

OMIGSA Comment – Rian le Roux, Chief Economist: OMIGSA

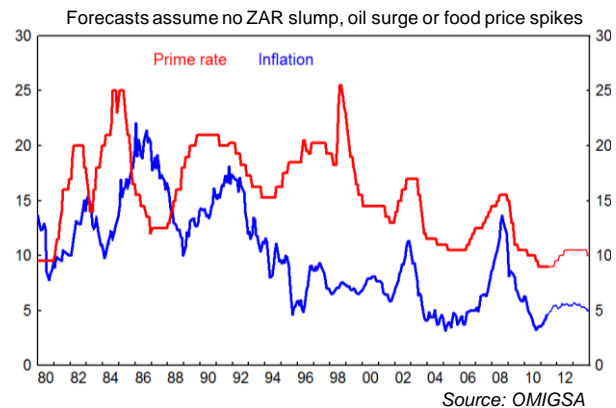
SA faces rough ride as global risks rise



South African investors can expect considerable market volatility in the months ahead, on the back of rising concerns over fiscal contraction in Europe, budget clashes and slow growth in the US, and slowing growth in China, among other issues.

Investors' negative perceptions around these issues are dominating equity and bond markets around the globe, and will continue to do so for some time. This will favour emerging markets, including South Africa, as investment destinations, but the local market is still likely to suffer from big swings driven by this newsflow for the rest of the year.

SA inflation & rate cycle forecasts



The developed world is likely to maintain expansionary monetary policies for longer, and will continue to underperform developing countries, where inflation is the primary risk. This will maintain the attractive interest rate differentials in developing countries, lending further support to developing country currencies at the expense of the euro and US dollar.

For South Africa, the rand could well stay stronger for longer, which will help keep inflation under control and probably delay any interest rate hikes until late this year or early 2012. At the same time, though, it continues to undermine our exports. So although we're experiencing a moderate recovery led by consumer spending, it remains uneven.

Inflation is not a significant threat to the economy, even though it is on the rise. Over the next few months we do expect CPI to rise from 5.0% y/y currently to around 6% at year-end, but core inflation (excluding food and petrol costs) remains relatively subdued at 3.5% y/y. We're likely to see only a moderate up-cycle in inflation and interest rates ahead – barring an unexpected rand sell-off. For example, we're pencilling in a total of 150 basis points in rate hikes through the cycle to the end of 2012.

Risks mainly stem from the global environment, with the rand's exchange rate remaining key.

22 –28 July 2011 in a nutshell

Global: Global markets were a mixed bag this week, as economic growth and consumer confidence data in the US and UK, respectively, raised alarm bells, while manufacturing statistics in Japan showed an improvement. The S&P 500 fell 3.20%, while its European counterpart lost 2.53%, and emerging markets rose 0.17%.

South Africa: Mirroring global markets, the FTSE/JSE All Share Index slipped 2.12%. All sectors showed negative returns for the week, although resources dipped the most, down 2.96%

Markets and Economics – Highlights

Global

- US home sales rose 2.4%, while jobless claims fell by 24,000 to 398,000 from May to June. However, not all news has been encouraging. According to the median forecast of 84 economists surveyed by Bloomberg News, GDP grew at a 1.8% annual rate after a 1.9% pace in the prior three months, meaning second-quarter growth is likely to have been the slowest in a year as consumers cut back on spending. Household purchases, the biggest part of the economy, climbed 0.8%, the weakest performance since the recession ended in 2009.
- U.K. consumer confidence fell in July, with the sentiment index dropping to -30, the lowest since April, from minus 25 the previous month and minus 22 a year earlier. Consumers were more pessimistic about the economic outlook. The U.K. economy expanded 0.2% in the second quarter after stagnating over the previous six months and retail sales fell to their lowest in 13 months in July. Consumers are getting squeezed by inflation that's soared to 4.2%, more than double the Bank of England's 2% target. Bank officials left the benchmark interest rate at a record low of 0.5% this month and held their bond-purchase plan at 200 billion pounds (\$327 billion).
- The Markit/JMMA Japan Manufacturing Purchasing Managers Index (PMI) reflected an improvement from a seasonally adjusted 52.1 in July from 50.7 in June. The output component of the PMI index rose to 53.1 in July from 52.7 in June, also the highest since February. Supply chain pressures show signs of easing, and new business is returning to growth. Manufacturers added to their staff numbers for the first time since the earthquake and tsunami, a trend that - if sustained in the coming months - will be seen as a vote of confidence in the economic outlook. The employment index rose to 50.9 from 49.5 in June, showing the first month of job growth since March.

South Africa

- South Africa's official jobless rate rose to 26% of the labour force in the second quarter of 2011 from 25% in the first quarter. The total number of unemployed people stood at 4.54 million in the three months to June from 4.4 million in the first quarter. South Africa is proposing sweeping changes to labour laws intended to increase job security for temporary workers, but economists expect the shake-up will make unemployment worse and ramp up costs for employers.
- Growth in credit demand by the private sector was little changed at 5.25% year-on-year in June from a slightly upwardly revised 5.22% in May, according to the central bank. Growth in the broadly defined M3 measure of money supply slowed a bit to 5.99% year-on-year compared with a revised 6.19% expansion in May. Economists surveyed by Reuters last week forecast private sector credit would expand by 5.2% year-on-year in June while growth in M3 was seen at 6.3% year-on-year.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 29.07.2011	% Performance Return
United States	S & P 500 (US\$)	-3.20%	1,301	3.42%
Europe	Euro Stoxx 50 (Euro)	-2.53%	2,693	-3.58%
Emerging Mkts	MSCI Emerg Mkts (US\$)	0.17%	1,145	-0.52%
South Africa	FTSE/JSE All Share (ZAR)	-2.12%	31,446	-2.10%
Global	MSCI (US\$)	-2.31%	1,313	2.58%
ZAR/Dollar	Rand/US \$ (ZAR)	-0.44%	6.73	1.82%
ZAR/Pound	Rand/£ (ZAR)	-0.27%	11.00	6.69%
ZAR/Euro	Rand/Euro (ZAR)	-0.92%	9.65	9.16%
JSE	Industrials	-1.35%	27,943	-8.11%
JSE	Financials	-2.31%	21,276	-1.71%
JSE	Resources 20	-2.96%	52,236	-7.22%
JSE	Small Companies	-0.67%	32,078	-4.87%
JSE	Listed Property	-0.26%	387	0.00%
JSE	RAFI® 40	-2.39%	6,525	-1.95%
JSE	RAFI® ALSI	-2.31%	6,299	-2.60%
JSE	SWIX	-1.87%	6,614	-1.93%

 Contact: njacobs@omigsa.com

OMIGSA: Tel. 021 509 6984

www.omigsa.com

The information in this document is obtained from OMIGSA, Morningstar, Business Day, Business Report, Wall Street Journal, I-Net and Reuters as at 29 July 2011. While every effort has been made to ensure the accuracy of information contained on this document, the Old Mutual, the Old Mutual Investment Group, its associated companies, its Directors or employees provide no representation or warranty, express or implied, regarding the accuracy, completeness or correctness of information contained in this website. Any opinion expressed is intended for general information, and is subject to change at any time without notice. Old Mutual Investment Group (South Africa) (Pty) Limited is a licensed financial services provider, FSP 604, approved by the Registrar of Financial Services Providers (www.fsb.co.za) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. Old Mutual Investment Group is a member of Old Mutual South Africa Limited. Reg No 1993/003023/07.