11 February 2011

dailyview

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Talking point: Mubarak on the banks of denial

The old joke goes that denial is a river in Egypt, but there is plenty of real denial along the banks of the Nile today with the increasingly unpopular president Hosni Mubarak sticking to his plans of staying president until elections are due in September. Angry Egyptians are understandably unwilling to wait that long and Mubarak's obduracy is increasing tensions in the region and in markets.

Presumably the military, which has acted impartially until now, will take action at some stage, possibly by seizing power in a coup d'etat. Hopefully this would pave the way for free elections soon after that, but even with a smooth transition to democracy, Egypt will face many challenges: high unemployment, inefficient markets and a large burden on the state to provide jobs and to control prices of basic goods are not problems that can be solved quickly. The potential for increased social tensions down the line, leading to political and regional tensions, is great. That said, it is preferable that these problems are dealt with by a democratically elected government rather than by an authoritarian regime.

As we discuss elsewhere in Daily View, these problems should be a salutary warning to SA should it decide to go down the route of subsidies, price controls and using the state to generate jobs.

Market highlights

US equities were mixed with the S&P 500 closing slightly higher after the release of good jobless claims numbers, offsetting the negativity of a few poor corporate earnings releases.

The JSE ended lower yesterday, hurt by the continued selloff of local equities by international funds, although there was evidence of a rebound towards the close.

Bonds weakened yesterday and the rand continued to track the euro against the US dollar, making big losses before regaining some ground before the close.

Commodities were mixed overnight with copper rebounding from earlier losses but oil closed higher on renewed tensions in Egypt, offsetting the impact of improved jobless numbers in the US and reports of higher output being planned by OPEC.

Key indicators in a nutshell – Thursday 10 February 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32409.48**	-0.82%	0.77%	2.26%	0.90%	22.51%
S&P 500	**1321.87**	0.07%	3.72%	10.23%	5.11%	23.48%
Nikkei	**10605.65**	-0.11%	0.90%	9.06%	3.68%	6.77%
Rand/US $	**7.27**	-0.96%	-5.47%	-4.45%	-8.95%	5.37%
Rand/GB Pound	**11.69**	-0.89%	-8.31%	-4.20%	-11.83%	3.02%
US$/Euro	**1.36**	0.86%	-4.57%	0.63%	-1.60%	1.31%
Gold $/oz.	**1363.1**	-0.06%	-1.32%	-0.39%	-4.10%	26.53%

Company results and updates

Trencor expects to report adjusted HEPS of between 360c and 380c for the year to December, up from 203.5c reported in 2009. Trencor is expected to report in the second half of this month.

Investec

Hulamin expects HEPS for the year to December to be between 25c and 28c. Hulamin reports on 28 February.

New Europe Property Investments reported distributable earnings per share of 17.61 euro cents for the year to December, an increase of 11.7% on 2009.

De Beers grew its underlying earnings for the year to December to US$598m, after recording a loss of US$220m in 2009. Carats recovered grew by 33%. De Beers, which is unlisted, contributed US$302m to the underlying earnings of Anglo American (which holds 45% of De Beers).

MillerCoors, the US JV between SABMiller and Molson Coors, grew underlying net income for the fourth quarter by 38% and for the full year by 21.9% to $1.1bn.

Aquarius Platinum reported EPS of 20.43 US cents for the six months to December, from 0.86 US cents reported in the similar period in 2009. An interim dividend of 4 US cents a share was declared. Attributable production grew 20% to 250 972 PGM ounces.

Mondi expects to report HEPS of between 44 euro cents and 49 euro cents for the year to December, up from 11.4 euro cents in 2009. The results are due out on 21 February.

