

Today's highlights

- Gold is for the risk averse, gold shares for the risk loving
- Woolworths (WHL): Well fed and clothed
- Upcoming dividend dates and corporate actions
- Company calendar – 20 July to 27 July
- Economic calendar – 20 July to 27 July

Talking point: Earnings play ball

While markets remain skittish about debt levels in the developed world (or the politics of debt – it is hard to tell the difference these days), at least the earnings in the US are playing ball. Although Goldman Sachs came in worse than expected yesterday, the technology sector delivered some good numbers with Apple doubling earnings and IBM also producing good numbers.

As for the impasse in the US on raising the debt ceiling above the current \$14.3 trillion, there was some renewed hope of resolution yesterday as President Barack Obama gave his thumbs up to a bipartisan Senate team that had come up with a \$3.7 trillion debt cutting plan. Of course such plans still need to get the support of both Senate and Congress (the latter has a Republican majority), so one suspects the brinkmanship is not over yet. Still, the markets will have welcomed anything that sounds like politicians coming around to an agreement.

Locally, the Consumer Price Index (CPI) for June came in pretty much in line with expectations in June, at 5%, with a 0.4% increase month on month. A jump up from the 4.6% in May was not a surprise, as June last year had seen a zero month on month increase, which made the base for comparison lower. Markets should not be moved by these numbers and we expect it to have little impact on the Monetary Policy Committee (MPC) meeting today and tomorrow.

Market highlights

US equities staged one of their biggest rallies of the year thanks to some strong earnings numbers and upbeat comments by President Barack Obama about reaching a solution to the debt ceiling impasse.

The JSE recovered yesterday as a semblance of calm returned to European and US markets, as resources and platinum shares gained, offsetting falls in the gold index.

The rand gained against the US dollar yesterday as risk aversion levels fell in currency markets, while the firmer rand helped local bonds.

Renewed calm in financial markets helped lift copper and oil prices, while gold slipped for the first time in two weeks as traders moved out of safe haven assets.

Key indicators in a nutshell – Tuesday 19 July 2011

| Key indicators | Last price | 1 Day | 1 Month | 1 Quarter | Year date to | 1 Year |
|----------------|-----------------|--------|---------|-----------|--------------|--------|
| JSE All Share | 32058.68 | 0.59% | 4.53% | -1.44% | -0.19% | 16.45% |
| S&P 500 | 1326.73 | 1.63% | 4.34% | -0.27% | 5.49% | 24.59% |
| Nikkei | 9889.72 | -0.85% | 5.76% | 2.94% | -3.32% | 5.12% |
| Rand/US \$ | 6.91 | 0.88% | -2.58% | -1.80% | -4.24% | 9.62% |
| Rand/GB Pound | 11.13 | 0.41% | -1.71% | -0.21% | -7.42% | 3.86% |
| US\$/Euro | 1.42 | -0.43% | 1.00% | 2.41% | -5.54% | -8.77% |
| Gold \$/oz. | 1588.88 | -0.95% | 3.23% | 5.78% | 11.78% | 33.17% |

Company results and updates

BHP Billiton grew its petroleum production in the June quarter by 6% year on year and by 21% compared with the previous quarter. Iron ore production grew 14% year on year and 7% quarter on quarter.

Datatec says its trading and profitability continued to improve in the four months to June, and has left its forecast for underlying EPS for the year to 28 February 2012 unchanged at about 47 US cents.

Aveng expects to report a decrease in HEPS for the year to June of between 30% and 40%, down from the 483c reported in 2010. Results are due out on 5 September.

Merafe expects to report HEPS for the six months to June of between 3c and 4c, down from a previous 7c reported in the six months to June 2010. Results are due out on 2 August.

South Ocean expects to report a decline in HEPS for the six months to June of between 25% and 35%, from a previous 15.9c. South Ocean reports on 27 July.

Afrox reported HEPS for the six months to June of 52.8c, an increase of 37%. An interim dividend of 22cps was declared, up from a previous 19cps.

Eastern Platinum produced 20 500 PGM ounces in the June quarter, down from the 25 400oz produced in the March quarter, and the 30 800oz in the June quarter last year. It attributes the decline in production to industrial action at the Crocodile River Mine during the period. It expects to produce 105 000oz for the full year to December. The second quarter results are due out on 15 August.

