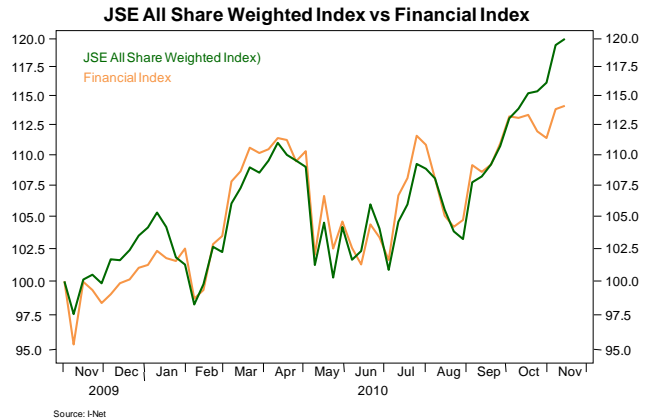


OMIGSA Comment – Tracy Brodziak, Sector Head: Financials

Liberty and Metropolitan steam aheadmoderating lacklustre sector performance



The life sector held up better in October 2010, with the Life Index dropping 2.2% compared to a drop of 4.5% for the Banks Index. The poor performance in the banking sector was mainly driven by the weak Standard Bank share price, on disappointing mid-year results and the bank’s plans to retrench staff.



The financial sector gave up most of the gains of the previous month, mainly on the back of negative corporate news (around the HSBC bid to buy Nedbank), as well as renewed fears of a slow and protracted recovery, following a lacklustre corporate results season. The termination of HSBC’s bid to acquire a majority stake in Nedbank from Old Mutual depressed their share prices, further damping the sector’s performance. However, the fall of the life sector index was moderated by strong performances from Liberty and Metropolitan.

Meanwhile, the FTSE/JSE Financial Index lost 3% in the same month, well behind the FTSE/JSE Shareholder Weighted All Share Index (SWIX), which was up 2.4%.

The latest reporting season has seen banks report stabilising impairment ratios (though still at high levels), as well as policy termination rates for life companies. The improving trend is expected to continue, but a more muted economic recovery could push meaningful operational benefits further out. We believe some counters in the sector still present value, with ratings still below historic averages.

05 - 11 Nov 2010 in a nutshell

Global: Global equities were a mixed bag this week, on the back of uncertainty about the strength of the recovery of the global economy, sending investors to safer assets. The S&P 500 in the US gained 1.34%, while its European counterpart shed 1.84% and emerging market stocks slid 1.13%.

South Africa: The local bourse tracked Wall Street higher this week, with the FTSE/JSE All Share Index climbing 0.74%. The biggest winners were resources, collecting 2.38%.

Markets and Economics - Highlights

Global

- The US economy showed signs of pulling out of a slow-growth rut as initial jobless benefit claims hit a four-month low last week, and the trade gap narrowed more than expected in September. The reports were the latest in a recent stream of data to suggest that the US economy is tentatively beginning to exit its summer doldrums.
- The Bank of England has warned that the outlook for the UK economy remains uncertain. Governor Mervyn King said the recovery was likely to continue, but its strength depended heavily on developments in the world economy. The Bank's quarterly inflation report said rising raw material prices, energy bills and next year's VAT rise meant inflation would remain high next year. But, it is expected to fall below the Bank's 2% target in two years' time.
- China posted a larger-than-forecast \$27.1bn (R185bn) trade surplus for October, a day before Group of 20 (G20) leaders meet in Seoul (South Korea) to tackle global imbalances in spending and capital flows. Exports rose 22.9% from a year earlier, and imports climbed 25.3%, the customs bureau said.

South Africa

- Employment in SA grew at an annual rate of 2.83% last month following a sharp decline in September, according to a report issued by Adcorp Holdings. The number of permanent workers increased 1.32% and the number of temporary workers rose 6.47%.
- Consumers' financial problems are easing slightly, according to the latest results of the Consumer Financial Vulnerability Index (CFVI). "This is the third quarterly improvement following the third-quarter 2009 CFVI peak of 5.44 points. It is evident that South Africans remain vulnerable, although slightly less so in recent months," said a statement from the Bureau of Market Research (BMR) and Finmark Trust, who developed the index.
- SA's net gold and foreign exchange reserves surged 5.5% to \$43.112bn last month as the Reserve Bank mopped up currency inflow generated by a Japanese company takeover of Dimension Data.
- A new R20bn tax incentive to encourage investments in new manufacturing assets and employee training was formally launched by Minister of Trade and Industry Rob Davies. It is part of a multi-pronged effort by the government to accelerate growth in the struggling sector, which has been hard hit recently by the strong rand and, over the past two years, by the global recession.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 11.11.2010	% Performance Return
United States	S & P 500 (US\$)	1.34%	1,214	8.87%
Europe	Euro Stoxx 50 (Euro)	-1.84%	2,831	-4.56%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-1.13%	1,138	15.01%
South Africa	FTSE/JSE All Share (ZAR)	0.74%	31,560	14.07%
Global	MSCI (US\$)	-1.19%	1,248	6.85%
ZAR/Dollar	Rand/US \$ (ZAR)	2.06%	6.92	-6.36%
ZAR/Pound	Rand/£ (ZAR)	1.09%	11.15	-5.99%
ZAR/Euro	Rand/Euro (ZAR)	-2.38%	9.43	-10.10%
JSE	Industrials	-0.27%	29,137	15.42%
JSE	Financials	-0.68%	21,577	11.64%
JSE	Resources 20	2.38%	56,027	9.68%
JSE	Small Companies	1.56%	32,513	16.59%
JSE	Listed Property	1.57%	389	20.43%
JSE	RAFI@ ALSI	0.60%	6,529	13.51%
JSE	RAFI@ 40	0.54%	6,370	13.91%
JSE	SWIX	0.58%	6,597	15.03%

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