Daily ideas

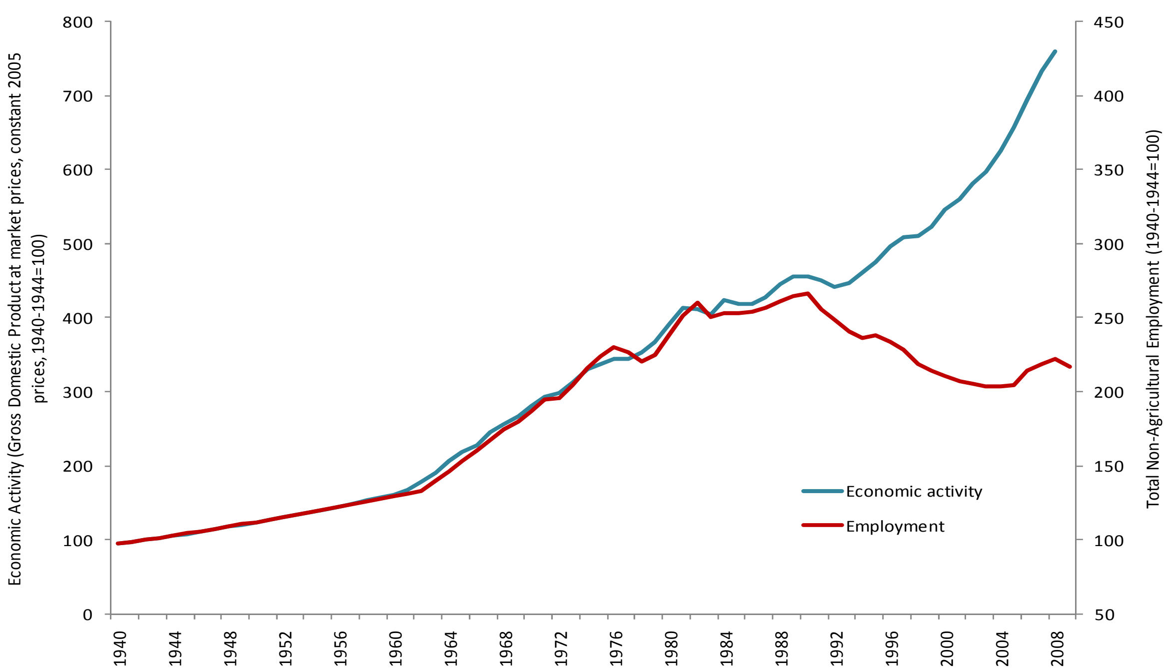
Employment: A call for economic realism, not wishful thinking

The employment problem in SA has become a major focus of government action. Employment in the formal sector, that is with employers who provide medical and pension benefits and collect PAYE , has lagged well behind GDP growth since the mid 1990s.

Furthermore real remuneration per worker since then has increased significantly over the same period. The two figures below, provided by Adcorp, tell the full story of much better jobs for far fewer workers. The SA economy, or at least the formal part of it, has become much less labour intensive, and much more capital and skilled labour intensive. Decent jobs, but only for the fortunate few, is the SA reality.

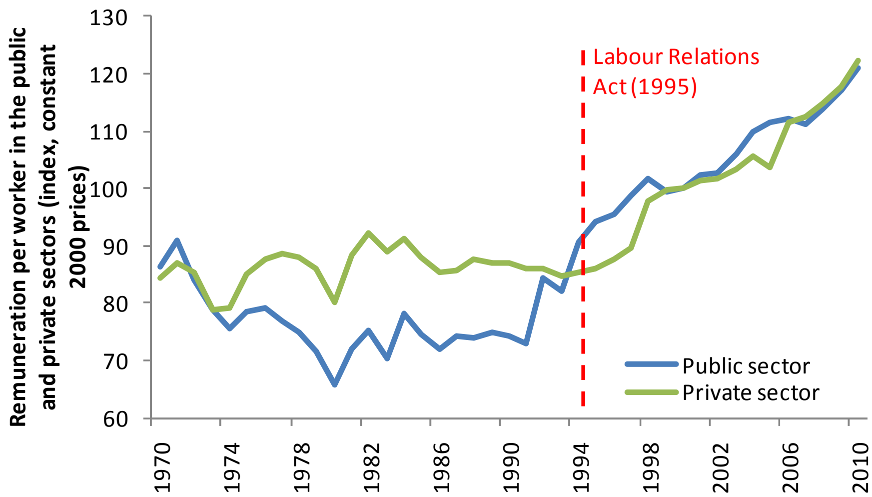
The less fortunate or less well endowed with skills get by finding work outside the recorded regulated sector and depend increasingly on welfare grants. Immigrants, of whose large numbers we are uninformed about, without cash grants support from the SA government (i.e. the taxpayer) seem to find work easily enough, though no doubt at highly competitive wages.

Employment and Output in SA – the jaws of a crocodile



Source: Adcorp

Trends in real remuneration post 1995



Source: Adcorp

For any economist who takes market forces as well as prices, wage and employment data seriously, the conclusion is obvious enough. It was the Labour Relations Act, uniform minimum wages and all the other many protections accorded to workers with jobs and the correspondingly extra burdens placed on employers after 1995 that have made employing labour more expensive. The result has been that fewer young, unskilled and unproven workers have been hired by established businesses. Substitution towards more skilled and more experienced workers, supplied with better equipment, has been the obvious economic response made by many firms.