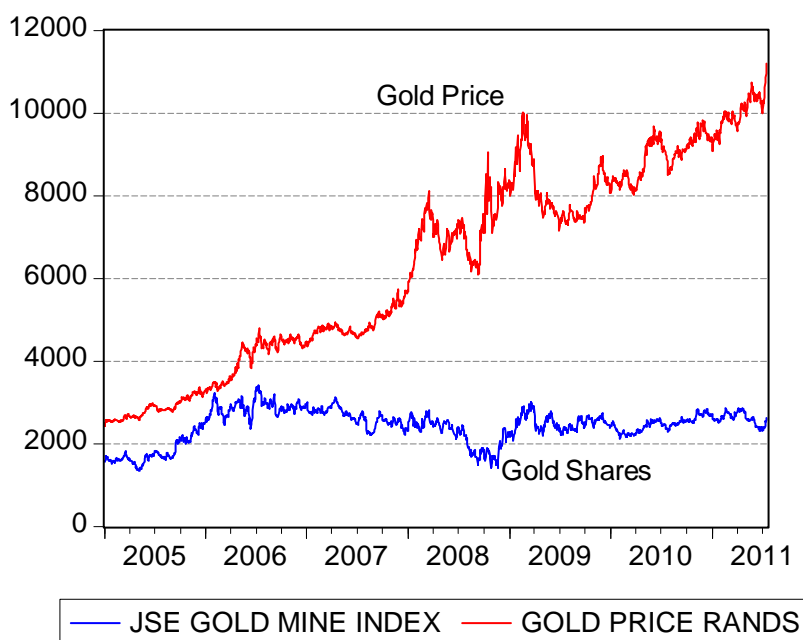
Daily ideas

Gold is for the risk averse, gold shares for the risk loving

The gold price in US dollars and in rands has moved ever higher while JSE listed gold shares have moved mostly sideways over recent years. The explanation seems obvious enough. The cost of mining gold in SA has risen every bit as rapidly as the price of gold while the volume of gold mined in SA has declined consistently with these higher costs and the lower grade of ore being crushed. In 1970, before the price of gold escaped the constraints of the gold standard that set the price at \$35 or approximately R27 per troy ounce, SA mines produced over 600 metric tonnes of gold a year.

SA gold mines now produce fewer than 200 tonnes of gold a year and this output is falling. The only consolation in this sad tale of events is that presumably the US dollar and rand price of gold would be a lot lower had SA continued to produce as much as it did before.

The gold price (rands per ounce) and the JSE Gold mining index, daily data (2005-2011)

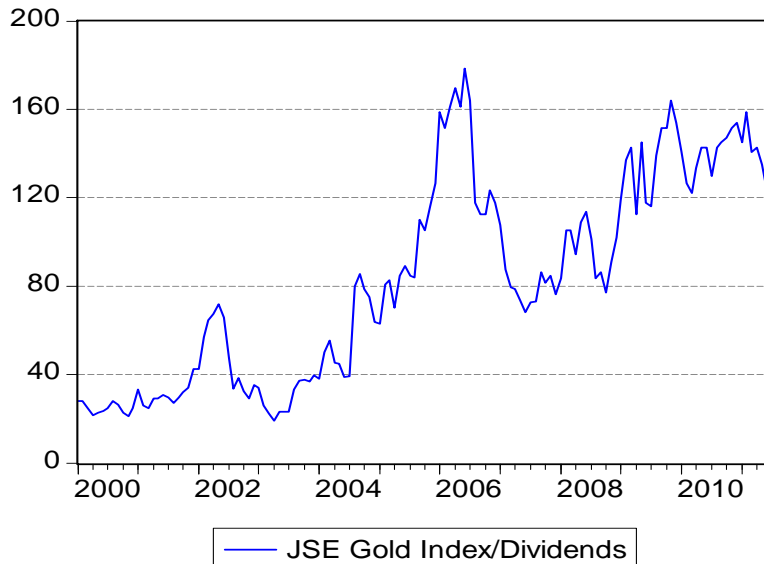


Source: I-Net Bridge and Investec Wealth and Investment

But the hope that the gold mines will be able to take advantage of the higher gold price in the form of profits and dividends seems to rest eternal. Investors have consistently paid up more for the dividends actually paid by the gold mines. Currently the

mines are selling at 122 times their trailing dividends or at a dividend yield of less than a third of one per cent. Gold mining accounting earnings follow no consistent pattern and have often been negative in recent years. For the record, the JSE Gold index reported earnings per share have been positive over the past 12 months and the share prices are on average 315 times their trailing earnings.

Ratio of JSE gold mining index to gold mines' dividends per share (price/dividends)



Source: I-Net Bridge and Investec Wealth and Investment

The hope clearly implicit in these extraordinary market ratings is that gold mining companies will some day, maybe soon, be able to get more valuable gold out of the ground at greatly improved margins. This makes gold shares the ones with the longest odds in the equity markets. This taste for risk may well continue to provide support for gold shares for some time to come. Presumably the risk lovers assign only a small proportion of their portfolios to this gamble.

