

**OMIGSA Comment – Tracy Brodziak, Sector Head: Financials**

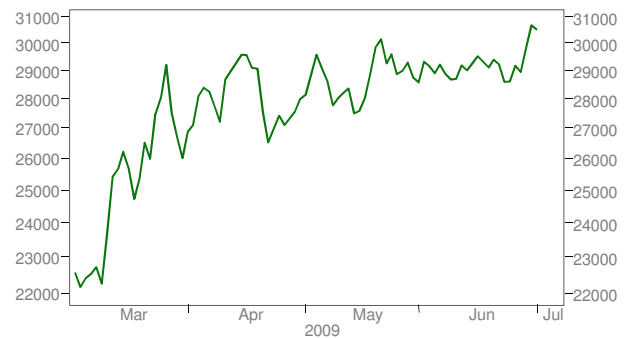
**Banks – what a phenomenal run .....and valuations still look attractive**



The FTSE/JSE Banking Index has had a phenomenal run over the last few months, returning more than 37% since the beginning of March 2009. This has been driven by extremely cheap valuations at the beginning of March, a good run in global banking stocks and significant decreases in SA's interest rates.

Interest rates have come off significantly – this will benefit the sector in the medium term as it would help bad debts to come down. However, at the beginning of the cycle, decreasing interest rates put pressure on the banks' earnings as they (banks) earn less income on their own capital (called endowment) and there is a lag before bad debts "normalise". 2009 is expected to be a horrendous earnings year for the banks.

**FTSE/JSE Africa Banks Index**  
March to June 2009



Source: INET | Updated: 03.07.2009

However, we believe that the market will look through this and earnings will rebound as charges such as bad debts return to "normalised" levels. Valuations are still attractive (albeit less so than before) and are still below 30-year mean levels.

26 June - 02 July 2009 in a nutshell

**Global:** Most global bourses were a 'mixed bag' this week on weak employment and consumer data from the US, which further dampened the mood of investors who are hungry for signs that the biggest economy in the world is actually growing. The S&P 500 in the US weakened 2.61% while the European markets gave up 1.33% and the emerging market shares were 2.13% higher.

**South Africa:** The local market was a tad stronger, with the FTSE/JSE All Share Index edging up 0.13%. Financials were the winners, climbing 3.80% and resources took a hammering on a stronger rand, ending the week 2.62% down.

Markets and Economics - Highlights

**Global**

- US employers cut 467 000 jobs last month, sending the oil price down \$2 a barrel as the data offered little evidence that the Obama administration's stimulus package is shoring up the labour market. Unemployment is projected to keep rising to 10% for the rest of the year. Home prices in 20 US metropolitan areas fell in April at a slower pace than forecasted, a sign the plunge in real-estate values is abating.
- The UK economy shrank more than previously estimated in the first quarter in the biggest contraction since 1958 as the recession choked industries from construction to services. The European Central Bank (ECB) kept interest rates steady as it rolled out new tools to battle the recession. Benchmark rates were held at a record low of 1%.
- Brazil's trade surplus rose 23.8% in the first six months, compared with the year-earlier period, as May exports reached their highest level since November on recovering foreign demand for commodities.

## South Africa

- SA's budget deficit and worsening growth outlook did not pose a near-term risk to its credit ratings, given signals that its policy response remained prudent, global rating agencies said. News this week that SA's first recession in 17 years could lead to a R60bn budget revenue shortfall has raised the cost of existing debt, through its negative effect on benchmark government bonds.
- Reserve Bank data showed that private sector credit extension (PSCE) fell by R27 billion in May – the largest monthly decline on record. Year-on-year growth in PSCE fell to 5.7% in May, way below an expected 8% and sharply down from 20% growth a year earlier.
- SA's trade balance swung back into surplus for the first time in two-and-a-half years in May, official data showed, prompting a 2% rand rally to a 10-month peak. Imports fell 6.35% and exports rose nearly 2%, leading to a surprise surplus of R2bn, the South African Revenue Services said.
- The number of total liquidations recorded last month increased 6.8% y/y from the 41.3% increase of April, data from Stats SA showed.

### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 02.07.2009	% Performance Return
United States	S & P 500 (US\$)	-2.61%	896	-0.78%
Europe	Euro Stoxx 50 (Euro)	-1.33%	2,370	-3.30%
Emerging Mkts	MSCI Emerg Mkts (US\$)	2.13%	766	35.10%
South Africa	FTSE/JSE All Share (ZAR)	0.13%	22,185	3.14%
Global	MSCI (US\$)	-1.04%	948	3.04%
ZAR/Dollar	Rand/US \$ (ZAR)	-1.88%	7.85	-17.63%
ZAR/Pound	Rand/£ (ZAR)	-1.91%	12.83	-6.49%
ZAR/Euro	Rand/Euro (ZAR)	-2.06%	10.95	-16.79%
JSE	Industrials	3.75%	21,140	-1.66%
JSE	Financials	3.80%	16,180	2.54%
JSE	Resources 20	-2.62%	39,673	3.02%
JSE	Small Companies	0.72%	23,235	2.31%
JSE	Listed Property	0.35%	289	-6.77%
JSE	RAFI® ALSI	1.35%	4,565	6.21%
JSE	RAFI® 40	0.87%	4,390	3.00%
JSE	SWIX	1.16%	4,711	3.54%

 Editor: [kbuthlezi@omigsa.com](mailto:kbuthlezi@omigsa.com)

OMIGSA: Tel. 021 509 7622

[www.omigsa.com](http://www.omigsa.com)

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