The government would seem to accept this argument. However rather than introduce more flexibility into the labour market directly by relieving regulation and letting potential employers and employees get on with the job, especially in rural areas, the intention is instead to subsidise employment with tax relief for employers on a large expensive scale. No doubt the government itself and its subsidiaries will also be commanded to provide more jobs. Clearly Cosatu, representing established workers, stands in the way of the economically obvious, but politically inconvenient solution.

The old adage applies that if you want more of something subsidise it and if you want less of something tax it. No doubt throwing tax payers money at the employment problem will increase some forms of employment.

But what will the presumably higher taxes needed to cover these subsidies do to other forms of employment? The hope must be that lower income taxes for companies hiring more labour and paying less tax or receiving cash subsidies, will be offset by consumption rather than higher income tax rates for companies or individuals. SA will not benefit from raising tax rates on companies or their skilled workers. The supply of capital and skills to the SA economy needs to be encouraged not discouraged. And more capital and skills made available increases the demand for unskilled labour.

The employment and income problems can be solved in the old fashioned way – by allowing freedom to hire and be hired and to fire when performance on the job is inadequate. It can also be solved with the aid of greater freedom for entrepreneurs to compete with the established firms, using labour, rather than capital intensive methods.

A free labour market means more jobs and faster economic growth that over time makes for shortages of labour and higher standards of living for all, even the least skilled. The Chinese seem to know all about the improvements in standards of living that come from flexible labour markets that absorb labour on a large scale and provide much improved remuneration over time. SA could learn from China.

The grave danger for SA is that it should become more like an Egypt with over a third of all employment provided by the state in one or other form. The trouble with the state as an employer is that while it can provide jobs (paid for by the taxpayer) it is most unlikely to increase the productivity of its work force. And its work force will be encouraged to interfere with the economic potential of private firms.

This general lack of productivity, with so much labour employed by the government, leads to slow economic growth, minimal improvements in output and incomes and to the great frustration of the work force and potential workers. It becomes especially frustrating when the only decent jobs available become those supplied by the state (often corruptly) that a hard pressed tax base finds increasingly difficult to provide for on attractive terms.

One can only hope that the government recognises that the solution can only be found with a strong dose of economic realism. Such realism alas still seems to be wanting, with pie in the sky employment projections the order of the day. ***Brian Kantor***

Week at a glance: Upcoming results

It's a busy week for analysts next week, with followers of mining shares having a tough few days in particular with the releases of end year results for the diversified giants, BHP Billiton and Anglo American, as well as the gold bellwethers, AngloGold Ashanti and Gold Fields. For good measure, Impala Platinum reports interims on Wednesday.

Followers of other sectors will not be idle though, with Group Five, Absa, Woolworths and City Lodge among the companies reporting next week. ***Patrick Lawlor***

	Company		Year end	Prev FY EPS	Next FY EPS (I-Net)	2yr (I-Net)	Next DPS (I-Net)	Rec (I-Net)	Price	FPE
14/02	Group Five	I	June	561	469.2	501.6	112.3	Hold	3085	6.6
15/02	Absa	F	December	1072	1091.7	1303.8	445	Hold +	12905	11.8
16/02	BHP Billiton	I	June	1701.7	2861.7	3452.2	669.7	Buy	28940	10.1
16/02	Caxton	I	June	76.1	110	126	50	Buy +	1495	13.6
16/02	City Lodge	I	June	455.5	607.1	701.6	364.3	Hold	7000	11.5
17/02	Afrox	F	December	74.6	102.5	109.2	60	Hold	1955	19.1
17/02	AngloGold Ashanti	F	December	-1880	1380.5	2883.8	164.1	Buy	32251	23.4
17/02	Implats	I	June	786	1184.2	1808	596.8	Hold +	21250	17.9
17/02	Woolworths	I	June	159.3	177.7	213	120.8	Hold +	2304	13
18/02	Anglo American	F	December	2018.4	2941.2	4967.4	475.5	Buy	38179	13
18/02	Gold Fields	F	December	449	412.6	869.3	165.7	Hold	11434	27.7

F = final, I = interim, Q = quarterly; EPS = earnings per share; DPS = dividend per share; FY = full year; FPE = forward PE
All prices, earnings and dividends in cents per share

Investment opportunity: International Titans Basket

The "noughties" (the decade 2001 to 2010) is often regarded as a lost decade for the US equity market, as a weak US dollar and the boom in emerging markets (notably the BRICs) meant investors found far better returns elsewhere. However the coming years look more promising for US equities, as attractive valuations and healthy balance sheets provide a more appealing outlook. And with the growing exposure of many US blue chips to emerging markets, they look particularly well placed to benefit from growth both in the US and in fast growing economies like China, Brazil and India (think of Apple, General Electric and Johnson and Johnson).

