial instruments such as bonds, equities, money market securities, etc. The theory is that the investments should be spread over a range of options in order to diversify and spread risk.
JSE Securities Exchange	The primary role of the JSE Securities Exchange is to provide a market where securities can be freely traded under regulated procedures.
Price to earnings ratio	Price to earnings ratio or p:e ratio, is calculated by dividing the price per share by the earnings per share. This ratio provides a better indication of the value of a share, than the market price alone. For example, all things being equal, a R10 share with a P/E of 75 is much more "expensive" than a R100 share with a P/E of 20.
Property	Property has some attributes of shares and some attributes of bonds. Property yields are normally stable and predictable because they comprise many contractual leases. These leases generate rental income that is passed through to investors. Property share prices however fluctuate with supply and demand and are counter cyclical to the interest rate cycle. Property is an excellent inflation hedge as rentals escalate with inflation, ensuring distribution growth, and property values escalate with inflation ensuring net asset value growth. This ensures real returns over the long term.
Resources and Basic Industries Funds	These funds seek capital appreciation by investing in the shares of companies whose main business operations involve the exploration, mining, distribution and processing of metals, minerals, energy, chemicals, forestry and other natural resources, or where at least 50 percent of their earnings are derived from such business activities, and excludes service providers to these companies.
Smaller Companies Funds	Smaller Companies Funds seek maximum capital appreciation by investing in both established smaller companies and emerging companies. At least 75 percent of the fund must be invested in small- to mid-cap shares which fall outside of the top 40 JSE-listed companies by market capitalisation.
Value Funds	These funds aim to deliver medium- to long-term capital appreciation by investing in value shares with low price/earnings ratios and shares which trade at a discount to their net asset value.

Sources: Unit Trust and Collective Investments (September 2007), The Financial Sector Charter Council, Personal Finance (30 November 2002), Introduction to Financial Markets, Personal Finance, Quarter 4 2007, Investopedia (www.investopedia.com) and The South African Financial Planning Handbook 2004.

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In terms of the ASISA Code of Practice for Advertising of Collective Investment Schemes in Securities and ASISA Standard Pricing and Valuation, STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. This seven-day rolling average yield may marginally differ from the actual daily distribution and should not be used for interest calculation purposes. We however, are most happy to supply you with the daily distribution rate on request, one day in arrears. The price of each participatory interest (unit) is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio.

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