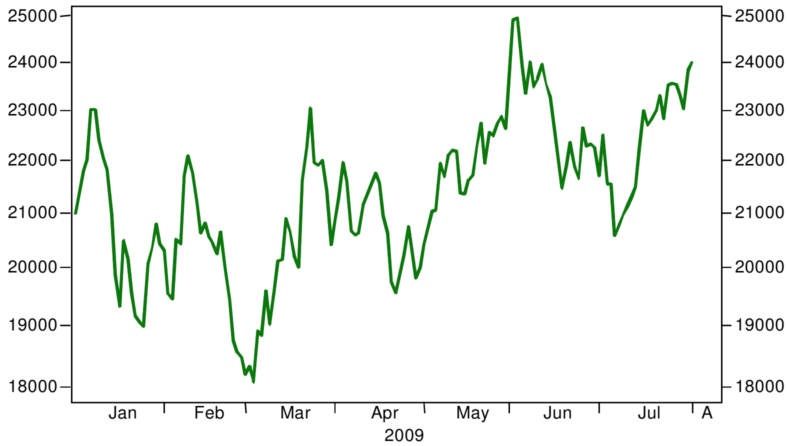
OMIGSA Comment – Anwaar Wagner, Sector Head: Resources, Equity Research

Commodities poised for long-term growth on buoyant China

The basic materials sector has delivered strong gains since the March-lows on evidence of an earlier and much stronger-than-expected recovery in China and India, with signs of stabilization in the G7. While there is concern regarding the recent pull-back of the Chinese market and its impact on commodities and emerging market economies, we always advise investors to take a longer-term view.

FTSE / JSE Africa Basic Materials Index



Source: INET

While there are concerns about the short- and medium- term prospects for the highly indebted G7 nations, we remain convinced that in the longer term, structural growth in emerging markets and BRIC (Brazil, Russia, India, China) economies in particular, is still achievable. This will be driven by increasing urbanization, infrastructural development, rising employment, and growing incomes which will boost consumption. In addition, investment in these countries supported by, in most cases, sensible and supportive macro-economic policies, will further strengthen these economies.

One can only admire the growth in the Chinese economy over the last few years – it has grown to the third largest economy globally, surpassing the UK and Germany. Projections for growth have been revised up from the lows of 5% this year to around 8% now; this is truly remarkable considering that the western world was facing "Great Depression II", illustrating the relative resilience of emerging economies like China.

21 - 27 Aug 2009 in a nutshell

Global: The bulls charged forward this week in most major global bourses on positive economic indicators from the US and renewed appetite for risk. The S&P 500 in the US gained 2.38% while the European market stocks surged 4.28% and emerging market shares were 0.84% up.

South Africa: The local market was firmer on positive news from the US, with the FTSE/JSE All Share Index climbing 1.60%. Financials led the rally, ending the week 5.19% higher and resources were down 0.88%.

Markets and Economics - Highlights

Global

- The US economy appeared to have stabilised and might not need all the stimulus the central bank had planned to offer, Federal Reserve President Jeffery Lacker said. Markets and commentators greeted positively the news that US President Barack Obama nominated Federal Reserve Chairman Ben Bernanke for a second term.

- The proportion of jobless households rose to the highest in a decade in the second quarter as the UK experienced its worst recession in a generation. The rate increased 1.1% from a year earlier to 16.9%, the most since 1999.
- India may have seen accelerating growth in the June quarter thanks to stimulus measures, but drought in the nearly half of the country's districts and the global slump could hinder faster recovery. The country's gross domestic product is estimated to have expanded 6% in the quarter from a year earlier and faster than 5.8% in the March quarter, the median forecast of analysts showed.

South Africa

- Inflation subsided to a two-year low last month, but electricity, insurance and other service costs kept it above forecasts at 6.7%, dampening hopes of another rate cut this year. Market consensus had expected inflation to slow to 6.6% from 6.9% in June, continuing its descent from a peak oft 8.6% in February.
- SA borrowed another $500m from foreign markets, raising its dollar bond issue for this year to $2bn to help cover a growing shortfall in tax revenues, which is set to widen the budget deficit. The decision was also driven by improved market conditions since the bond maturing in 2019 was issued in May, said the Treasury.
- Private banks are working on a joint approach to extend credit to distressed companies with development finance institutions (DFIs) as part of a government initiative to help business survive the recession, said Economic Development Minister Ebrahim Patel.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 27.08.2009	% Performance Return
United States	S & P 500 (US$)	2.38%	1,031	14.17%
Europe	Euro Stoxx 50 (Euro)	4.28%	2,778	13.34%
Emerging Mkts	MSCI Emerg Mkts (US$)	0.84%	844	48.85%
South Africa	FTSE/JSE All Share (ZAR)	1.60%	24,995	16.21%
Global	MSCI (US$)	2.16%	1,086	18.04%
ZAR/Dollar	Rand/US $ (ZAR)	-1.77%	7.77	-18.47%
ZAR/Pound	Rand/£ (ZAR)	-2.99%	12.65	-7.80%
ZAR/Euro	Rand/Euro (ZAR)	-0.98%	11.15	-15.27%
JSE	Industrials	3.59%	23,457	9.12%
JSE	Financials	5.19%	18,408	16.66%
JSE	Resources 20	-0.88%	44,510	15.58%
JSE	Small Companies	1.82%	25,017	12.16%
JSE	Listed Property	0.32%	311	0.32%
JSE	RAFI® ALSI	1.94%	5,211	21.24%
JSE	RAFI® 40	1.65%	4,997	17.25%
JSE	SWIX	2.24%	5,290	16.26%

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