

OMIGSA Comment – Rian Le Roux, Chief Economist: Economic Research

Despite panic over Eurozone woesglobal recovery remains on track



May was an awful month for global equity markets. The Morgan Stanley World Index, denominated in US dollars, fell by no less than 10% between the end of April and

the end of May.

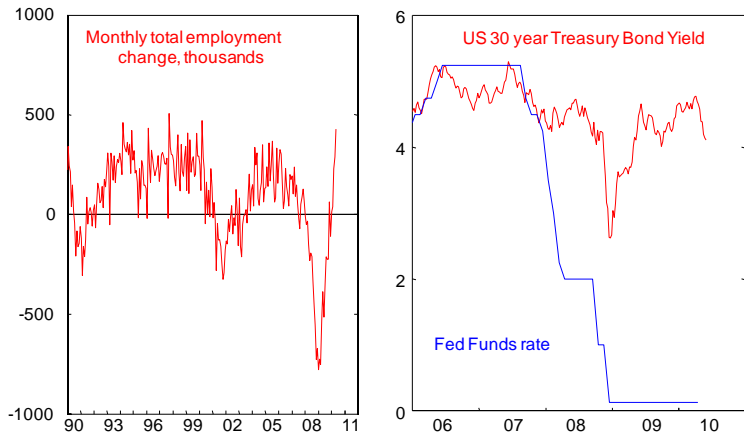
The fundamental backdrop of the stock market rout was a deepening of the crisis in the Euro-area (EU).

Not even the announcement of a €750bn bail-out package for Greece could calm investors' nerves. Having been hurt badly by underestimating the economic and market impact of the sub-prime crisis, worries of a severe growth slump in the EU from fiscal tightening and ongoing concerns over an eventual default by Greece left investors in no mood to hang on to risky assets. Rising geo-political tensions on the Korean Peninsula fuelled the panic further.

Despite the panic in financial markets, economic data remains generally solid and data released over the past month indicated that the global recovery is still very much alive, with little sign of any meaningful loss of momentum.

Looking forward we remain of the opinion that the troubles in Europe and recent market sell-off will not derail the global recovery. Despite the past month's panic, the global recovery remains on track, although the pace will likely slow from the strong recovery over the past year or so. We think chances of a renewed full-blown global economic downturn are fairly slim.

US created jobs since January, but bond yields fall on 'flight to quality'



Source: OMIGSA

04 - 10 June 2010 in a nutshell

Global: Major global indices 'bobbed and weaved' and ended the week in the red, on lingering European sovereign debt problems and a disappointing jobs report from the US. The S&P 500 in the US slid 1.27%, while its European counterpart gave up 0.95% and emerging market shares lost 1.95%.

South Africa: The local market was unmoved, with the FTSE/JSE All Share Index ending the week flat (-0.01%), as investors took a breather in search of direction. The winners were resources which were 0.45% higher.

Markets and Economics - Highlights

Global

- The US economic recovery is on a solid footing, but it could be years before jobs lost in the 2008-09 recession are restored. Employers added 431 000 jobs in May but only 41 000 came from the private sector. The jobless rate fell but to a still-high 9.7%, Fed Chairman Ben Bernanke said.
- The UK trade deficit failed to narrow in April as exports fell for the first time in three months, outpacing the fall in imports. The goods-trade gap was £7.3bn, the same as in March, the statistics office said in London.

- Brazil's economy surged in the first quarter on strong domestic demand. Latin America's largest economy grew 9% in the January-March period, compared with the same quarter last year, the government statistics agency said.

South Africa

- The second quarter got off to a bad start for the SA economy. The Kagiso purchasing managers' index (PMI) has been sliding since February and a drop in business activity, sales orders and employment, lowered the index significantly for May, leaving the PMI only slightly above the growth-neutral level.
- Gains in the dollar and volatility in global markets led SA's gold and foreign exchange reserves to fall more sharply than expected last month. Gross reserves plunged by 1.8% to \$41.6bn, well beyond forecasts that they would dip to \$42.3bn. Net reserves dived 1.5% to \$37.93bn, compared with estimates that they would drop to \$38.2bn.
- Business confidence fell unexpectedly in the second quarter of this year, led by a plunge in the mood within the retail and new-vehicle industry and signaling that the pace of SAs recovery has slowed, a key survey from the Bureau for Economic Research showed.
- Workplace productivity would drop over the World Cup, Productivity SA has warned.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 10.06.2010	% Performance Return
United States	S & P 500 (US\$)	-1.27%	1,089	-2.34%
Europe	Euro Stoxx 50 (Euro)	-0.95%	2,609	-12.04%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-1.95%	907	-8.33%
South Africa	FTSE/JSE All Share (ZAR)	-0.01%	27,134	-1.92%
Global	MSCI (US\$)	-1.47%	1,075	-7.96%
ZAR/Dollar	Rand/US \$ (ZAR)	0.13%	7.67	3.79%
ZAR/Pound	Rand/£ (ZAR)	0.80%	11.30	-4.72%
ZAR/Euro	Rand/Euro (ZAR)	-0.32%	9.30	-11.34%
JSE	Industrials	-1.61%	24,931	-1.24%
JSE	Financials	-1.94%	19,562	1.22%
JSE	Resources 20	0.45%	47,852	-6.33%
JSE	Small Companies	-0.62%	28,107	0.79%
JSE	Listed Property	0.00%	340	5.26%
JSE	RAFI® ALSI	-0.44%	5,659	-1.62%
JSE	RAFI® 40	-0.05%	5,460	-2.36%
JSE	SWIX	0.00%	5,684	-0.89%

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