

**OMIGSA Comment – Anwaar Wagner, Sector Head: Resources**

**Short-term conditions are tough .....but valuations for non-mining resources companies are attractive**



The basic materials sector delivered returns of 4.1% for the second quarter versus the FTSE/JSE All Share Index's (ALSI) 8.6%, with the gold and oil/gas sectors underperforming. Industrial metals (steel) and forestry/paper were the outperformers. The strong performance was based on evidence of an earlier-than-expected recovery in China and India, with signs of stabilisation in the G7.

We expect most non-gold mining companies to post substantially lower profits than their last set of record results, with pressure on earnings during 2009 due to materially lower commodity prices and/or volumes. Despite the uncertainty regarding global growth, there is substantial value in certain shares and/or sectors – even on (lower) normalised earnings – such as Arcelor Mittal.

FTSE/JSE Resources Index



Source: INET

Our view is that diversified miners are protected by their exposure to a variety of commodities and currencies in their portfolios, as they typically have the best assets and tend to remain profitable even in commodity downturns, unlike some of the pure and smaller miners. Mining valuations remain compelling, despite the recent, strong share performance. While short-term conditions are tough for some non-mining resources companies, valuations are attractive.

**03 - 09 July 2009 in a nutshell**

**Global:** Talks of a 'second round' of stimulus packages to prop up the US economy and doubt about prospects for recovery in the global economy were a 'confidence killer' in most global bourses this week. The S&P 500 in the US shed 1.45% and the European market shares slid 2.36%, while the emerging markets stocks 3.13% weaker.

**South Africa:** The local market mainly tracked Wall Street and there was some profit taking as well. The FTSE/JSE All Index retreated 0.12%. The winners were financials, edging up 1.21%, and resources were losers, ending the week 2.25% in the red.

**Markets and Economics - Highlights**

**Global**

- New claims for US unemployment benefits fell 8.4% last week to a six-month low, suggesting some improvement in the troubled job market.
- The UK trade deficit narrowed in May to the smallest in three years as imports dropped, a sign the recession and the weakness of the pound is hurting demand for foreign products.
- India's stocks, rupee and bonds slid after the government forecast the widest budget deficit in 16 years, increasing the risk of a cut in its sovereign rates.

## South Africa

- Manufacturing output fell for an eighth consecutive month in May. Production fell 17.1% from a year earlier after dropping a revised 21.8% in April, Statistics SA said.
- Retail food price inflation was 'slowing', dropping to 13.7% from a peak of 18.8% last August, and decreases in food commodity prices were starting to filter through to retail shelf prices, said the National Agricultural Market Council.
- SA's gold and foreign exchange reserves dipped last month, showing that the Reserve Bank did not respond as expected to rand gains or step up the pace of its purchase of foreign currency.
- The economy experienced one of the worst declines in business activity in May, but signs pointed to SA being close to the bottom of the current economic cycle, said leading economists.
- Confidence in the civil construction sector dropped to an index value of 48 from 60 in the first quarter as economic conditions put pressure on construction activity, the Bureau for Economic Research survey showed.

### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 09.07.2009	% Performance Return
United States	S & P 500 (US\$)	-1.45%	883	-2.21%
Europe	Euro Stoxx 50 (Euro)	-2.36%	2,314	-5.59%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-3.13%	742	30.86%
South Africa	FTSE/JSE All Share (ZAR)	-0.12%	22,158	3.02%
Global	MSCI (US\$)	-2.22%	927	0.76%
ZAR/Dollar	Rand/US \$ (ZAR)	3.18%	8.10	-15.01%
ZAR/Pound	Rand/£ (ZAR)	3.12%	13.23	-3.57%
ZAR/Euro	Rand/Euro (ZAR)	3.65%	11.35	-13.75%
JSE	Industrials	-0.98%	20,932	-2.62%
JSE	Financials	1.21%	16,376	3.78%
JSE	Resources 20	-2.25%	38,781	0.70%
JSE	Small Companies	-0.06%	23,220	2.24%
JSE	Listed Property	0.00%	289	-6.77%
JSE	RAFI® ALSI	-0.61%	4,537	5.56%
JSE	RAFI® 40	-0.55%	4,366	2.44%
JSE	SWIX	0.13%	4,717	3.67%

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