8 June 2011

dailyview

Today's highlights

- Industrial and employment policy: A new dawn or a false dawn?
- Upcoming dividend dates and corporate actions
- Company calendar – 8 June to 15 June
- Economic calendar – 8 June to 15 June

Talking point: No QE3 in sight for US market

US markets did not take too kindly to a speech yesterday by Fed chairman Ben Bernanke, which seemed to pour cold water on any ideas of an extension to the $600bn quantitative easing programme that is due to end this month. Bernanke did express disappointment about recent economic data, and that though the recovery was still continuing, it was at a frustratingly slow pace. However he indicated that the current monetary policy remained appropriate and no further quantitative easing seemed to be required.

What he did emphasis however was the need for government at federal and state level to continue plans to reduce deficits, which in turn would enhance economic performance over the long run and also help to reduce long term borrowing costs. This seems to us the right approach. Like an addict screaming out for one last hit, the market seems to want whatever stimulus it can get, but Bernanke needs to be cautious – at some point, the cold turkey of fiscal rectitude needs to be faced up to.

Market highlights

Wall Street declined again yesterday, as Fed chairman failed to throw any light on a possible extension to the monetary stimulus programme at a speech during the day.

The JSE rose yesterday as traders bought into some of the counters that had been hardest hit during the selloff of last week. Apart from gold, most of the major sectors were up on the day.

Bonds gained while the rand was firmer yesterday as concerns grew about the state of the US economy and the policy response to it. The euro continued to gain against the US currency.

A weaker US dollar lifted most commodities overnight, but copper price gains were muted on worries about US demand.

Key indicators in a nutshell – Tuesday 7 June 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**31818.3**	0.76%	-0.19%	-0.01%	-0.94%	19.81%
S&P 500	**1284.94**	-0.10%	-4.12%	-2.66%	2.17%	20.67%
Nikkei	**9442.95**	0.67%	-4.22%	-10.83%	-7.68%	-4.63%
Rand/US $	**6.70**	1.09%	-0.17%	2.04%	-1.27%	16.04%
Rand/GB Pound	**11.02**	0.59%	-0.61%	0.71%	-6.44%	2.09%
US$/Euro	**1.47**	-0.72%	-2.53%	-5.33%	-8.86%	-18.52%
Gold $/oz.	**1544.56**	-0.01%	3.28%	8.06%	8.66%	26.71%

Company results and updates

Telkom reports that Helios has been cleared by a Nigerian court to pursue a US$250m damages claim against Telkom subsidiary, Multi-Links (which Telkom is in the process of selling to Visafone).

Investec

Daily ideas

Industrial and employment policy: A new dawn or a false dawn?

The long awaited subsidy for Job Creation has become a reality. The Jobs Fund will make available R9bn over the next three years as a subsidy for jobs to be created and encouraged with R2bn available this financial year. The fund will be administered by the Development Bank (DBSA). It will be "…targeted at established companies with a good track record and plans to expand existing programmes or pilot innovative approaches to employment creation, with a special focus on opportunities for young people.." (Q&A, Media Briefing, Houses of Parliament, 7 June 2011).

The four areas of focus are Enterprise Development, Infrastructure Investment, Support for Work Seekers and Institutional Capacity Building, including internship and mentorship programmes. The focus seems broad enough to cover almost any aspect of business activity.

The approved programmes will be "..cost and risk shared by participants..to ensure real ownership.." In other words, private sector participants will have to provide matching funds on a 1 to 1 ratio. A reduced own contribution is intended for "non-private sector applicants" These would include municipalities and public enterprises. It may presumably include NGOs and their like. Applications must be made by 31 July for funding this year.

The scheme will clearly be employment creating among the ranks of the consultants. It should prove particularly welcome to firms with well established training programmes. "*Support for Work Seekers; assistance with job search, mobilisation and enhancement of training activities, support for career guidance and placement services"* (Media briefing) will surely prove a boon to the well established and much maligned labour brokers. The statement above reads like an accurate description of their business model.

