

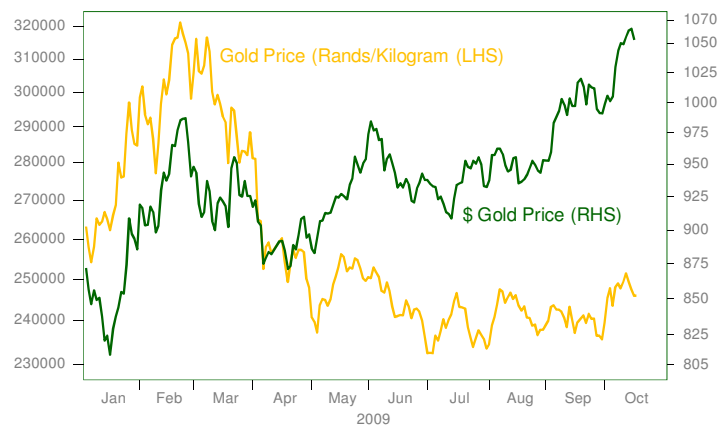
OMIGSA Comment – Mandla Mapondera, Portfolio Manager: Old Mutual Gold Fund

Gold is flying high.....but stronger rand steals its shine



In late September, the gold price surprised many market analysts by moving above the \$1,000/oz mark. Although various explanations have been given for the unexpected move, the main factor has been the weakness in the dollar. The greenback has weakened almost 7% since the beginning of the year, driving up the yellow metal by more than 21%. Be that as it may, the rand gold price has moved in the opposite direction, falling 6% due to the rand's strong rally of 24% against the US currency.

Gold price in rands and dollars



Source: INET

Turning our attention to just the dollar gold price and what could have led to the increase. Investors are concerned about how governments and central bank authorities will extricate themselves from the high debt levels and printing of money without high inflation. The current state of the US government's finances has lowered confidence in the dollar and there has been talk of replacing it with something else as the world's reserve currency. While alternatives to the dollar are in short supply, some market players seem to have turned to precious metals as a place holder. So, while the level of volumes of gold bought by investors has been rising to record levels, similar increases have been occurring in platinum and palladium.

The rand, on the other hand, has benefitted from two main trends. Firstly, there is growing optimism that emerging market economies (especially Brazil, Russia, India and China (BRIC) countries) will drive global growth at least for the next 12 to 24 months. Therefore, the South African market has enjoyed large capital inflows which have led to the strengthening of the currency. Secondly, an improving outlook for world economic activity is leading to the growing demand for commodities. The rand is considered to be a commodity currency and thus benefits from the higher prices of some of South Africa's exports.

09 - 15 Oct 2009 in a nutshell

Global: Major global bourses shot up this week on high expectations of favourable company earnings from the US, sending investors on a buying spree. It was a case of buying on rumour and selling on fact. The S&P 500 in the US gained 3.00%, while the European market stocks rose 1.77% and emerging markets shared climbed 3.83%.

South Africa: The local market rode the crest of the global rally wave, sending the FTSE/JSE All Share Index 2.57% higher. The winners of the week were financials, collecting a healthy 5.43%.

Markets and Economics - Highlights

Global

- US retail sales fell last month, hurt by a slump in motor vehicle purchases as government-sponsored incentives ended, but the decline was less than expected. Stripping out cars, sales increased for a second successive month last month, cementing the view that consumer spending recovered and the economy started growing in the third quarter.

- British inflation fell to its lowest level in five years last month and separate surveys showed the Bank of England's stimulus helped to reverse a house price decline and buoy retail sales, pushing the economy closer to recovery, the British Retail Consortium said.
- China's exports fell less than economists estimated last month and imports dropped the least in 11 months, adding to evidence that the global economy is emerging from recession. Exports declined 15.2% to \$115.9bn from a year earlier, the customs bureau said on its website.

South Africa

- SA retail sales decreased by a worse-than-expected 7% y/y in August at constant prices, compared with a revised 4.1% decline in July. Retail sales dropped by 6% in the three months to August, compared with the same period a year ago, also at constant prices, Stats SA said.
- The relaxation of lending criteria by banks had resulted in increases in both the average house purchase price and the average approved bond size. House prices rose 1.8% y/y last month, the fourth consecutive increase, according to ooba's price index.
- Confidence among SA's asset managers rose "significantly" in the third quarter even though the companies continued to report lower profits, a survey by Ernst & Young showed.

Key Indicators:					
Market	Index	Movement for the period		Year to Date	
		%	Index Value @ 15.10.2009	% Performance Return	
United States	S & P 500 (US\$)	3.00%	1,097	21.48%	
Europe	Euro Stoxx 50 (Euro)	1.77%	2,939	19.91%	
Emerging Mkts	MSCI Emerg Mkts (US\$)	3.83%	976	72.13%	
South Africa	FTSE/JSE All Share (ZAR)	2.57%	26,183	21.73%	
Global	MSCI (US\$)	2.55%	1,167	26.85%	
ZAR/Dollar	Rand/US \$ (ZAR)	-1.09%	7.26	-23.82%	
ZAR/Pound	Rand/£ (ZAR)	0.17%	11.79	-14.07%	
ZAR/Euro	Rand/Euro (ZAR)	-0.28%	10.82	-17.78%	
JSE	Industrials	1.46%	25,510	18.67%	
JSE	Financials	5.43%	19,214	21.77%	
JSE	Resources 20	1.49%	46,566	20.80%	
JSE	Small Companies	1.21%	26,649	17.34%	
JSE	Listed Property	1.88%	325	4.84%	
JSE	RAFI® ALSI	3.80%	5,462	27.08%	
JSE	RAFI® 40	3.50%	5,265	23.53%	
JSE	SWIX	2.27%	5,504	20.97%	

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