

Market Dynamics

February 2009



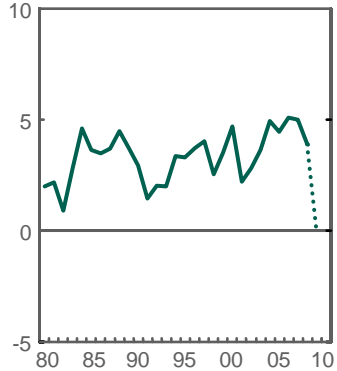
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World Economic Overview and Outlook

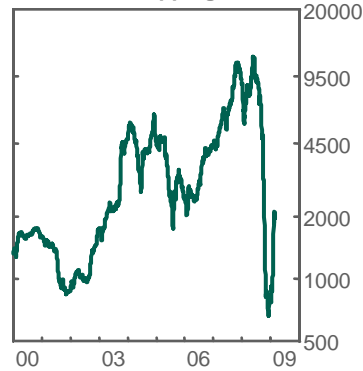
World growth outlook poor, but some signs of stabilisation?

World GDP Growth & Forecast

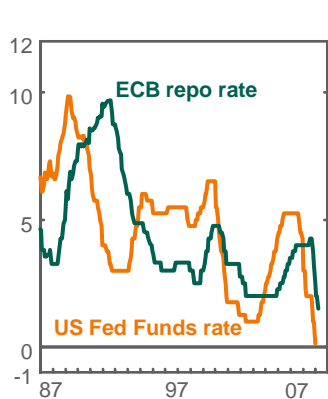


Source: OMIGSA (Iris)

Index Of Shipping Rates

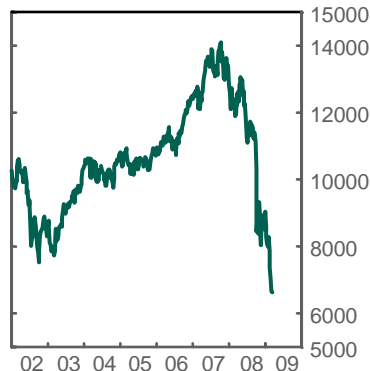


Central banks cutting aggressively, but markets remain concerned



Source: OMIGSA (Iris)

Dow Jones Industrial Index



- ▲ The global downturn continues to spread via a broad-based slump in consumer demand, postponements or scrapping of private expansion plans, a sharp contraction in global trade, and steeply lower commodity prices.
- ▲ The developed world reported shocking fourth quarter 2008 Gross Domestic Product (GDP) numbers. US GDP contracted at an annual rate of over 6%, the Euro area by just less than 6% and the Japanese economy sent shock waves around the world with an annualised decline of just less than 13%. Global growth forecasts for 2009 have consequently been slashed.
- ▲ Policymakers have kept up their stimulus efforts. Rates have been lowered further in many countries, more fiscal support packages have been announced and some central banks are lending direct support to borrowers who are constrained by still-frozen credit markets.
- ▲ Bad economic and financial data have caused a sharp further sell-off of equities around the world over the past month.

OMIGSA view: *The world growth slump continues, but the pace of deceleration should start to slow towards mid-year.*

- ▲ Investors remain clearly on edge over ongoing uncertainties over the severity of the downturn and uncertainty over when policy stimulus will begin to stabilise economic activity.
- ▲ We still expect conditions to stabilise towards mid-year, with a moderate recovery taking hold during the latter part of 2009.
- ▲ The recent sustained rise in global shipping rates, a rebound in the copper price, and early signs of some stabilisation in the Chinese economy may be an early hopeful sign of some stabilisation starting to set in in certain areas. Nevertheless, things will remain very difficult for an extended period.