The SA government is trading off a significant proportion of its corporate tax base for new industrial projects and subsidies for employment. In addition to the R9bn Jobs Fund the newly defined s12i Tax incentives are backed by a 2011-12 Budget allocation of R20bn. These are by no means trivial amounts in absolute terms, or relative to all the tax collected from SA companies. It would be of interest to know the proportion of company taxes paid by manufacturers. Would it be as much as R20bn allocated in the 2011-2012 Budget?

In the 2010-11 Budget estimated revenue from companies was R150bn or 24% of all estimated tax revenues of R643bn. The SA government's dependence on income from companies is unusually large. In many other tax regimes the corporate tax rate may be comparable to the rates levied on company profits in South Africa. But when taxes actually paid are reduced by investment and many other allowances provided by government to stimulate investment and job creation, the effective (economic) tax rate becomes much lower than the nominal company tax rate.

SA is following this route. More subsidy and allowances provided for companies, in one way and another, tax concessions and job subsidies included, that lead to less tax paid and a lower effective tax on business profits. No doubt these lower taxes paid will be very welcome to businesses that are able to engage skilfully with the system.

If however the path of government spending is to remain unaffected, as would appear likely, the taxes saved or the subsidies provided to the companies that benefit, would have to be made up by taxes collected from other taxpayers. This must mean increased taxes on consumption expenditure or on individual incomes; or companies outside the sectors favoured by industrial policy will be forced to pay up for the benefits provided to industry.

The SA government clearly thinks, as do governments almost everywhere, that it can do better than simply providing an encouraging tax and regulation environment for business in general. It clearly believes it can pick the winners in the industrial space rather than leaving the investment and employment decisions to participants in the market place on a field levelled by equally generous tax treatment, irrespective of the designated activity and location in which it takes place.

It would promote economic growth in SA if more generous investment or depreciation allowances were offered to business in general rather than those judged particularly worthy by the bureaucrats involved. This would encourage companies to save and invest more of their after tax earnings or cash flow. Investment allowances reduce the taxable income of companies, leading to less tax paid and more cash retained and invested. This would lead in turn to more output and employment. But this is an argument for lower business taxes in general rather than for particular benefits or subsidies

One has to question the ability of the government through the Department of Trade and Industry (DTI) or any other of its agencies, the Development Bank or the IDC, to pick the winners, without fear or favour, among the many proposals that are bound to be made to it. As indicated there will be a great deal of taxpayer's money at stake.

The government has proved itself much more capable of raising tax revenues than spending them effectively. The subsidies or tax concessions will surely add to industrial output and employment. But we will never know how much better the economy might have done and the employment created had much less discretion been exercised over tax concessions or subsidies. As the saying goes if you want more of something subsidise it, if you want less tax it. SA is doing both – extracting more tax from some employers, employees and consumers, while subsidising other businesses and their employment decisions more generously.

The government through the DTI (and organs like the competition authorities) seems to show a marked and regrettable lack of respect for the creative powers of private businesses. The simple recipe for economic growth is one that relies on businesses directed by their owners and senior managers, to pursue their self interest, constrained essentially by the competition provided by other businesses for their customers, workers and providers of capital. Economic history has surely proved that the recipe works.

But governing best by governing least does not serve the interest of ambitious policy makers. There is a constant flow of new regulations and intrusions that SA business has to manage which adds to their costs and reduces their competitiveness with imported goods. There moreover appears no popular ground swell of support for activist economic policies. The impetus seems to come directly from officials and their consultants.

The poor protest about the lack of delivery of basic services by government not about the lack of delivery of basic goods and services by businesses. SA Business, unlike the SA government, delivers very effectively. It would deliver more jobs if the labour market were less heavily regulated to encourage them to do so.

Industrial policy and the Job Fund have become an expensive and counterproductive alternative to sensible, employment growth encouraging, de-regulation of the labour market. The intervention by the competition authorities in the employment and procurement decisions to be made by Massmart and Wal-Mart provide an obvious case in point and a further example of government officials thinking they know better how business should be run in the interest of more employment. The goods and services market has been made less competitive to make up for the lack of competition in the labour market. The employment problem is one of the government's own making, acting as it has done to entrench the rights of established workers, at the expense of potential entrants to the ranks of the formally employed.

