

**OMIGSA Comment – Paul Kahumuza, Equity Analyst, OMIGSA Equity Research**

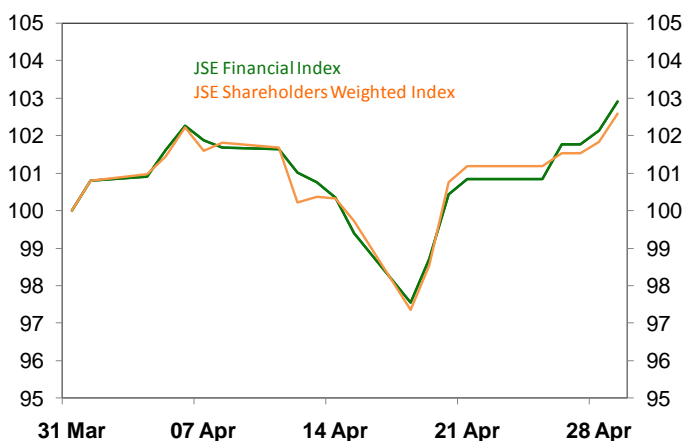
**Financial sector gains... thanks to recovering SA economy**



The FTSE/JSE Financial Index was up 2.9% in April 2011, marginally ahead of the FTSE/JSE Shareholder Weighted All Share Index (SWIX), which was up almost 2.6%; the Banking Index and the life assurance sector gained 1.9% and 4.3%, respectively.

Old Mutual and Sanlam drove the life sector up, each gaining in excess of 4%. All other stocks in the sector recorded gains with the exception of Discovery, which lost 0.6%.

JSE Financial Index vs JSE Shareholders Weighted Index



Source – I-Net

Companies in this sector should continue to show an improving trend in lapse-experience and recurring-premium sales, due to improving real household incomes. Cost management will also become an issue due to limited growth prospects.

In the banking sector, strong performance came mainly from Nedbank, which gained 2.3%, possibly as a result of renewed speculation of a possible sale of Old Mutual's stake. First Rand also recorded a gain, while Standard Bank lost 1% of its value.

We now expect the banks to focus on the cost line as revenue growth remains subdued. A recovery in credit losses and any possible rise in interest rates should also support earnings. Capital levels will be a focus area with potential for increased dividends.

The recovering economy should benefit the financial services sector and lift operating results in 2011. We believe some counters still present value, with ratings below historic averages.

**13 – 19 May 2011 in a nutshell**

**Global:** Global equities were mixed this week, with economic uncertainty in the Eurozone and Japan taking centre stage. The S&P 500 in the US fell 0.34%, while its European counterpart slid 0.89% and emerging market stocks declined -0.66%.

**South Africa:** The local bourse improved this week, with the FTSE/JSE All Share Index rising 0.75%. The biggest winner was the financial sector which gained 1.11% for the week.

**Markets and Economics – Highlights**

**Global**

- Gasoline and food prices hoisted U.S. inflation to a two-and-a-half year high in April, and consumer prices rose 0.4% according to the US Labor Department. The rise, which was in line with economists' expectations, took year-on-year inflation to 3.2%, the highest since October 2008. The 12-month increase at 1.3% was at its highest level since February 2010. Year-on-year core CPI has risen 0.7 percentage points from a record low of 0.6% in October last year.
- After Greece and Ireland, Portugal has become the third member of the 17-nation Eurozone to be granted emergency loans from the European Union (EU) and the International Monetary Fund (IMF). European finance ministers backed an EU-IMF bailout of Portugal amounting to €78 billion (approximately \$110 billion). The three-year aid plan sets goals for a budget deficit of 5.9% of GDP in 2011, 4.5% in 2012 and 3% in 2013.

- Japan's economy contracted at a much-worse-than-expected 3.7% annualised rate in the first quarter of 2011, with the tragic earthquake and tsunami in March causing declines in consumer spending, business investment and private-sector inventories, tipping the country into a recession. The problems in Japan also hit some of its trade partners. For example, U.S. manufacturing output fell 0.4% in April, the first decline in 10 months, as Japan's disaster limited the supply of parts needed to assemble cars in the U.S.

### South Africa

- In April 2011, CPI rose to a 10-month high of 4.2%, from 4.1% in March and 3.7% in February, according to Statistics South Africa (Stats SA). This was lower than market expectations of a 4.4% year-on-year increase. Headline CPI slowed to 0.3% month on month from 1.2% in March. There is very little demand-led inflation, and underlying inflation pressures are believed to be mainly of a cost-push nature. CPI excluding food and fuel remained well within the inflation target at 3.6% year on year (0.2% month-on-month in April 2011), while services inflation has now increased to 4.7%.
- Retail sales in March rose 5.1% year on year, down from 5.5% the month before, according to Stats SA. The growth was primarily due to gains in the household furniture, appliances and equipment category, which increased 11.8% following a 7.9% increase the month before. General dealers rose 8% and pharmaceutical, medical goods, cosmetics and toiletries category rose 5.6%. But retailers of food, beverages and tobacco registered a 6.8% drop, declining for the third consecutive month.

#### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 19.05.2011	% Performance Return
United States	S & P 500 (US\$)	-0.34%	1,344	6.84%
Europe	Euro Stoxx 50 (Euro)	-0.89%	2,891	3.51%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-0.66%	1,140	-0.96%
South Africa	FTSE/JSE All Share (ZAR)	0.75%	31, 919	-0.62%
Global	MSCI (US\$)	-0.38%	1,346	5.16%
ZAR/Dollar	Rand/US \$ (ZAR)	-0.38%	6.86	3.78%
ZAR/Pound	Rand/£ (ZAR)	-0.88%	11.11	7.76%
ZAR/Euro	Rand/Euro (ZAR)	0.04%	9.81	10.97%
JSE	Industrials	0.80%	27,537	-9.45%
JSE	Financials	1.11%	21,545	-0.47%
JSE	Resources 20	0.65%	54,406	-3.37%
JSE	Small Companies	0.01%	32,172	-4.59%
JSE	Listed Property	0.68%	371	-4.13%
JSE	RAFI@ 40	0.78%	6,666	0.17%
JSE	RAFI@ ALSI	0.67%	6,425	-0.65%
JSE	SWIX	0.81%	6,663	-1.20%

Contact: [njacobs@omigsa.com](mailto:njacobs@omigsa.com)

OMIGSA: Tel. 021 509 6984

[www.omigsa.com](http://www.omigsa.com)

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