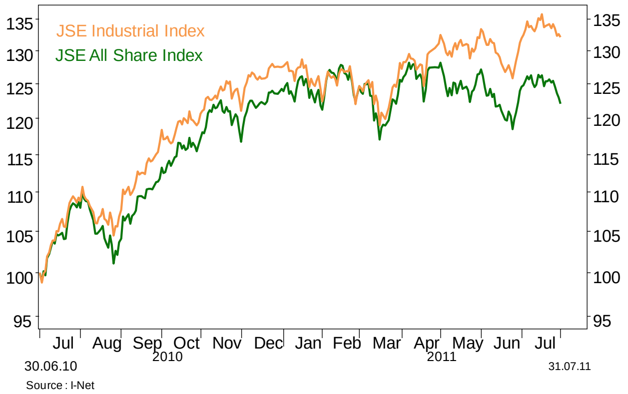
OMIGSA Comment – Cavan Osborne, Sector Head: Industrials

Industrial sector doesn't seem to be offering investors much value

The Industrial Index managed to end the month of July flat, compared with the FTSE/JSE All Share Index (ALSI) which fell 2%. For the year-to-date, the Industrial Index is up 3.5%, which is 5% better off than the ALSI.

JSE All Share Index vs. Industrial Index



The star performers in July were Kumba IronOre (+5%) which reported strong results off the back of record iron ore prices (offset by the strong rand to a degree) and British American Tobacco (+5%), which has remained in favour throughout this year. The retail sector also enjoyed a strong run in July. Investors focused on the strong dividend yielders, with Mr Price up 8% and Woolworths up 6%. The cotton price dropped 36% in July, which should help boost the clothing retailers' margins in the coming year.

The building and construction sector continued to slump. The government has put a moratorium on new projects and is now delaying payments to contractors. All this is happening at a time when the industry is being investigated by the competition authorities. The share prices of Murray & Roberts, PPC, Group Five and Aveng are all down in excess of 15% year-to-date.

The industrial sector is not offering much value as a whole based on our valuation. There are certain companies, however, which are offering some reasonable value.

19 – 25 August 2011 in a nutshell

Global: Markets were extremely volatile, ending in a mixed bag this week amid both positive and negative news from the US, Europe and emerging markets. The S&P 500 rose 1.63% and its European counterpart improved 0.46%, while emerging markets dropped 2.25% as investor risk aversion gained ground.

South Africa: The FTSE/JSE All Share Index was slightly higher, rising 0.21%. After experiencing the highest growth of all the sectors last week, Small Companies was the loser for the week, dropping 1.52%.

Markets and Economics – Highlights

Global

- US economic conditions improved slightly in July, amid a rise in industrial and manufacturing production, according to the Federal Reserve Bank of Chicago. Data suggests economic activity remains below its historical trend, suggesting subdued inflationary pressure for the coming year. The Chicago Fed's National Activity Index narrowed to -0.06 in July, following a revised -0.38 in June, and the three-month moving average increased to -0.29 from -0.54. The 85 economic indicators that comprise the Chicago Fed's index are drawn from four categories: production and income; employment, unemployment and hours; personal consumption and housing; and sales, orders and inventories.
- Economic growth is stagnating in Europe, according to surveys of business activity. The Euro-zone's services PMI edged down to 51.5 this month from 51.6 in July, hitting its lowest level since September 2009. While preliminary purchasing managers indexes (PMIs) in the 17-nation Euro-zone were marginally stronger than grim market forecasts, giving equities and the euro a modest boost, the surveys still suggested the Euro zone's economy was likely to post near-zero growth in the current quarter through September. A separate index of economic sentiment in Germany, the ZEW, indicated the slowdown was spreading beyond indebted members of the bloc's periphery and taking root in core members such as Germany.
- For the first time in 13 years, household savings in India, one of the primary contributors to economic growth, has dropped to below 10% of Gross Domestic Product as disposable incomes were affected by soaring inflation. Inflation was running at 9.22% in July, according to official government data.Net financial savings by Indians dipped to 9.7% of GDP in FY11 compared with 12.1% a year ago, as per data released by the Reserve Bank of India on Thursday. The central bank has attributed the decline to slower growth in bank deposits and life insurance funds, as well as an absolute decline in investment in equities, mainly driven by redemption of mutual fund units.

South Africa

- Gill Marcus, South African Reserve Bank governor, suggested interest rates - which are currently at a 30-year low- may drop further in light of the expected global recession, which would affect South Africa. However, dimming this prospect was the report by Statistics SA that consumer inflation has risen from 5% in June to 5.3% in July, 0.1% above economists' expectations. The major factors which contributed to this rise were electricity prices, which increased 16% in July from the previous month, and food costs, which rose 0.6% during the same period. Meanwhile, producer inflation, which represents domestic output, quickened to 8.9% year-on-year (y/y) in July from 7.4% in June, 0.4% lower than expected.
- Investor confidence in South African assets eased in the second quarter of this year. The Maxim-ETM Investor Confidence Index, which monitors actual data to determine how fund managers are shifting their money between various asset classes, has reflected a drop to 99.1 in Q2 from 107.1 in the first quarter. They attribute the lack of growth of overall fund inflows in the second quarter to the tight monetary environment, which is weighing on equity optimism and making the fund management sector more competitive. Data showed a slowing in the momentum of new domestic funds flowing into bonds during the quarter as rising inflation diminished the attraction of debt for local investors, which seem to have been absorbed by increased flows to the money market.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 25.08.2011	% Performance Return
United States	S & P 500 (US$)	1.63%	1,159	-7.85%
Europe	Euro Stoxx 50 (Euro)	0.46%	2,217	-20.63%
Emerging Mkts	MSCI Emerg Mkts (US$)	-2.25%	973	-15.46%
South Africa	FTSE/JSE All Share (ZAR)	0.21%	29,349	-8.62%
Global	MSCI (US$)	0.59%	1,155	-9.79%
ZAR/Dollar	Rand/US $ (ZAR)	0.56%	7.22	9.23%
ZAR/Pound	Rand/£ (ZAR)	-0.76%	11.75	13.79%
ZAR/Euro	Rand/Euro (ZAR)	1.08%	10.39	17.49%
JSE	Industrials	-1.28%	25,911	-14.79%
JSE	Financials	0.37%	20,415	-5.69%
JSE	Resources 20	-0.61%	47,666	-15.34%
JSE	Small Companies	-1.52%	30,705	-8.94%
JSE	Listed Property	0.65%	384	-0.85%
JSE	RAFI® 40	0.35%	6,074	-8.73%
JSE	RAFI® ALSI	0.42%	5,851	-9.53%
JSE	SWIX	0.13%	6,220	-7.77%

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