The government and its officials will no doubt point to the jobs gained through subsidy and perhaps also compulsion to employ more labour demanded of the government departments themselves and publicly owned enterprises. The jobs lost because of higher taxes and job destroying regulation will be much less obvious and ignored to the great disadvantage of the poor in SA who need jobs – not handouts to lift them out of poverty.

The solution to the failures of the SA economy, or rather its formal businesses to provide jobs would seem obvious to all but those with an interest in the status quo – the trade unions and the officials who write and implement interventions in the labour and other markets of the economy. This is to rely less on government and its regulatory, taxing and subsidy powers and more on private business to deliver more of the essential goods and services demanded in a modern economy. ***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
African Bank	9 June	10 June	17 June	20 June	Cash Dividend	R0.85
African Bank Prefs	9 June	10 June	17 June	20 June	Cash Dividend	R3.10
Astral	9 June	10 June	17 June	20 June	Cash Dividend	R3.05
Cargo	9 June	10 June	17 June	20 June	Cash Dividend	R0.05
Curro	9 June	10 June	17 June	20 June	Rights issue	1 COHN per COH
Freeworld	9 June	10 June	17 June	tbc	Minority offer	R12 per share tendered
Investec Ltd Prefs	9 June	10 June	17 June	30 June	Cash Dividend	R3.4161
Investec plc Prefs	9 June	10 June	17 June	30 June	Cash Dividend	R0.84
Investec Bank Prefs	9 June	10 June	17 June	30 June	Cash Dividend	R3.1884
JOZI03	9 June	10 June	17 June	21 June	Interest	R14.90
Mazor	9 June	10 June	17 June	20 June	Cash Dividend	R0.028
Rare	9 June	10 June	17 June	20 June	Rights issue	2.25 RARN per 1 RAR
Reunert	9 June	10 June	17 June	20 June	Cash Dividend	R0.77
Vukile	9 June	10 June	17 June	20 June	Cash Dividend	R0.0014
Vukile	9 June	10 June	17 June	20 June	Interest	R0.6698
Verimark	9 June	10 June	17 June	20 June	Cash Dividend	R0.15
Wilderness	9 June	10 June	17 June		Cash Dividend	BWP0.086
Adcock Ingram	17 June	20 June	24 June	27 June	Capital Reduction	R0.81
African & Overseas Prefs	17 June	20 June	24 June	27 June	Cash Dividend	R0.06
Brait NPLs	17 June	20 June	24 June	4 July	Rights take up	1 right converts to 1 BAT at R16.50
Capitec	17 June	20 June	24 June	27 June	Cash Dividend	R2.05
Clover Prefs	17 June	20 June	24 June	27 June	Cash Dividend	R0.0586
Dorbyl 5.5% Cum Pref	17 June	20 June	24 June	27 June	Cash Dividend	R0.055
Dorbyl 5% Cum Pref	17 June	20 June	24 June	27 June	Cash Dividend	R0.05
HCI	17 June	20 June	24 June	27 June	Cash Dividend	R0.60
JD Group	17 June	20 June	24 June	27 June	Cash Dividend	R1.00
Medi-Clinic	17 June	20 June	24 June	27 June	Cash Dividend	R0.50
Metmar	17 June	20 June	24 June	27 June	Cash Dividend	R0.11
Mr Price	17 June	20 June	24 June	27 June	Cash Dividend	R1.753
Rex Trueform Pref	17 June	20 June	24 June	27 June	Cash Dividend	R0.06
Astrapak	24 June	27 June	1 July	4 July	Cash Dividend	R0.264
Altron	24 June	27 June	1 July	4 July	Cash Dividend	R1.08
Altron Prefs	24 June	27 June	1 July	4 July	Cash Dividend	R1.08
Clicks	24 June	27 June	1 July	4 July	Cash Dividend	R0.37
Famous Brands	24 June	27 June	1 July	4 July	Cash Dividend	R0.85
Libhold Prefs	24 June	27 June	1 July	4 July	Cash Dividend	R0.055

