OLD MUTUAL Investment Group | Investment Research

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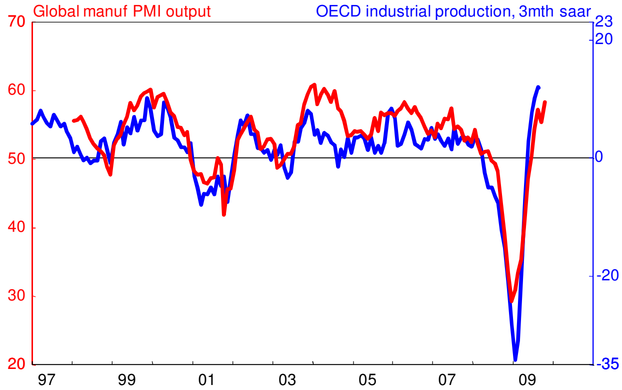
OMIGSA Comment – Johann Els, senior economist: Economic Research

Is the global recovery sustainable?

The recovery in the global economy is most likely sustainable, thanks to the unprecedented, synchronised policy stimulus, and China will act as a locomotive, due to its insatiable demand for raw materials. In addition, the slowing inventory cutbacks will support output and we expect a moderate return of credit flows, while asset price recovery will underpin household spending. The implications for this are that company profitability will improve sharply.

Global data watch

World manufacturing sector back in growth territory



Source: OMIGSA

On the macro-economic front, there are no serious threats to the markets. For example, recession has most likely ended in most countries, global recovery seems to be gathering momentum and most big economies are now back to positive gross domestic product (GDP) growth in Q3.

In addition, the biggest economy in the world, the USA, is also back to positive GDP growth. The US economy grew by 2.8% in Q3 (annualised) on vehicle sales and inventories, which contributed 1% and 0.9%, respectively. The inventory cycle is only getting started, and more support is expected from this area. However, some momentum loss will occur, keeping worries of a double-dip alive, and medium-term growth will be slow. We expect the policy outlook to remain unchanged - expansionary -for an extended period of time.

20 - 26 Nov 2009 in a nutshell

Global: Concerns over debt rescheduling in Dubai and a mixed bag of economic data from the US left most global bourses rattled. The S&P 500 in the US rose 1.37% (closed on Thursday) while its European counterpart slid 2.13% and emerging market shares fell 1.03%.

South Africa: The local market was not left unscathed, with the FTSE/All Share Index ending the week 0.12% in the red. The winners were resources, which climbed a tad, 0.96%.

Markets and Economics - Highlights

Global

- Home prices in 20 US cities rose for a fourth successive month in September, a private index showed. Spending by US consumers rebounded last month more than anticipated. The 0.7% increase in purchases was larger than the median estimate of economists surveyed by Bloomberg, the Commerce Department figures showed.
- A recovery in the UK economy was emerging after its longest recession on record, Bank of England governor Mervyn King said.
- China's industrial overcapacity was affecting economic growth in dozens of industries across the world and was diluting the Chinese government's efforts to create more sustainable economic development, said a European Union Chamber of Commerce report.

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South Africa

- Prices at the gates of SA's factories, farms and mines have fallen for six months running, but the rate of decline has slowed. Last month's producer price index (PPI) came in at 3.3% against September's 3.7%.
- The rand was the strongest emerging-market currency, gaining as much as 1.75% to R7.46/$ on Tuesday this week, after it benefited from a weaker dollar and a gold price that reached new highs.
- The recession has ended, with the economy turning mildly positive after three negative quarters as the manufacturing sector bounced back in response to a pickup in global demand. Stats SA said the economy grew at an annualised 0.9% in the third quarter of this year, after contracting at revised rates of 7.4% in the first quarter and 2.8% in the second quarter.
- Consumer inflation finally fell within the Reserve Bank's 3% to 6% CPI target range in October 2009. At 5.9% y/y, it was at the lowest level since February 2007, when it came in at 5.8%.

The US market (Wall Street) was closed yesterday, 26-11-2009 due to Thanksgiving Public Holiday, and the US Index Value is at the market close of 25-11.2009

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 26.11.2009	% Performance Return
United States	S & P 500 (US$)	1.37%	1,111	23.03%
Europe	Euro Stoxx 50 (Euro)	-2.13%	2,799	14.20%
Emerging Mkts	MSCI Emerg Mkts (US$)	-1.03%	958	68.96%
South Africa	FTSE/JSE All Share (ZAR)	-0.12%	27,026	25.65%
Global	MSCI (US$)	0.26%	1,155	25.54%
ZAR/Dollar	Rand/US $ (ZAR)	-0.53%	7.48	-21.51%
ZAR/Pound	Rand/£ (ZAR)	-1.44%	12.35	-9.99%
ZAR/Euro	Rand/Euro (ZAR)	0.00%	11.23	-14.67%
JSE	Industrials	-3.03%	24,294	13.02%
JSE	Financials	-1.08%	18,889	19.71%
JSE	Resources 20	0.96%	50,176	30.29%
JSE	Small Companies	-0.11%	26,589	17.08%
JSE	Listed Property	0.00%	321	3.55%
JSE	RAFI® ALSI	-0.53%	5,651	31.48%
JSE	RAFI® 40	-0.64%	5,464	28.20%
JSE	SWIX	0.40%	5,543	21.82%

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