1 February 2011

dailyview

Today's highlights

- The rand: What a growing global economy can do
- Upcoming dividend dates and corporate actions
- Company calendar –1 February to 8 February
- Economic calendar – 1 February to 8 February

Talking point: Don't forget, the world is still in a recovery

Amid the high levels of tensions in the Middle East and North Africa and weak equity markets, it is easy to forget that the world is still in a recovery phase. News flow out of the US, long a laggard among global economies, has been good, with last night seeing the release of very good consumer spending and manufacturing confidence (the latter as measured by the Chicago PMI), which followed solid GDP numbers released at the close of last week. The Chicago PMI for January hit a high not seen since 1988, and is perhaps a harbinger of better broader PMI numbers due out today and later this week.

Of course other markets still have major concerns about them, with sovereign debt worries and large fiscal deficits still bedevilling Europe, and growing pains coming to the fore in many parts of the emerging world. China for instance reported another strong January PMI manufacturing number this morning, but showed that input costs were still rising, and inflation is also becoming an issue across other major emerging economies. Yet while continued policy tightening seems inevitable in these countries, it should not scupper growth, and talk of hard landings in the emerging world appears premature.

In SA too, conditions still look favourable on balance, with private sector credit extension data for December ticking up to 5.6% in December, though rises in most of the components of credit extension were moderate. Numbers for retail sales (as shown in the major listed retailers' updates), car sales. PMI (the reading for January rose to 54.6 points from 51.7 in December) and other barometers of the economy have also generally been positive. What this tells us is that the recent sell off in consumer shares perhaps had more to do with too steep valuations than any real change in the earnings outlook.

Market highlights

Strong consumer spending data for December and a very high reading for the Chicago PMI in January, combined with good gains in energy counters thanks to rising oil prices, helped Wall Street to post solid gains overnight.

Unrest in Egypt continued to put pressure on the JSE, but losses on the day were partially offset by gains in resources shares as the combination of a weak rand and higher commodity prices attracted investors.

The rand remained weak yesterday as global investors moved out of risk assets on the ongoing turmoil in Egypt. Bonds were also weaker, but off their worst levels by the close.

Copper prices breached new record highs in London yesterday, aided by increasing global demand, while US crude oil futures hit 27 month highs as traders fretted over possible supply disruptions in Egypt.

Key indicators in a nutshell – Monday 31 January 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**31398.75**	-0.46%	-2.52%	2.58%	-2.24%	17.18%
S&P 500	**1286.12**	0.77%	2.25%	7.75%	2.26%	18.59%
Nikkei	**10237.92**	-1.18%	0.09%	11.77%	0.09%	-1.69%
Rand/US $	**7.18**	-0.03%	-7.91%	-3.06%	-7.75%	5.93%
Rand/GB Pound	**11.49**	-1.00%	-11.11%	-2.66%	-10.28%	6.66%
US$/Euro	**1.37**	-0.74%	-3.00%	1.44%	-2.38%	1.83%
Gold $/oz.	**1332.83**	-0.30%	-5.09%	-1.82%	-6.23%	22.69%

Investec

Company results and updates

Merafe reported a 48% increase in ferrochrome production in calendar 2010, to 300 000t. The indicative average price of ferrochrome rose 46% to 124.3 US cents/lb.

Aveng expects to report a decline in HEPS for the six months to December of between 15% and 20%. Aveng reports on 14 March.

Optimum Coal expects to report HEPS of between 133c and 144c for the six months to December, up from a restated 57.81c for the six months to December 2009. Optimum also expects to see a result in the arbitration process regarding its supply agreement with Eskom by the end of April. The full interim results are due out on Thursday.

Taste Holdings grew its food division sales over the December period by 30% when compared with the similar period in 2009. Same store sales grew by 6%. Jewellery sales grew by 10.7%, or fell by 2.5% on a same store basis.

PPC says its cement sales in the December quarter followed the trend of SA cement sales, namely a decline of 5%.