Oceana	24 June	27 June	1 July	4 July	Cash Dividend	R0.37
Pioneer	24 June	27 June	1 July	4 July	Cash Dividend	R0.40
Pinnacle Point NPLs	24 June	27 June	1 July	4 July	Rights takeup	1 PNGN converts to 1 PNG at R0.01
Sallies CD	24 June	27 June	1 July		Interest	R0.0248221
Stefanutti Stocks	24 June	27 June	1 July	4 July	Cash Dividend	R0.25
Steinhoff NPLs	24 June	27 June	1 July	4 July	Rights takeup	1 SHFN converts to 1 SFH at R0.05
Tiger Brands	24 June	27 June	1 July	4 July	Cash Dividend	R2.81
Value Group	24 June	27 June	1 July	4 July	Cash Dividend	R0.12
Vodacom	24 June	27 June	1 July	4 July	Cash Dividend	R2.80
Crookes Brothers	1 July	4 July	7 July	11 July	Cash Dividend	R0.65
Datatec	1 July	4 July	7 July	11 July	Capital reduction	R0.88
Foschini	1 July	4 July	7 July	11 July	Cash Dividend	R2.12
Illovo	1 July	4 July	7 July	11 July	Capital reduction	R0.34
Invicta	1 July	4 July	7 July	11 July	Cash Dividend	R1.26
Nampak	1 July	4 July	7 July	11 July	Cash Dividend	R0.34
Rare NPLs	1 July	4 July	7 July	11 July	Rights take up	1 RARN converts to 1 RAR at R0.20 a share
Taste	1 July	4 July	7 July	11 July	Cash Dividend	R0.03
Adcorp	8 July	11 July	15 July	18 July	Cash Dividend	R1.21
Austro	8 July	11 July	15 July	18 July	Capital Reduction	R0.02
Cadiz	8 July	11 July	15 July	18 July	Cash Dividend	R0.20
Gold Reef	8 July	11 July	15 July	18 July	Name change	Tsogo Sun Holdings
ISA	8 July	11 July	15 July	18 July	Cash Dividend	R0.062
ISA	8 July	11 July	15 July	18 July	Capital Reduction	R0.01
Mondi Ltd	8 July	11 July	15 July	18 July	Unbundling	1 Mpact (MPT) per MND
Tongaat	8 July	11 July	15 July	18 July	Cash Dividend	R1.40
Lewis	15 July	18 July	22 July	25 July	Cash Dividend	R2.07
Netcare	15 July	18 July	22 July	25 July	Cash Dividend	R0.22
Peregrine	15 July	18 July	22 July	25 July	Cash Dividend	R0.35
Investec Ltd	22 July	24 July	29 July	8 August	Cash Dividend	R1.02
Investec plc	22 July	24 July	29 July	8 August	Cash Dividend	R1.02
SBR003	22 July	24 July	29 July	5 August	Interest	R1.49
SABMiller	29 July	1 August	5 August	12 August	Cash Dividend	USD0.615
Richemont	9 September	12 September	16 September	23 September	Cash Dividend	CHF0.02925 less Swiss withholding tax
Foschini Prefs	16 September	19 September	23 September	26 September	Cash Dividend	R0.065

Source: JSE

Company calendar – 8 June to 15 June

Thursday 9 June	Acucap finals Sycom finals Pick n Pay AGM
Friday 10 June	1Time AGM
Monday 13 June	Telkom finals

Source: I-Net, Company updates

Economic calendar – 8 June to 15 June

Date	International	South Africa
Wednesday 8 June	**Japan** – April Current account **Germany** – April Foreign trade [08h00] **Germany** – April Industrial production [12h00] **EMU** – Q1 GDP [11h00] **US** – Beige Book [20h00]	
Thursday 9 June	**Japan** – Q1 GDP second estimate **UK** – April Trade balance [10h30] **UK** – MPC meeting and rate announcement [13h00] **EMU** – ECB meeting and rate announcement [13h45] **US –** Initial jobless claims for previous week [14h30] **US** – May Housing starts [14h30] **US** – Q1 Current account [14h30]	April Manufacturing [13h00] April Mining production [13h30]
Friday 10 June	**Germany** – May CPI final [08h00] **UK** – April Industrial production [10h30] **UK** – May PPI [10h30]	
Monday 13 June	**Japan** – BoJ MPC meeting	
Tuesday 14 June	**Japan** – April Industrial production final **Japan** – BoJ MPC meeting and rates decision **China** – May CPI **China** – May PPI **China** – May Retail sales **China** – May Fixed asset investment **China** – May Industrial production **UK** – May CPI [10h30] **US** – May Retail sales [14h30] **US** – May PPI [14h30]	
Wednesday 15 June	**UK** – May Labour market report [10h30] **EMU** – April Industrial production [11h00] **US** – May CPI [14h30] **US** – June Empire State survey [14h30] **US** – April TIC flows [15h00] **US** – May Industrial production [15h15] **US** – June NAHB survey [16h00]	

