

OMIGSA Comment – Ian Woodley, Sector Head: Resources

Resources weighed down by global and local factors.... But offshore opportunities exist



The basic materials sector produced a return of - 4.8% for the quarter ending June 2011, underperforming the FTSE/JSE All Share Index (ALSI)'s - 0.6%return.

The big underperformers were the gold and platinum miners, returning -13% and -7.7%, respectively. The continuing strong rand and concerns about commodity prices, wage

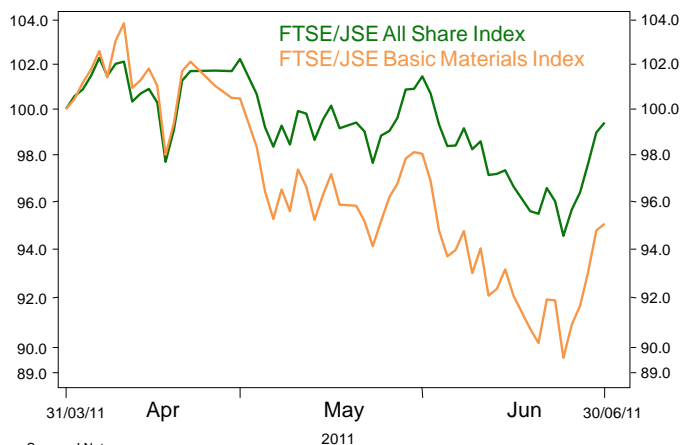
negotiations and threats of nationalisation all appeared to have had a negative impact. Although small, the coal mining sector managed a very credible outperformance, returning 6.1%.

The market seemed to have spent the last month reacting to the sentiment shifts about Greek refinancing prospects, and commodities were no exception. Although the issue is resolved for another few months, it is unlikely to go away completely, and we believe it will continue to dog the market. Japanese data was surprisingly good, but generally global industrial production has slowed over the past months. Whether this is temporary or a shift to a significantly lower growth environment is unclear, but with commodity prices generally still around record highs, we believe it's not the time to take aggressive bets; generally the Old Mutual Mining and Resources Fund is still positioned defensively.

While the very strong rand has dampened the short-term outlook for some shares and the performance of the fund, it is also an ideal time to increase our offshore exposure to further optimise the risk-adjusted return.

The diversified mining companies remain protected by their exposure to a variety of commodities and currencies in their portfolio, as they typically have the best assets and tend to remain profitable, even in commodity downturns, unlike some of the pure and smaller miners. Diversified miners' valuations are relatively more compelling than smaller or single commodity plays. Non-mining resources companies' valuations are relatively attractive too.

FTSE/JSE All Share Index vs. Basic Materials Index



08 – 14 July 2011 in a nutshell

Global: Global markets dipped this week due to the US and European debt crises, as rating agencies threatened to downgrade US ratings and downgraded Ireland's credit rating to 'junk status.' The S&P 500 fell 3.25%, while its European counterpart lost 5.27%, and emerging markets dropped 2.83%.

South Africa: Mirroring global markets, the FTSE/JSE All Share Index slipped 0.28%. The biggest loser was listed property, down 1.53, while industrials were the only gainers, up 0.55%.

Markets and Economics – Highlights

Global

- Global markets were jittery following Standard & Poor's warning that it could, within the next three months, downgrade the U.S. credit rating if Congress has not voted to raise the \$14.3 trillion debt ceiling. Similarly, Moody's has put the U.S. government's credit rating on review for a possible downgrade. A downgrade would drive up the cost of borrowing and throw into question the global benchmark role of US Treasury bonds. Uncertainty over the US debt crisis has negatively impacted on investment and employment. Latest figures indicated US unemployment hit 9.2%, a six-month high, while employers added a mere 18 000 workers to their payrolls, the weakest reading since September.
- Ireland has become the third Eurozone nation to have its credit rating downgraded to junk status, amid growing fears Spain and Italy are headed the same way. Over the past week, Moody's Investors Service has downgraded both Portuguese and Irish debt to junk status, noting that both countries may need a second bailout. Greece currently carries the world's worst credit rating, and experts say some type of default or restructuring of the debt is inevitable. Meanwhile, investors in most markets globally were reluctant to open new positions ahead of the stress test results to be released Friday.
- Spurred by domestic consumption and investment, China's GDP reflected a 9.5% rise from a year earlier, exceeding economists' 9.4% growth forecast. Despite this, growth was still at its slowest pace since the final quarter of 2009, when the world was pulling out of the recession. The country's GDP in April to June rose 2.2% from the first quarter on a seasonally adjusted basis, a slight pick-up in pace from 2.1% in the first quarter. The figures suggested domestic demand remains robust. Global markets edged up slightly following the release of the data. Meanwhile, China's import growth fell sharply to its slowest pace in 20 months in June and its politically sensitive trade surplus expanded sharply to \$22.27 billion in June.

South Africa

- SA's gold production fell 5.8% year-on-year (y/y) in May after a 1.5% y/y increase in production in April. On a monthly basis, gold output dropped a seasonally adjusted 3.6% during May. Dwindling grades, deeper mining and stoppages for safety-related reasons have hit the sector in recent years. The sector is also facing the possibility of labour action as wage negotiations with the three trade unions representing its employees deadlocked this week.
- South Africa was one of the continent's achievers, with manufacturing GDP per capita last year worth R3868, the United Nations Conference on Trade and Development (Unctad) said in its Economic Development in Africa Report for 2011. However, the entire continent accounts for just 1% of global manufacturing and must rethink its industrial policy, it said. The share of manufacturing in Africa's GDP fell from 12.8% in 2000 to 10.5% in 2008, and in its exports, from 43% in 2000 to 39% in 2008. Africa was described by the organisation as the least diversified in the world. Domestic policy failures, lack of policy space to implement alternative development policies and structural constraints were factors contributing to Africa's weak industrial performance.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 14.07.2011	% Performance Return
United States	S & P 500 (US\$)	-3.25%	1,309	4.05%
Europe	Euro Stoxx 50 (Euro)	-5.27%	2,659	-3.51%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-2.83%	1,135	-1.39%
South Africa	FTSE/JSE All Share (ZAR)	-0.28%	32,204	0.26%
Global	MSCI (US\$)	-3.03%	1,311	2.42%
ZAR/Dollar	Rand/US \$ (ZAR)	2.40%	6.83	3.33%
ZAR/Pound	Rand/£ (ZAR)	3.28%	11.01	6.79%
ZAR/Euro	Rand/Euro (ZAR)	1.04%	9.68	9.50%
JSE	Industrials	0.55%	28,808	-5.27%
JSE	Financials	-0.52%	21,761	0.53%
JSE	Resources 20	-1.49%	53,887	-4.29%
JSE	Small Companies	-0.43%	32,506	-3.60%
JSE	Listed Property	-1.53%	386	-0.26%
JSE	RAFI® 40	-0.43%	6,705	0.75%
JSE	RAFI® ALSI	-0.68%	6,466	-0.02%
JSE	SWIX	-0.27%	6,749	0.07%

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