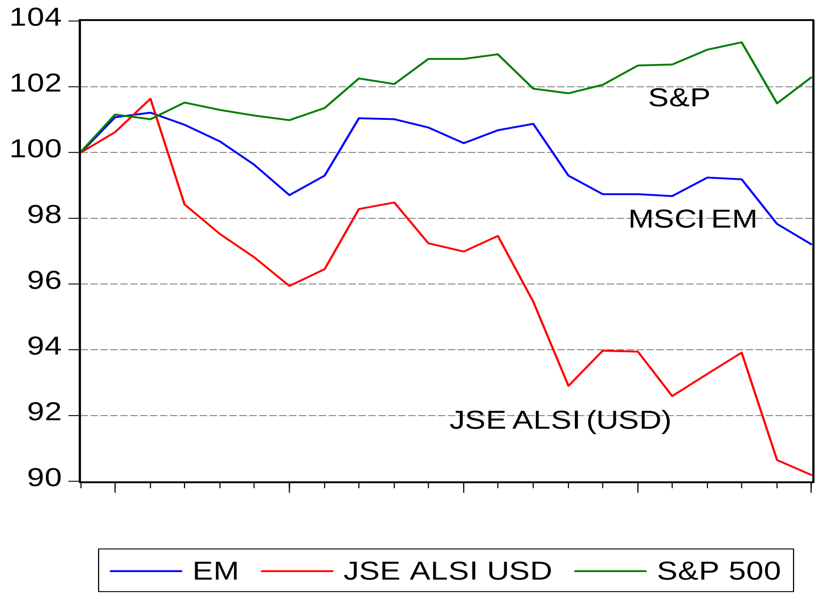
Daily ideas

The rand: What a growing global economy can do

In our recent asset allocation overview we had made the case for overweight equities. However our ranking order, based on our valuation exercises, indicated a preference for developed markets (represented by the S&P 500) over emerging markets generally (represented by the MSCI EM Index) over the JSE All Share Index.

The indexes this year have behaved very much in line with our ranking order. We compare the performance of the respective Indexes this year in USD below. As may be seen the S&P was the out performer and the JSE the distinct underperformer in January 2011.

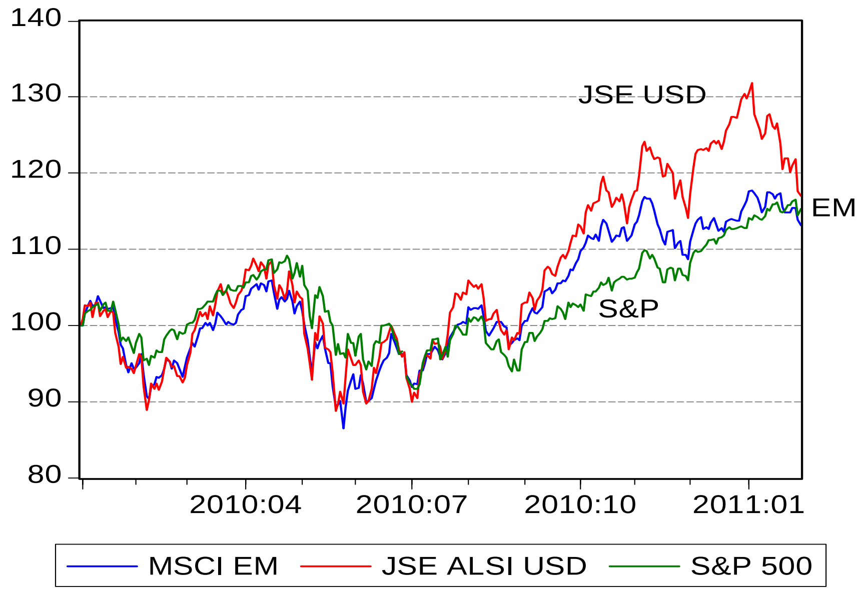
Equity market performance in US dollars in 2011; Daily data (1 Jan 2011 = 100)



Source: I-Net Bridge and Investec Wealth and Investment

Trends in January 2011 have therefore reversed some of the relative gains made by the JSE over the emerging market benchmark and the S&P 500 over the thirteen months since January 2010. The JSE in US dollars still leads the pack on a 13 month view but the lead over the S&P 500 has been narrowing since September 2010.