Sources: Bloomberg, StatsSA

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Key market indicators – Tuesday 7 June 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**31818.30**	0.76%	-0.19%	-0.01%	-0.94%	19.81%
JSE Fini 15	**8111.74**	0.66%	-0.10%	1.34%	-0.73%	9.38%
JSE Indi 25	**27794.34**	0.65%	1.66%	4.67%	3.74%	30.76%
JSE Mining	**35255.62**	0.76%	-2.10%	-5.29%	-5.21%	14.81%
JSE Resi 20	**53617.10**	0.98%	-2.17%	-5.70%	-4.77%	16.01%
S&P 500	**1284.94**	-0.10%	-4.12%	-2.66%	2.17%	20.67%
DJI	**12070.81**	-0.16%	-4.49%	-1.16%	4.26%	21.53%
NASDAQ	**2701.56**	-0.04%	-4.46%	-1.82%	1.84%	21.74%
Nikkei	**9442.95**	0.67%	-4.22%	-10.83%	-7.68%	-4.63%
Hang Seng	**22868.67**	-1.36%	-1.25%	-3.95%	-0.72%	15.61%
FTSE 100	**5864.65**	0.03%	-1.88%	-1.22%	-1.78%	14.41%
CAC 40	**3871.92**	0.22%	-4.59%	-3.05%	1.76%	12.05%
DAX	**7103.25**	0.26%	-5.19%	-0.40%	2.73%	19.61%
ASX-ORD	**4641.10**	-0.16%	-3.63%	-4.57%	-4.25%	3.77%
JSE All Share (in US$)	**4746.10**	1.86%	-0.36%	2.03%	-2.20%	39.03%
MS EM Index	**1152.56**	0.31%	-0.93%	1.49%	0.10%	26.17%
MS World Index	**1311.90**	0.16%	-3.49%	-2.07%	2.49%	23.73%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US $	**6.70**	1.09%	-0.17%	2.04%	-1.27%	16.04%
Rand/GB Pound	**11.02**	0.59%	-0.61%	0.71%	-6.44%	2.09%
Rand/Euro	**9.85**	0.33%	-2.70%	-3.17%	-10.21%	-5.30%
Rand/Aus $	**7.19**	1.10%	0.08%	-3.65%	-5.96%	-10.37%
Yen/ US $	**80.18**	-0.07%	0.54%	3.29%	1.16%	14.54%
Swiss Franc/US $	**0.84**	-0.19%	5.02%	11.14%	11.69%	38.91%
US $/Euro	**1.47**	-0.72%	-2.53%	-5.33%	-8.86%	-18.52%
US $/GB Pound	**1.64**	-0.50%	-0.44%	-1.44%	-5.03%	-12.03%
US $/Aus $	**1.07**	0.11%	0.44%	-5.79%	-4.55%	-22.76%
Nominal Effective Exchange Rate (2000 = 100)	**75.89**	0.69%	0.42%	1.03%	7.08%	-0.30%

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Commodities	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Gold $/oz.	**1544.56**	-0.01%	3.28%	8.06%	8.66%	26.71%
Platinum/oz.	**1834.5**	1.27%	2.69%	1.83%	3.64%	21.49%
Brent Crude $/bbl	**115.23**	0.27%	4.95%	0.63%	21.61%	62.00%

Fixed income	Closing yield %
SA R157	**7.37**
US 2 YEAR	**0.43**
US 10 YEAR	**3.04**
UK 2 YEAR	**0.61**
UK 10 YEAR	**3.31**
EURO 2 YEAR	**1.69**
EURO 10 YEAR	**3.07**

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