

OMIGSA Comment – Tracy Brodziak, Sector Head: Financials

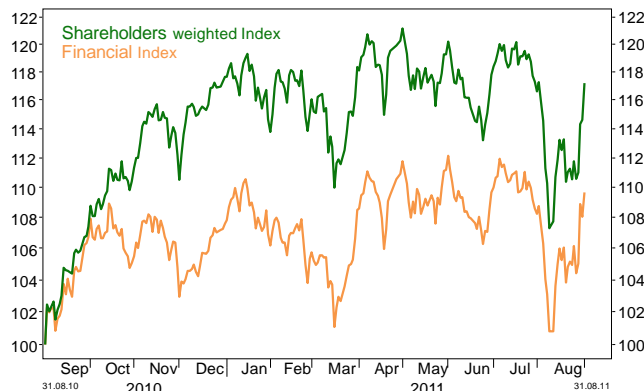
Financial services sector to benefit from the recovering economy



The FTSE/JSE Financial Index gained 1.3% for the month, outperforming the FTSE/JSE Shareholder Weighted All Share Index (SWIX) which was up 0.5% during the month.

Within financials, the Banking Index gained 3.6%. August saw the start of the 2011 earnings season, with all the banks posting good growth as the operating environment continues to normalise. ABSA was the best performer in the month, benefitting from strong results and a reduction in its dividend cover. We see further potential for ABSA to reduce dividend cover in this low-growth environment.

JSE Financial Index vs JSE Shareholders Weighted Index (SWIX)



Source: I-Net

The life assurance sector lost 0.9%, mainly driven by the poor performance of Old Mutual, which was down 2.7% in the month. This was despite a good set of results released in August. For the balance of 2011, we expect the banks to continue their focus on costs as revenue growth remains subdued. Capital levels will also be a focus area, with potential for increased dividends.

Life companies should continue to show an improving trend in lapse-experience and recurring-premium sales, due to improving real household incomes. Cost management will also become an issue in a sector with limited growth prospects. We expect the financial services sector to benefit from the recovering economy, which will lift operating results in 2011. We believe some counters in the sector still present value, with ratings below historic averages.

02 – 08 September 2011 in a nutshell

Global: Global markets dipped this week as US growth and budget worries, and Euro-zone sovereign debt and banking contagion issues, continued to concern investors. The S&P 500 slipped 1.53% and its European counterpart plunged a striking 6.19%, while emerging markets fell 2.31%.

South Africa: The FTSE/JSE All Share Index was lower, falling 0.55% as it escaped the worst of the poor global sentiment. All sectors took a knock this week, showing negative growth. Financials fell the least, with a 0.30% drop, while listed property fell the most, with a drop of 2.59%.

Markets and Economics – Highlights

Global

- The U.S. trade deficit shrank 13%, to \$44.8 billion in July from a revised \$51.6 billion shortfall in June, according to the Commerce Department. Some economists believe the July trade numbers suggest trade could boost growth in the third quarter. However, current US consumer confidence is low, largely due to a struggling labour market. US President Barack Obama hopes to address this with his proposed \$447bn plan for creating jobs. The plan, intended to stimulate the economy, has received mixed reactions from investors around the globe. It involves reducing payroll tax for the Social Security pension program, investing \$105bn in public works projects and renewing unemployment benefits.
- Inflation in Germany, Europe's largest economy, slowed less than initially projected in August, as energy costs increased, according to the Federal Statistics Office. The inflation rate fell to 2.5% from 2.6% in July, while wholesale-price inflation slowed to the weakest pace in a year in August, rising 6.5% from a year earlier. However, German authorities believe price pressures are likely to ease next year. Meanwhile, in Greece, a deteriorating recession, tightening credit conditions and the inability of Athens to implement some of the structural reforms required under a €110 billion bailout program has pushed Greece's deficit further into the red. Europe is pushing for Greece to cut its deficit by an additional 0.7% of gross domestic product (GDP) this year in order to win further Euro-zone financing.
- Russia's economy slowed in the second quarter as industrial-production growth eased. Gross domestic product advanced 3.4% during this period, compared with 4.1% in the first quarter. Russia, the world's largest energy exporter, is lagging behind emerging-market peers Brazil, India and China – and should target growth of at least 8% within 5 years to keep pace with the other BRICS countries. Reassuring investors, Prime Minister Vladimir Putin suggested that Russia's economy is expected to grow between 4.2% and 4.3% this year alone.

South Africa

- Business confidence in South Africa has dipped further, from 99.0 in July to 98.6 in August, 4.7 points below the August 2010 level and the biggest year-on-year (y/y) decline since the 5.2 point y/y decline in September 2009. This is according to the South African Chamber of Commerce and Industry (SACCI). Deteriorating inflation, the rand's strong exchange rate, the debt ceiling debate in the United States and a stalling Euro-zone GDP were among the factors that affected business confidence. Economists have revised their growth forecasts for this year to 3%- 3.5%, from 3.5%- 4% after news that the economy slowed abruptly in the second quarter.
- The Purchasing Managers Index, an indicator of factory output, rose to 46.6 in August from a two-year low of 44.2 in July. A reading below 50 indicates a contraction in manufacturing production. The slump in manufacturing was exacerbated after petroleum, chemical, engineering and packaging workers went on strike for higher wages and 320,000 metalworkers held a separate work stoppage. These concerning manufacturing statistics have added to pressure on the central bank to keep its benchmark interest rate at a 30-year low, or even cut it.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 08.09.2011	% Performance Return
United States	S & P 500 (US\$)	-1.53%	1,186	-5.72%
Europe	Euro Stoxx 50 (Euro)	-6.19%	2,163	-22.56%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-2.31%	1,014	-11.90%
South Africa	FTSE/JSE All Share (ZAR)	-0.55%	30,918	-3.74%
Global	MSCI (US\$)	-2.76%	1,170	-8.59%
ZAR/Dollar	Rand/US \$ (ZAR)	2.50%	7.17	8.47%
ZAR/Pound	Rand/£ (ZAR)	1.16%	11.44	10.96%
ZAR/Euro	Rand/Euro (ZAR)	0.00%	9.97	12.78%
JSE	Industrials	-1.03%	27,238	-10.43%
JSE	Financials	-0.30%	21,447	-0.92%
JSE	Resources 20	-0.91%	49,915	-11.34%
JSE	Small Companies	-0.76%	31,086	-7.81%
JSE	Listed Property	-2.59%	384	-0.78%
JSE	RAFI@ 40	-0.69%	6,412	-3.65%
JSE	RAFI@ ALSI	-0.81%	6,131	-5.20%
JSE	SWIX	-0.59%	6,579	-2.45%

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