OMIGSA view: *2009 will be a year of two halves: a deep slump during the first half, followed by stabilisation and possibly even a moderate recovery in the second.*

Local Economic Overview and Outlook

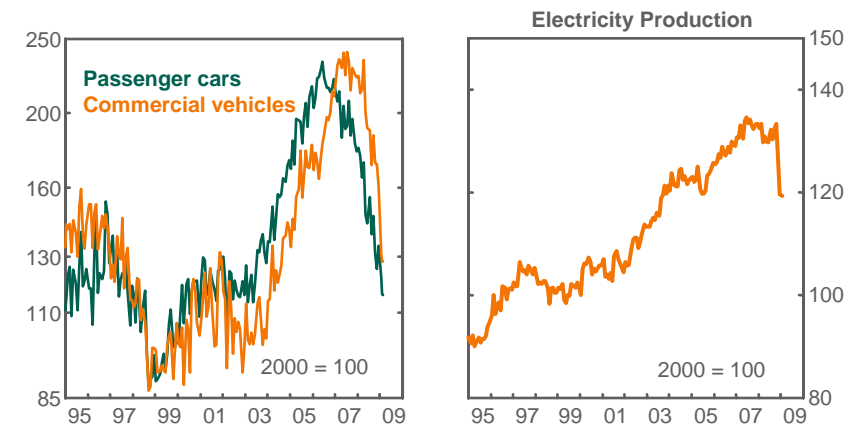
- ▲ The downturn in the local economy continues and, as in many other countries, fourth quarter Gross Domestic Product (GDP) contracted at an annual rate of a little less than 2%.
- ▲ This decline was the first in ten years, but a closer look at the data revealed a slightly more positive underlying situation. The slump was led by an annualised decline of over 20% in manufacturing production. Seven of the remaining nine broad sectors recorded positive growth rates.
- ▲ Prospects for 2009 remain poor. Global conditions pose a serious threat to exporters, while local companies appear to be postponing or scrapping expansion plans given the fall-off in demand and extreme uncertainty over medium-term prospects.
- ▲ Banks have tightened their lending standards considerably, so credit extension continues to slow sharply, despite lower interest rates.

OMIGSA view: Local 2009 growth prospects are poor due to the global slump and intensifying local demand weakness.

- ▲ Growth for the full 2009 calendar year is now expected to be only about 0.5%, with surging public infrastructure spending being the main source of support.
- ▲ The outlook for consumers is a little more rosy. Lower interest rates, lower petrol prices, a general slowdown in inflation, and sizeable tax cuts will lend support to consumption as the year progresses. The biggest risk is the potential for widespread lay-offs.
- ▲ There were some welcome developments on the financial side of the economy. Inflation fell further, with the new Consumer Price Index (CPI) measure easing to 8.1% in January, and the South African Reserve Bank (SARB) lowered the repo rate by 100 basis points (bps) in February.
- ▲ The weakening economy suggests interest rate cuts should be aggressive and 'front-loaded', but the large trade deficit, a weaker rand and underlying inflation pressures suggest more caution.

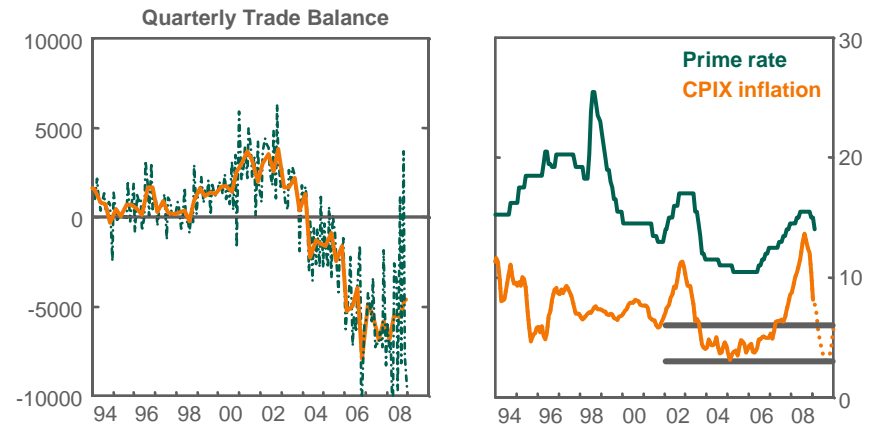
OMIGSA view: The downcycle in local interest rates is underway and rates should decline a further 200bps in 2009.

Broad-based economic slowdown



Source: OMIGSA (Iris)

Poor January trade number, but inflation & rates falling



Source: OMIGSA (Iris)

Equity Sector Overview and Outlook

Resources

- ▲ The Resources Index (-8.8%) outperformed the FTSE/JSE All Share Index (-9.9%) in February due to a positive performance from gold stocks (1.4%), which were seen as a safe haven among the global turmoil.
- ▲ Non-gold resources stocks performed poorly as economic data confirmed that the credit crisis has caused global growth to slow sharply. This, in turn, caused a steep correction in commodity prices and related resource stocks.
- ▲ Global uncertainty regarding economic growth remains high. As a result, it would be prudent to avoid higher-cost, lower-quality resources companies or exploration/junior companies that will not receive funding under the current conditions.
- ▲ Despite the uncertainty regarding global growth, there are still some larger and/or higher-quality resources companies whose prices we consider to be in value territory.