SA investors however have few vehicles by which to invest in this theme, but an opportunity now exists in the form of the International Titans Basket, offered by Investec Financial Products. The investment gives exposure (in equal proportions) to the S&P 500 and the Dow Jones Global Titans Index. Together the two indices offer exposure to the world's largest companies, both the well known US firms mentioned above, but also the largest companies listed outside of the US The indices cover a full range of sectors and industries. It is thus a true play on global equities.

The International Titans Basket is structured as follows: Through a Bermuda listed company (and incorporated in Guernsey), the investor gets 100% Australian dollar principal protection, alongside participation in the two indices of at least 120% (so if the combined portfolio rises 50%, investors make at least a 60% return [50% x 1.2 = 60%]). In other words, the investor receives at least the principal amount in Australian dollars at redemption, and up to at least 120% of the upside of the performance of the two indices.

Redemption is set at between five and six years after inception, should the investor wish to exit prior to redemption and no willing buyer can be found a special purpose trust created in Guernsey by the administrator has indicated a willingness to exercise its discretion and buy the shares at fair value. (A maximum fee of 1% can be charged on early redemption).

Investors can invest in the International Titans Basket through asset swaps or directly through the R4m per annum allowance announced by the National Treasury last year. Please contact your wealth manager or stockbroker for more details.

Upcoming dividend dates and corporate actions

Share/security	Last day to trade	Ex-dividend	Record date	Pay date	Description	Per share amount/ result
Digicore NPLs	11 February	14 February	18 February	21 February	Rights take up	1 DGNN converts to 1 DGC at R3 a share
Freeworld	11 February	14 February	18 February	tba	Minority offer	R12 per share tendered
Trematon	11 February	14 February	18 February	21 February	Cash Dividend	R0.015
SA Coal	11 February		18 February	21 February	Minority offer (extended)	R0.30 a share
Sovereign	11 February	14 February	18 February	21 February	Rights issue	66.04155 SOVN per 100 SOV
Winhold	11 February	14 February	18 February	21 February	Cash Dividend	R0.10
AR Hold 5.5% Prefs	18 February	21 February	25 February	28 February	Cash Dividend	
Dialogue	18 February	21 February	25 February	28 February	Capital reduction	R0.1238
Marshall Monteagle	18 February		25 February	28 February	Restructure	2 MMP per 1 MTE
Premium NPLs	18 February		25 February	28 February	Rights take up	1 PMMN converts to 1 PMM on take up at R15 per unit
Rareco			28 February		Minority offer	R3 a share
EsorFranki NPLs	25 February		4 March	7 March	Rights take up	1 ESRN converts to 1 ESR at R2.15 a share
Hudaco	4 March	7 March	11 March	4 April	Cash Dividend	R2.35
RMB Holdings	4 March		7 March	14 March	Unbundling	1 Rand Merchant Insurance Holdings per RMH
Paracon	4 March	7 March	11 March	14 March	Cash Dividend	R0.10
Simeka Business Group	4 March	7 March	11 March	14 March	Name change	Morvest Business Group (MOR)
SBR002	4 March	7 March	11 March	15 March	Interest	R1.41
Sovereign NPLs	4 March		11 March	14 March	Rights take up	1 SOVN converts to 1 SOV at R4.75 a share
JOZI03	11 March	14 March	18 March	22 March	Interest	R14.83
Foschini Prefs	17 March	18 March	25 March	28 March	Cash Dividend	R0.065
Country Bird	6 May	9 May	13 May	16 May	Capital reduction	R0.111

Source: JSE

Company calendar – 11 February to 18 February

Monday 14 February	Group Five interims Spar Group AGM
Tuesday 15 February	Absa finals Tiger Brands AGM
Wednesday 16 February	BHP Billiton interims City Lodge interims Conduit Capital interims
Thursday 17 February	BHP Billiton interims AngloGold Ashanti finals Impala interims City Lodge interims Woolworths interims Conduit Capital interims Afrox finals
Friday 18 February	Anglo American finals Gold Fields quarterlies and interims Pioneer Food AGM

