

OMIGSA Comment – Cavan Osborne: Head: Industrials

Industrial shares looking expensive once again



Both the FTSE/JSE All Share Industrial Index and the FTSE/JSE All Share Index (ALSI) bounced back strongly in October, with most of the gains being made in the last few days of the month, after the European Central Bank announced

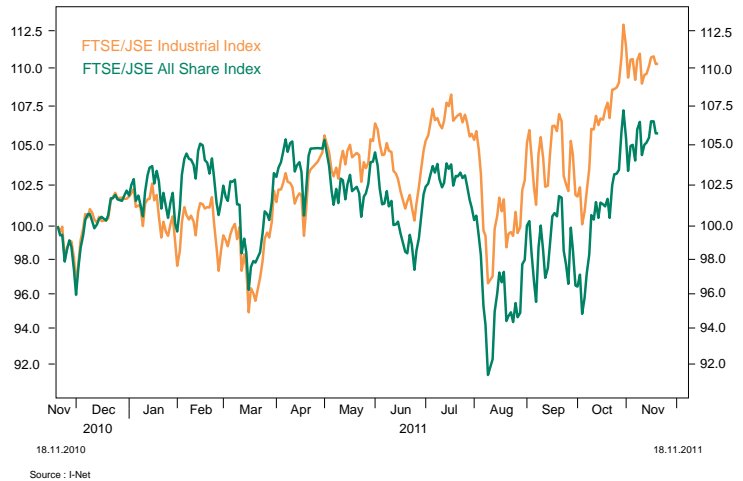
the bailout package for Greece. The rand was relatively stable over the month, after falling sharply in September. For the month, both the Industrial Index and the ALSI rose more than 9%. This means that for the year-to-date, the Industrial Index is up 9.5% and the ALSI up 3.5%.

Richemont was up a massive 27%, buoyed by strong quarterly sales figures from other luxury companies like Gucci and LVMH, as well as continued strong growth in Swiss Watch Industry exports. Nearly all the local retailers recorded double digit advances: Truworths +14%, Mr Price +15%, Woolworths +15% and JD Group +16%.

You had to search long and hard to find stocks that declined. Murray & Roberts was one of the few, down 7% for the month and 40% for the year. Murray & Roberts announced that it has another problem contract, this time in Australia, and it will be taking another write-off. Its two big recent write-offs relate to work it conducted on the Gautrain and on the Madupi power station.

Following the strong bounce in October, many of the industrial shares are looking expensive once again. This is particularly true for the higher quality businesses and the more defensive businesses.

FTSE/JSE Industrial Index versus FTSE/JSE All Share Index



11 November – 17 November 2011 in a nutshell

Global: Global markets delivered negative returns as investor uncertainty continues to have a knock-on effect. The S&P 500 fell 1.90%, and its European counterpart was down 0.54%, while emerging markets also declined 0.21%.

South Africa: Local markets thrived this week in comparison to their global counterparts, albeit with low returns. The FTSE/JSE All Share Index gained 0.69%, while the biggest sector winner was financials, up 0.72%. Most sectors recorded positive returns - small companies was the only sector to deliver a negative return of 0.65%.

Markets and Economics – Highlights

Global

- US retail sales have risen, with an increase of 7.2% for the 12 months to October 2011. Consumer spending, which accounts for more than two-thirds of US economic activity, rose at its fastest pace in nearly a year in the third quarter. But households are significantly cutting back on saving to fund their spending. Meanwhile, according to the Treasury, the US government's debt load topped the \$15-trillion mark, roughly equal to 99% of the size of the total US economy projected for 2011. Government debt has steadily climbed since early August, when the debt ceiling was raised from \$14.3 trillion to \$15.194 trillion.
- The Eurozone economy grew only 0.2% in the third quarter, on par with the second quarter, as Germany and France posted solid growth but countries at the sharp end of the debt crisis fared much worse. Eurozone economic growth is expected to slow sharply next year, with weak confidence undermining investment and consumption and tighter financial policies reducing domestic demand, according to the European Commission. European inflation also held at the highest rate in three years in October. Consumer prices rose 3% from a year earlier, the biggest gain since October 2008. Core inflation, excluding energy costs, held at 1.6%. Meanwhile, unemployment in the UK has increased more sharply than expected, to a 17-year high, underlining the country's labour market deterioration.
- Japan's economy rebounded from an earthquake-triggered recession as it expanded 1.5% in the third quarter, although the pace is likely to slow as a strong yen and weak global growth darken the outlook. The growth, the fastest among major industrial nations, was fuelled by robust exports and consumption after companies restored supply chains wrecked by the March earthquake and tsunami, bringing output and overseas sales back up to pre-disaster levels. On an annualised basis, the economy expanded 6%. The growth figures were in line with market expectations and came after three consecutive quarters of contraction.

South Africa

- Warnings were on the horizon this week to prepare for “Eurogeddon”, the reference to the possible implosion of the Eurozone as it stood on the brink of an economic meltdown. South African Reserve Bank (SARB) governor Gill Marcus warned of “unthinkable consequences” as investors dumped Eurozone bonds and borrowing costs for major economies such as Italy and Spain spiralled to unsustainable levels. Rates on newly issued, five-year Italian debt exceeded 6.29% on Monday, the highest since June 1997. Market uncertainty boosted South Africa as bond investors sought SA’s relatively high yields and growth prospects for an emerging economy, but the rand remained volatile, having traded in a range between R6.65 and R8.15 to the dollar since July. On a positive note, the FTSE/JSE All Share Index recorded a near record high of 32 670 this week as equities charmed foreign buyers.
- The South African government has given its stamp of approval in support of a “green accord” aimed at generating 300 000 climate friendly jobs with a decade. Plans are also in the pipeline to produce 3 700 megawatts of renewable energy to be channelled into the electricity grid by 2016. Jobs are expected to be created on mass transport routes through the upgrade of the Passenger Rail Agency of SA (Prasa) infrastructure and rolling stock construction across the country, feeding into bus rapid transit systems in major cities. Business Unity SA and the labour federations represented at Nedlac – Cosatu, the National Council of Trade Unions and the Federation of Unions of SA – joined the government in supporting and signing the green accord at Parliament.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 17.11.2011	% Performance Return
United States	S&P 500 (US\$)	-1.90%	1,216	-3.33%
Europe	Euro Stoxx 50 (Euro)	-0.54%	2,243	-19.70%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-0.21%	952	-17.29%
South Africa	FTSE/JSE All Share (ZAR)	0.69%	32,438	0.99%
Global	MSCI (US\$)	-1.38%	1,163	-9.17%
ZAR/Dollar	Rand/US \$ (ZAR)	3.10%	8.21	24.16%
ZAR/Pound	Rand/£ (ZAR)	1.81%	12.92	25.32%
ZAR/Euro	Rand/Euro (ZAR)	1.85%	11.04	24.89%
JSE	Industrials	0.56%	28,224	-7.19%
JSE	Financials	0.72%	21,605	-0.19%
JSE	Resources 20	0.70%	54,245	-3.65%
JSE	Small Companies	-0.65%	31,860	-5.52%
JSE	Listed Property	0.09%	388	0.34%
JSE	RAFI@ 40	0.91%	6,678	0.34%
JSE	RAFI@ ALSI	0.70%	6,399	-1.05%
JSE	SWIX	0.68%	6,806	0.93%

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