Investment Research view: *The diversified miners are protected by their exposure to a variety of commodities and currencies in their portfolios; they typically have the best assets that tend to remain profitable even in commodity downturns, unlike some of the pure and smaller miners. Mining valuations remain compelling, given the recent weak share price performance. While short-term conditions are tough for some non-mining resources companies, valuations are very compelling.*

Small Companies

- ▲ There is a lot of global uncertainty at present, which has caused a sell-off in many securities. South African (SA) small caps are no exception, exacerbated by some suspected forced selling by local and international players. In this environment, small caps tend to underperform relative to the FTSE/JSE All Share Index.
- ▲ For February 2009, the Small Cap Index lost 8.3%, compared to the 10.4% decline posted by the JSE Top 40 Index.
- ▲ We are constantly seeing downward revisions to forecasts, and trading updates are confirming the economic slowdown.
- ▲ The prospect of decreasing interest rates in 2009 should be good for small caps as many companies are reliant on the health of the SA consumer for their wellbeing.
- ▲ The waning appetite for additional risk among some funds is likely to increase small cap volatility, but this can provide us with good buying opportunities in the year ahead.

Investment Research view: *The average price:earnings (p:e) ratio at which small caps trade compared with large caps has narrowed to about a 10% discount. From that level it is unlikely that small caps will re-rate (upwards) relative to the Financial & Industrial Index.*

Equity Sector Overview and Outlook (cont.)

Financials

- ▲ The Financial Index was down 10.8% in the month, underperforming the SWIX All Share Index, which was down 9.5% during the month.
- ▲ However, within the financial sector, the Banking Index was down 12%, while the life sector (ex Old Mutual Life) was down approximately 5% during the month.
- ▲ We are in a downward phase in the interest rate cycle, which will be positive for the financial sector operationally.
- ▲ However, this will be countered by a slowdown in Gross Domestic Product (GDP) growth and, potentially, an increase in unemployment.
- ▲ 2009 will be a tough year operationally for companies, but we believe that the share prices already reflect this.
- ▲ On an absolute basis, we believe that the financial sector is looking very attractive and is underpinned by a high dividend yield.

Investment Research view: Financial stocks are facing a tougher operating environment, but this has been discounted in current prices. Valuations are looking attractive, especially dividend yields.

Industrials

- ▲ February continued in the same vein as January, with losses reflected across the whole of the industrial sector. The Industrial Index ended the month down 10.6%.
- ▲ We continue to be bombarded by bad news on the economic front, and as yet there are no signs of a bottom being found globally.
- ▲ There is hardly a sector that has been spared, as even shares that were previously considered defensive are being sold down. Our expectations of further strain on the economy have been realised, and we wait in anticipation to see how quickly the South African Reserve Bank (SARB) will react to stop the economy from plunging into recession.
- ▲ Better performers during the month are shares in the healthcare sector and in food manufacturing, but even these are losing value, as are the traditional defensives such as British American Tobacco (BAT) and South African Breweries (SAB).

Investment Research view: A defensive stance is still warranted, although the pricing of some defensive shares make them less desirable. Pricing in some of the more cyclical shares has now become quite compelling, but we will not change our defensive stance just yet, as we still expect quite a bit of strain on the economy.

Equity Sector Overview and Outlook (cont.)

Property

- ▲ The listed property sector recorded a -3.9% total return year-to-date, and -2.8% in February. Although a negative return, the sector's defensive contractual cash income characteristics have been reflected in its relative performance, where the FTSE/ JSE All Share Index recorded a -13.7% year-to-date total return. This follows last year's property outperformance of -4.5% and -23.2%, respectively.
- ▲ The December 2008 results reported so far have revealed a number of positive and negative factors. Market rentals have largely peaked and tenant arrears have increased. Funding has become tougher and companies have shelved all (except already committed) capital expenditure. Property expenses (especially higher rates, taxes and electricity) are putting pressure both on tenants' ability to afford space and on landlords' operating margins.
- ▲ Positively, average listed sector vacancies remained essentially unchanged at around 3.5% as at December 2008 compared with 2007. While expected to rise over the next two years, the slowdown in building completions means that national vacancies are unlikely to rise to the crisis levels of above 12% recorded in 2002, and may top out at 6%-7%. Expiring leases are still below market rentals and continue to provide an uplift to revenue growth.

