

**OMIGSA Comment – Ian Woodley, Sector Head: Resources**

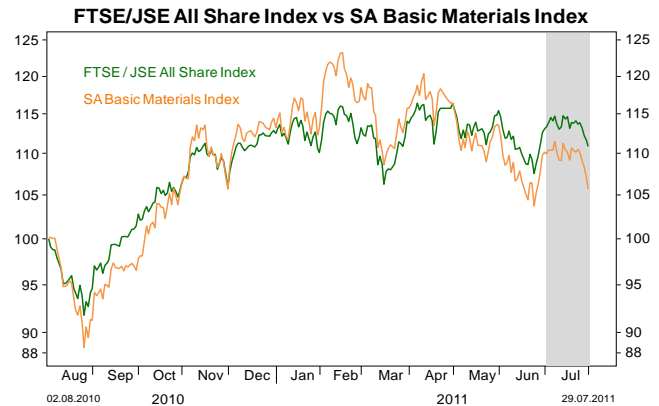
**Resources sector underperforms JSE amid local and global uncertainty**



The basic materials sector produced a return of -4% for the month of July, underperforming the FTSE/JSE All Share Index (ALSI)'s return of -2.0%.

The Mining Houses and Platinum sectors experienced poor months, with platinum the worst with a return of -7.3% for the month. The usual reasons for underperformance continued to exist; a strong rand,

uncertainty over wage negotiations and threats of nationalisation were compounded by the threat of a US debt default which was only resolved at month-end.



Source: I-Net

Developed world debt problems continued to dominate the market, with the focus switching from Greece and other “PIIGS” to the US. The uncertainty appeared to impact more on share prices than on actual metal prices, with the platinum price actually increasing during the month. The global uncertainty is likely to remain, with developing market robustness offset by the ongoing hangover in the developed world from previous profligacy.

Closer to home, South African unions across the board appear to be taking a more militant stance to the current set of wage negotiations, with the call for strike action no longer appearing as a last resort. Although margins have recovered in most of the industry, wage increases at a multiple of the local inflation rate will dampen prospects. However, as this appears a global phenomenon rather than a peculiarly South African occurrence, relative competitiveness probably won't suffer too badly. Nationalisation remains a relevant topic, with the industry seemingly unwilling to enter the debate and leaving the running to the (African National Congress Youth League).

**29 July – 04 August 2011 in a nutshell**

**Global:** Global markets took a serious knock this week amidst concerns around the US and Europe debt crises and the spectre of a global double-dip recession. The S&P 500 tumbled 7.76%, while its European counterpart plummeted 10.43%, and emerging markets slid 6.29%.

**South Africa:** Mirroring global markets, the FTSE/JSE All Share Index slipped 5.86%. All sectors showed negative returns for the week, although resources, again, dipped the most, down 6.97%

**Markets and Economics – Highlights**

**Global**

- President Obama signed an emergency austerity bill that averted a debt default, lifting Washington's \$14.3 trillion debt limit by up to \$2.4 trillion while cutting at least \$2.1 trillion in government spending over 10 years. The President promised that the deficit-cutting would not starve education and research nor happen "too abruptly while the economy is still fragile." The overall shift from priming the US economy to government belt-tightening is expected to reduce US growth next year by about 1.5 percentage points, according to JPMorgan Chase economists. Meanwhile, global stock trading has been volatile because of concerns about the US and European economies.
- Concerns that Italy and Spain won't be able to repay their debts pummeled stocks and piled pressure on the 17-nation Euro zone to overhaul its crisis strategy. The anxiety comes after banks and other private investors in Greek bonds were asked to take some losses as part of the country's second bailout - which analysts warn may be in the cards for other weak European states. European Commission President Jose Manuel Barroso urged Euro zone leaders to make further changes to their bailout fund - including boosting its size - to ensure it can effectively stem the debt crisis that has rocked the currency union for 21 months.
- Manufacturing growth slowed across Asia. With the exception of Korea and Japan, the Purchasing Managers Index readings for manufacturing in Asia's major economies, including China, all dropped last month. China's PMI reading fell to 50.7 points in July, India slipped to 53.6, Singapore dipped to 49.3, and Taiwan dropped to 46.1. These economies are relatively more dependent on international trade, which has been hit this year by economic crises in the US and Europe, and slowing demand in China. Concerns about the US and Europe has also weighed heavily on Asia's exports, as well as its stock markets, which tumbled badly this week.

## South Africa

- The Maxim-ETM Investor Confidence Index dropped to 99.1 in Q2 from 107.1 in the first quarter, reflecting that investor confidence in South Africa has weakened. The index monitors actual data to determine how fund managers are shifting their money between equities, bonds and money markets in South Africa. This lack of growth is attributed to the tight monetary environment weighing on equity optimism and making the fund management sector more competitive. Available data pointed to 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. The slight dip in bond market allocations was absorbed by increased flows to the money market.
- South Africa has approved a R2.5 billion loan to cash-strapped Swaziland. Up to now, its government has kept its head above water by using central bank reserves, which now stand at just over \$500m, and running up at least \$180m in unpaid bills. The first slice of the loan, to be delivered in three tranches, will be dispensed this month. Swaziland has been plunged into a budget crisis following South Africa's 2009 recession, which triggered a collapse in revenues from the Southern African Customs Union, which has historically accounted for two-thirds of Swaziland's budget.

### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 04.08.2011	% Performance Return
United States	S & P 500 (US\$)	-7.76%	1,200	-4.61%
Europe	Euro Stoxx 50 (Euro)	-10.43%	2,412	-13.64%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-6.29%	1,073	-6.78%
South Africa	FTSE/JSE All Share (ZAR)	-5.86%	29,602	-7.84%
Global	MSCI (US\$)	-8.00%	1,208	-5.63%
ZAR/Dollar	Rand/US \$ (ZAR)	3.12%	6.94	4.99%
ZAR/Pound	Rand/£ (ZAR)	2.27%	11.25	9.12%
ZAR/Euro	Rand/Euro (ZAR)	1.04%	9.75	10.29%
JSE	Industrials	-4.78%	26,606	-12.51%
JSE	Financials	-4.20%	20,382	-5.84%
JSE	Resources 20	-6.97%	48,595	-13.69%
JSE	Small Companies	-1.86%	31,481	-6.64%
JSE	Listed Property	-0.00%	387	0.00%
JSE	RAFI@ 40	-6.44%	6,105	-8.26%
JSE	RAFI@ ALSI	-6.43%	5,894	-8.86%
JSE	SWIX	-5.17%	6,272	-7.00%

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

OMIGSA: Tel. 021 509 6984

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

The information in this document is obtained from OMIGSA, Morningstar, Business Day, Fin24, Business Report, Wall Street Journal, I-Net and Reuters, among others, as at 05 August 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](http://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.