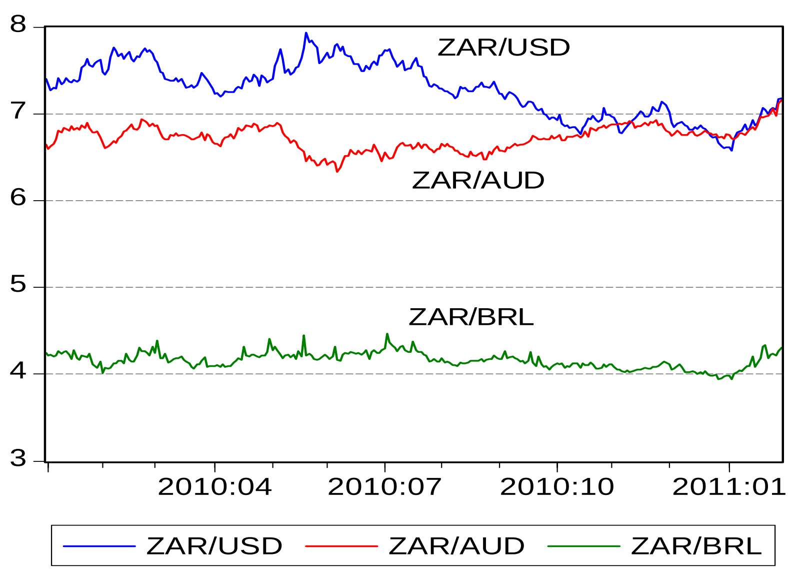
Equity Market Performance in US dollars, 1 January 2010 to 31 January 2011 (1 Jan 2010 = 100)



Source: I-Net Bridge and Investec Wealth and Investment

The strength of the rand against the US dollar over much of 2010 contributed to the outperformance of the JSE in US dollars in 2010.

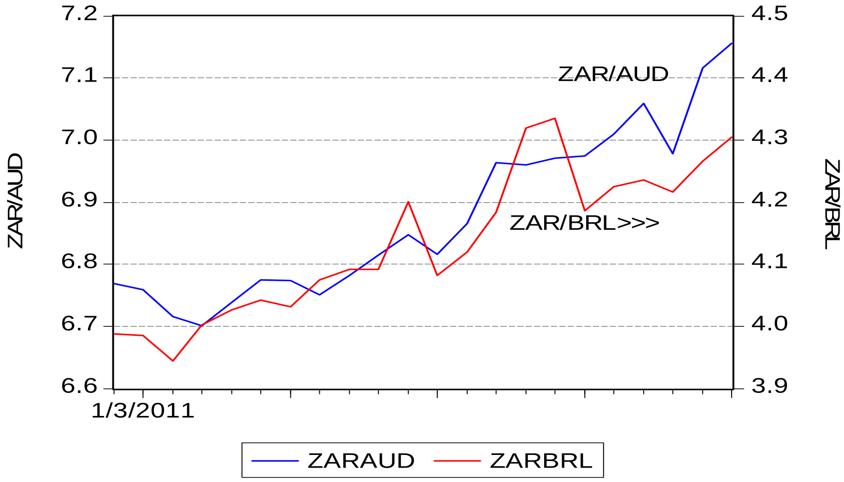
The rand in 2010- 2011; Daily data



Source: I-Net Bridge and Investec Wealth and Investment

Rand weakness this year against the US dollar and other emerging market and commodity currencies, has contributed to JSE underperformance this year.