OMIGSA view: *The sector represents fair value. However, declining interest rates will undermine the income return from cash and an increasing number of non-property companies' dividends have either been cut, or are in question. Under these circumstances listed property may continue to provide attractive risk-adjusted returns.*

Fixed Interest Overview and Outlook

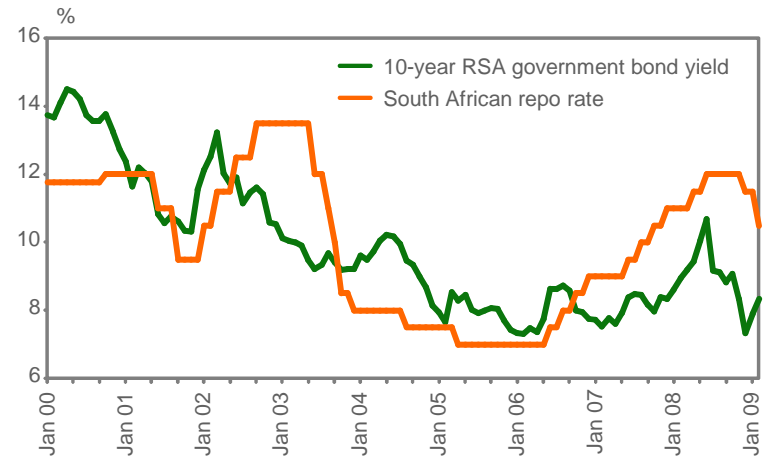
- ▲ Investor fears about a severe worldwide recession and deflation kept global government bond yields in a tight range as economic data releases kept surprising on the downside.
- ▲ Central banks and governments continued to offer liquidity and other assistance in an effort to stabilise markets.
- ▲ The local bond market weakened following the announcement of a higher-than-expected national budget deficit of 3.8% of Gross Domestic Product (GDP) for the forthcoming fiscal year.
- ▲ Changes to the shape of the yield curve reflect expectations of aggressive monetary policy easing and significantly higher supply from government and other public sector borrowers.
- ▲ The bond market is expensive, but is expected to trade in a range of about 150 basis points (bps), with the risk to higher yields increasing significantly on a 12-month view.

Futuregrowth view: The forward money market now expects the central bank to reduce the repo rate by about another 300bps following the 100bps rate reduction in February.

- ▲ In our money market funds, we maintained an underweight tilt to cash, added to medium-dated floating rate instruments and slowed the pace of accumulating long-dated fixed rate Negotiable Certificates of Deposit (NCDs).
- ▲ We are cautiously trading in the expected trading range for the bond funds.
- ▲ Given the general levels of yields, we favour medium-dated bonds as the front and back ends of the bond curve are deemed expensive.
- ▲ We maintain a low listed property holding on a weak economic growth outlook, preferring nominal bonds and preference shares instead.
- ▲ The CPI-linked bond holding is kept at zero on valuation concerns, but is starting to look more promising on a longer-term view.

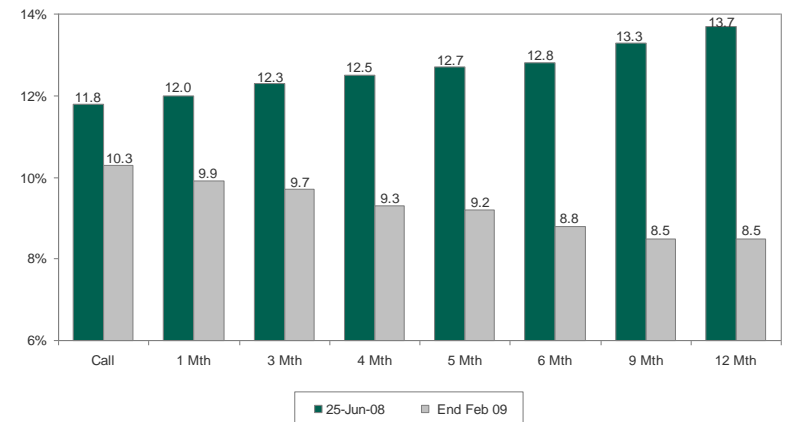
Futuregrowth view: The back end of the money market has limited room for significant and sustainable lower levels on a 12-month view as it has priced in a fair amount of monetary policy easing.