Source: I-Net, Company updates

Economic calendar – 11 February to 18 February

Date	International	South Africa
Friday 11 February	**China** – January Fixed asset investment **China** – January Retail sales **China** – January Industrial production **Germany** – January CPI final [09h00] **UK** – January PPI [11h30] **US** – December International trade [14h30] **US** – February Consumer sentiment prelim [15h55]	
Monday 14 February	**Japan** – Q4 GDP first estimate **EMU** – December Industrial production [12h00]	
Tuesday 15 February	**Japan** – December Industrial production **Japan** – BoJ MPC meeting and rate decision **China** – January CPI **China** – January PPI **Germany** – Q4 GDP flash [09h00] **UK** – January CPI [11h30] **EMU** – Q4 GDP flash [12h00] **EMU** – December Foreign trade [12h00] **US** – January Retail sales [14h30] **US** – February Empire State survey [14h30] **US** – December Long term TIC flows [15h00] **US** – February NAHB survey [16h00]	
Wednesday 16 February	**US** – January PPI [14h30] **US** – January Housing starts [14h30] **US** – January Industrial production [15h15] **US** – FOMC minutes	January CPI [09h00] December Retail sales [10h30]
Thursday 17 February	**EMU** – December Balance of payments [11h00] **US** – January CPI [14h30] **US** – Initial jobless claims for previous week [14h30] **US** – January Leading indicators [16h00]	
Friday 18 February	**Germany** – January PPI [09h00] **UK** – January Retail sales [11h30]	

Sources: Bloomberg, StatsSA

Key market indicators – Thursday 10 February 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32409.48**	-0.82%	0.77%	2.26%	0.90%	22.51%
JSE Fini 15	**8015.49**	-0.93%	-3.38%	-2.39%	-1.91%	9.23%
JSE Indi 25	**26293.56**	-0.84%	-1.36%	0.67%	-1.86%	26.56%
JSE Mining	**39321.75**	-1.11%	5.37%	6.21%	5.72%	24.36%
JSE Resi 20	**59595.79**	-0.85%	5.71%	6.64%	5.85%	25.39%
S&P 500	**1321.87**	0.07%	3.72%	10.23%	5.11%	23.48%
DJI	**12229.29**	-0.09%	4.78%	9.26%	5.63%	21.58%
NASDAQ	**2790.45**	0.05%	2.71%	10.81%	5.19%	29.74%
Nikkei	**10605.65**	-0.11%	0.90%	9.06%	3.68%	6.77%
Hang Seng	**22708.62**	-1.97%	-4.43%	-6.25%	-1.42%	14.75%
FTSE 100	**6020.01**	-0.53%	0.10%	3.85%	0.82%	17.77%
CAC 40	**4095.14**	0.11%	6.04%	6.89%	7.63%	13.35%
DAX	**7340.28**	0.26%	5.74%	8.99%	6.16%	33.50%
ASX-ORD	**5001.70**	0.13%	3.88%	4.66%	3.19%	10.64%
JSE All Share (in US$)	**4458.22**	-1.78%	-4.74%	-2.29%	-8.13%	29.09%
MS EM Index	**1089.28**	-1.89%	-4.71%	-2.84%	-5.39%	19.88%
MS World Index	**1337.85**	-0.33%	4.34%	8.21%	4.51%	21.49%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US $	**7.27**	-0.96%	-5.47%	-4.45%	-8.95%	5.37%
Rand/GB Pound	**11.69**	-0.89%	-8.31%	-4.20%	-11.83%	3.02%
Rand/Euro	**9.88**	0.03%	-9.82%	-3.78%	-10.54%	7.00%
Rand/Aus $	**7.28**	0.01%	-7.31%	-5.77%	-7.14%	-7.44%
Yen/ US $	**83.34**	-1.10%	0.00%	-1.03%	-2.68%	7.75%
Swiss Franc/US $	**0.97**	-1.07%	0.51%	1.08%	-3.53%	10.00%
US $/Euro	**1.36**	0.86%	-4.57%	0.63%	-1.60%	1.31%
US $/GB Pound	**1.61**	0.01%	-3.06%	0.18%	-3.02%	-2.52%
US $/Aus $	**1.00**	0.94%	-1.90%	-1.69%	2.14%	-12.39%
Nominal Effective Exchange Rate (2000 = 100)	**73.31**	0.70%	9.11%	4.01%	10.84%	-3.15%

Commodities	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Gold $/oz.	**1363.1**	-0.06%	-1.32%	-0.39%	-4.10%	26.53%
Platinum/oz.	**1827.5**	-1.64%	3.31%	8.52%	3.25%	21.39%
Brent Crude $/bbl	**100.85**	0.39%	4.03%	17.28%	6.44%	43.35%

Fixed income	Closing yield %
SA R157	**7.83**
US 2 YEAR	**0.82**
US 10 YEAR	**3.68**
UK 2 YEAR	**0.95**
UK 10 YEAR	**3.87**
EURO 2 YEAR	**1.45**
EURO 10 YEAR	**3.30**

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