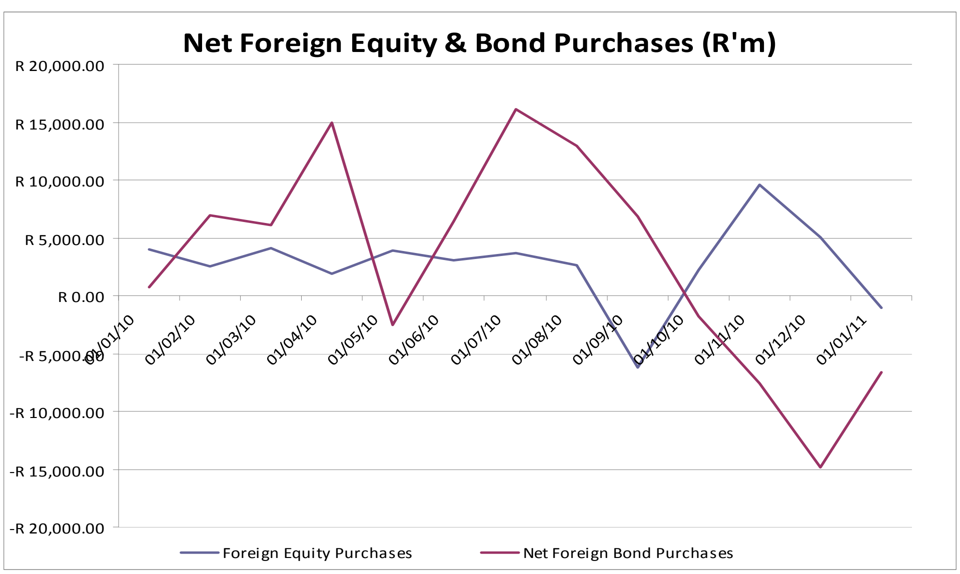
Rand vs Aussie dollar and Brazilian real; January 2011



Source: I-Net Bridge and Investec Wealth and Investment

But the rand does not behave independently of the equity and bond markets. Net foreign inflows into the JSE or the SA bond market support the rand and weaken the rand when the flows reverse. The first three quarters of 2010 saw unusually strong foreign flows into the rand bond market. These flows, as into other local currency debt markets, were linked to an increase in anxieties about the solvency of European government debt- denominated in euros. Since then the flows have been reversed. Flows in to the JSE have been consistently positive for much of the past 13 months.

And so the recent weakness of the rand can be attributed mostly to a reversal of flows into the bond rather than the equity market. The yields on long dated RSA bonds have consequently moved higher, reversing a direction that was firmly lower for much of 2010. Short term rates, represented by the Johannesburg interbank lending rates (three months forward) also moved lower in 2010 and have since moved marginally higher in response to the indication from the Reserve Bank that it was very unlikely to be reducing the repo rate this year. The Bank also indicated that the repo rate was most likely to remain on hold for much of 2011 given the persistent negative output gap in SA – that is the actual output is expected to remain well below potential output for this year and beyond. Thus it is difficult to attribute the increase in long term RSA rates to domestic monetary policy intentions. A reversal of foreign bond flows without a strong pick up in equity flows seems the obvious explanation for a weaker rand and higher long term rates.



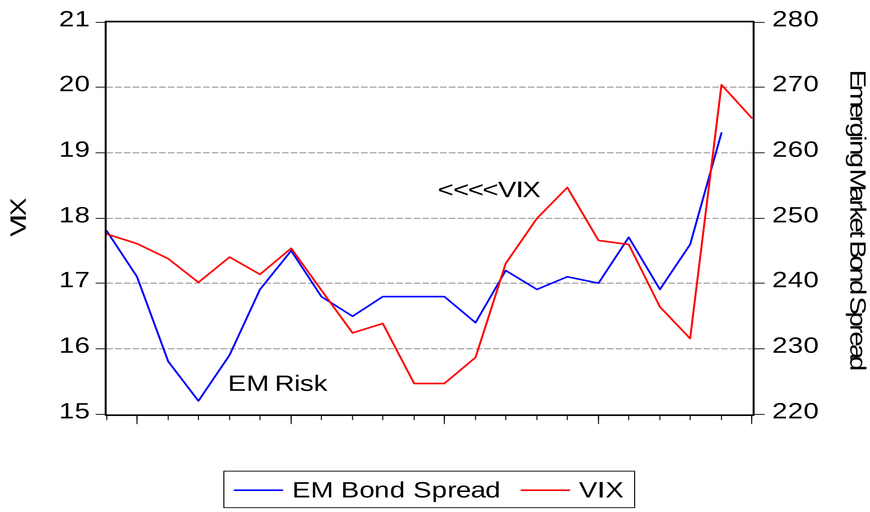
Source: I-Net Bridge and Investec Wealth and Investment

The weaker rand however might, if we do not play our monetary cards correctly, have further implications for monetary policy. It means more domestic inflation given the upward pressure on global oil and commodity prices. The Reserve Bank might, as in the past, think that higher inflation (whatever its cause, including an exchange rate shock and/or a food price shock) would justify higher short term rates. These higher rates might in turn lead to a still weaker rand and more, rather than less, inflation.