Bond market has been anticipating a lower repo rate since June last year



Sources: OMIGSA, I-Net

The money market curve (NCD yields) has inverted sharply since the peak in rates in June 2008



Sources: OMIGSA, Bloomberg

Economic Indicators to February 2009

	Latest Data		Previous Year
Exchange Rates:			
Rand/US\$	February-09	10.07	7.75
Rand/UK Pound	February-09	14.24	15.41
Rand/Euro	February-09	12.63	11.88
Rand/Aus\$	February-09	6.35	7.22
Interest Rates:			
Prime Overdraft	February-09	14.00%	14.50%
3-month NCD rate	February-09	9.68%	11.40%
R157 Long Bond Yield	February-09	8.07%	8.99%
Inflation:			
CPI (y-o-y)	January-09	8.1%	9.3%
CPIX (y-o-y)	December-08	10.3%	8.6%
National Accounts:			
GDP Growth (y-o-y)	Q4 2008	1.3%	4.8%
GDP Growth (q-o-q, annualised)	December-08	-1.8%	5.4%
HCE Growth (y-o-y) (Household Consumption Expenditure)	September-08	1.8%	6.1%
GFCF Growth (y-o-y) (Gross Fixed Capital Formation)	September-08	11.0%	16.5%
Balance of Payments:			
Trade Balance (cumulative 12-month)	January-09	-\$8.62bn	-\$9.99bn
Current Account (% of GDP)	September-08	-7.9%	-8.7%
Capital Account (% of GDP)	September-08	10.2%	11.8%
Forex Reserves (incl. gold)	January-09	\$34.65bn	\$35.62bn
Other:			
Manufacturing Production (y-o-y) (seasonally adjusted)	December-08	-8.2%	0.2%

Market Indicators to February 2009

	1 Month (%)	Calendar Year (%)	Quarter (%)	12 Months (%)	3 Yrs (%)	5 Yrs (%)
Equity						
All Share Index	-9.9	-13.7	-12.4	-37.6	1.8	14.4
Shareholders Weighted Index	-9.5	-13.7	-11.2	-34.5	1.4	-
All Share/Resources 50%	-10.2	-14.3	-12.6	-34.3	0.9	14.7
Top 40 Index	-10.5	-14.6	-14.1	-39.7	1.6	13.6
RAFI® 40 Index	-11.0	-14.9	-13.0	-34.7	1.4	15.4
RAFI® All Share Index	-10.4	-14.0	-11.4	-34.0	1.1	16.2
Resources Index	-8.9	-11.3	-11.5	-47.7	4.6	12.8
Financial Index	-10.8	-17.1	-18.0	-34.4	-7.4	10.9
Industrial Index	-10.6	-14.7	-10.4	-24.2	3.9	17.8
Mid-cap Index	-6.4	-8.2	-0.6	-20.1	3.2	18.6
Small Cap Index	-8.3	-9.5	-7.8	-33.3	1.7	21.2
Interest-bearing						
ALBI BEASSA	-2.9	-5.2	1.4	12.5	6.2	9.3
STeFI	0.8	1.8	2.8	11.8	9.7	8.8
Cash	0.8	1.7	2.7	11.5	9.5	8.2
Property						
SA Quoted Property Index	-2.8	-3.9	0.8	-1.0	9.5	-
International						
MSCI World Index (R)	-11.6	-10.9	-15.5	-31.1	0.3	3.7
MSCI World Index (\$)	-10.2	-18.0	-15.3	-46.8	-14.8	-4.5
JPM International Bond (R)	-4.6	1.1	-0.6	26.9	25.5	13.6
US 1-month LIBOR (R)	-1.4	9.0	0.4	33.7	23.0	12.7
Inflation (Estimated)						
CPI	0.6	0.4	-0.8	8.3	7.9	6.0

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Regulatory Information

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