We would regard such policy reactions as highly perverse given the expected output gap that will not benefit from higher food and fuel prices. We would hope that the Reserve Bank will have learned from past experience, should the rand weaken further for reasons independent of the state of the SA economy, or its own policy settings. The modification of its mandate by the Treasury at Budget time a year ago will surely encourage it to have full regard for the state of the economy rather than only the rate of inflation (over which it has very little influence when the rand weakens or food prices rise).

The rand is a highly volatile currency and especially vulnerable to changing perceptions of global risk. The more risk the weaker the rand and vice versa. Global measures of risk in the form of the emerging market bond spread and the S&P volatility indicator, the VIX, did increase late last weak as the protests in Egypt intensified. The VIX however receded on Monday this week and the emerging market bond spread for which Monday data is unavailable probably followed the same trend.

Measures of Global Risk (January 2011, Daily data)



Source: I-Net Bridge and Investec Wealth and Investment

Any reduction in global risk aversion will be good for the rand, as will strength in commodity prices linked to the recovery in the global economy that now seems very secure. Emerging equity markets may lag behind the S&P in 2011 but flows towards a rising S&P 500 is unlikely to drag the emerging market equity indexes absolutely lower. The long term growth promise of emerging economies remains intact

The rand may not enjoy a repeat of the extraordinarily favourable conditions of 2010. However it seems reasonable to expect a degree of rand stability through strength in the global economy and metal prices and a consistent recovery of the SA economy. Rand strength would be assisted by growth-sympathetic interest settings. A stronger SA economy will encourage foreign direct investment as well as portfolio flows into the equity market to support the rand. The currently higher yields on rand bonds might also prove tempting to investors. And so we hope for rand stability to make its essential contribution to faster growth and low inflation in SA. ***Brian Kantor***

Upcoming dividend dates and corporate actions

Share/security	Last day to trade	Ex-dividend	Record date	Pay date	Description	Per share amount/ result
Foord Compass	4 February	7 February	11 February	14 February	Scrip Dividend	53.846c or 7.342 FCPD per 100
UCS	4 February	7 February	11 February	14 February	Cash Dividend	R0.05
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
Massmart	11 February	14 February	18 February	21 February	Scheme of Arrangement	Proposed acquisition of 51% of MSM by WalMart
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
Winhold	11 February	14 February	18 February	21 February	Cash Dividend	R0.10
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
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
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 –1 February to 8 February

Wednesday 2 February	Vodacom quarterly update
Thursday 3 February	Optimum Coal interims Investec interim management statement
Friday 4 February	Net 1 quarterlies
Monday 7 February	Harmony December quarterlies African Bank quarterly update Anglo Platinum finals Randgold Resources quarterlies Palabora Mining finals (approx date)
Tuesday 8 February	ArcelorMittal finals

Source: I-Net, Company updates

Economic calendar – 1 February to 8 February

Date	International	South Africa
Tuesday 1 February	**China** – January PMI **Germany** – January PMI manufacturing [10h55] **Germany** – December Unemployment [10h55] **EMU** – January PMI manufacturing [11h00] **EMU** – Dec/Jan Unemployment [12h00] **UK** – January PMI manufacturing [11h30] **UK** – December M4 money supply [11h30] **US** – January ISM manufacturing [16h00]	January New vehicle sales [11h00]
Wednesday 2 February	**EMU** – December PPI [12h00]	
Thursday 3 February	**Japan** – January PMI services and composite **Germany** – January PMI services and composite [10h55] **UK** – January PMI services [11h30] **EMU** – January PMI services and composite [11h00] **EMU** – December Retail sales [12h00] **EMU** – ECB rate decision [14h45] **US –** Initial jobless claims for previous week [14h30] **US** – January ISM nonmanufacturing [16h00]	
Friday 4 February	**US** – January Nonfarm payrolls [14h30]	
Monday 7 February	**US** – December Consumer credit [21h00]	January Gold and forex reserves [08h00]
Tuesday 8 February	**Japan** – December Current account **Germany** – December Industrial production [12h00]	

Sources: Bloomberg, StatsSA, SA Reserve Bank, NAAMSA

dailyview

Key market indicators – Monday 31 January 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**31398.75**	-0.46%	-2.52%	2.58%	-2.24%	17.18%
JSE Fini 15	**8069.33**	-0.75%	-1.00%	0.14%	-1.25%	7.86%
JSE Indi 25	**25664.50**	-1.44%	-4.16%	0.59%	-4.21%	22.65%
JSE Mining	**36988.99**	0.80%	-1.65%	5.70%	-0.55%	14.95%
JSE Resi 20	**56044.76**	0.63%	-1.36%	6.08%	-0.46%	15.72%
S&P 500	**1286.12**	0.77%	2.25%	7.75%	2.26%	18.59%
DJI	**11891.93**	0.58%	2.79%	6.28%	2.72%	17.50%
NASDAQ	**2700.08**	0.49%	1.39%	6.57%	1.78%	23.91%
Nikkei	**10237.92**	-1.18%	0.09%	11.77%	0.09%	-1.69%
Hang Seng	**23447.34**	-0.72%	1.95%	-0.95%	1.79%	15.18%
FTSE 100	**5862.94**	-0.31%	-1.81%	1.83%	-1.81%	13.94%
CAC 40	**4005.50**	0.08%	4.02%	3.62%	5.28%	8.59%
DAX	**7077.48**	-0.36%	2.36%	6.36%	2.36%	27.74%
ASX-ORD	**4850.00**	-0.46%	-0.75%	1.61%	0.06%	3.24%
JSE All Share (in US$)	**4376.07**	-0.49%	-10.23%	-0.56%	-9.82%	24.13%
MS EM Index	**1119.08**	-0.64%	-2.33%	-0.45%	-2.81%	19.04%
MS World Index	**1308.08**	0.46%	2.46%	6.01%	2.19%	15.93%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US $	**7.18**	-0.03%	-7.91%	-3.06%	-7.75%	5.93%
Rand/GB Pound	**11.49**	-1.00%	-11.11%	-2.66%	-10.28%	6.66%
Rand/Euro	**9.84**	-0.84%	-10.58%	-1.49%	-10.17%	7.72%
Rand/Aus $	**7.15**	-0.84%	-6.00%	-3.63%	-5.53%	-5.12%
Yen/ US $	**82.07**	0.04%	-0.72%	-1.84%	-1.17%	9.41%
Swiss Franc/US $	**0.94**	-0.17%	-0.92%	5.16%	-0.93%	11.52%
US $/Euro	**1.37**	-0.74%	-3.00%	1.44%	-2.38%	1.83%
US $/GB Pound	**1.60**	-1.04%	-3.69%	0.19%	-2.59%	0.72%
US $/Aus $	**1.00**	-0.52%	1.83%	-0.89%	2.54%	-10.41%
Nominal Effective Exchange Rate (2000 = 100)	**74.42**	0.93%	9.61%	2.10%	9.19%	-4.23%

Commodities	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Gold $/oz.	**1332.83**	-0.30%	-5.09%	-1.82%	-6.23%	22.69%
Platinum/oz.	**1792.5**	-0.19%	2.58%	4.37%	1.27%	18.71%
Brent Crude $/bbl	**99.26**	0.54%	7.47%	16.49%	4.76%	38.77%

Fixed income	Closing yield %
SA R157	**7.88**
US 2 YEAR	**0.55**
US 10 YEAR	**3.33**
UK 2 YEAR	**0.74**
UK 10 YEAR	**3.65**
EURO 2 YEAR	**1.38**
EURO 10 YEAR	**3.15**

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