Accordingly the relationship between the gold price (much higher) and gold shares (sideways) is therefore a very weak one and may remain so until the mines actually deliver much improved dividends. Since January 2008, for every one per cent daily move in the rand gold price, the JSE Gold Mining Index has moved on average by only 0.42% (the so called gold price beta). However the gold price explains only about 7% of the daily move in gold shares over this period. There is clearly much more than the influence of the gold price at work on gold shares. The gold price expressed in US dollars does only a marginally better job explaining the JSE Gold index (in rands) with a beta close to 0.75 but still with very low R squared or explanatory power of 0.16%.

Gold shares are clearly only for the risk lovers. Gold itself however would have served the risk averse very well over this period. This is because, on average, when the market was down the gold price was up and vice versa. The correlation between daily moves in the JSE All share and the rand gold price was a negative (-0.16). Negative correlations of this order of magnitude provide outstandingly good risk reducing diversification benefits for portfolio managers. The correlation between daily changes in the rand gold price and the S&P 500 in US dollars has been even more negative (-0.44). Thus for South Africans with exposure to developed equity markets, gold would have provided especially good insurance. For the offshore investor the correlation of daily changes in the dollar price of gold and the S&P 500 was close to zero (0.04) over the period indicating that gold would also have provided very good insurance for the US dollar investor.

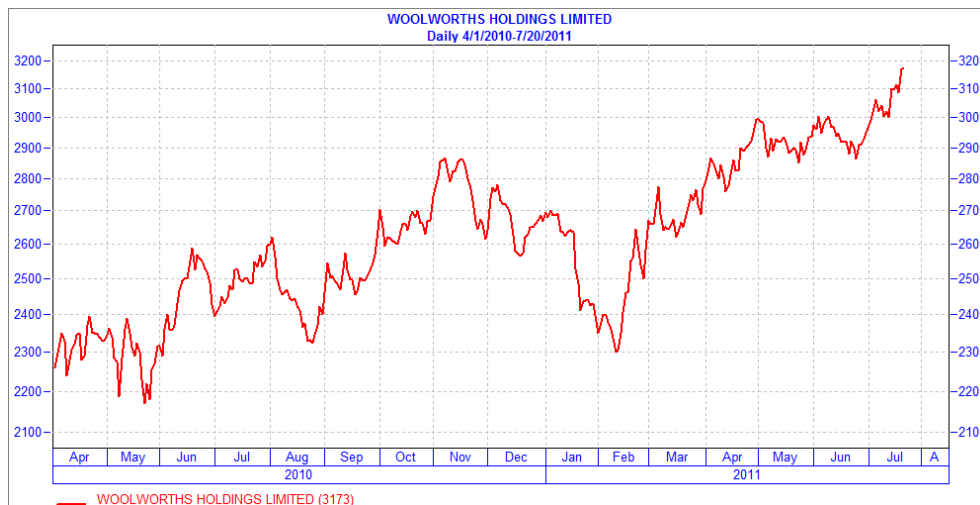
Past performance may not be a guide to future performance. But if the past is anything to go by the case for investing in gold, especially for South Africans, has been greatly strengthened while the case for investing in gold shares remains at best unproven. **Brian Kantor**

Woolworths (WHL): Well fed and clothed

Woolworths (3171c; market cap: R26.9bn; forward PE [I-Net]: 14.2x; forward DY [I-Net]: 4.8%): Woolworths released a trading update and statement for the year ended 26 June 2011. Group sales increased 9.4%, while comparable store sales growth grew 6.3%. From a divisional perspective both clothing and food performed very well, growing sales by 11.5% and 10.7% respectively. General merchandise sales went backwards, however the company mentions that this was impacted by “the rationalisation of the cellular handset business”. Excluding the rationalisation, general merchandise grew sales 5.2% year on year.

The Australian business, Country Road, continued to suffer setbacks as the Australian retail market remained weak – the business saw sales slip 2% in Australian dollars. The financial services business seems to be performing well, with the impairment charge on the average receivable book falling to 1.4% from 5.1% in 2009.

Within the trading statement, Woolworths mentions that earnings for the period will be up between 20% and 30%, implying earnings of between 192c and 207c. The lower end of this range already beats I-Net consensus figures marginally (190.5c expected). Woolworths currently trades on a forward PE of 14.2x and a forward dividend yield of 4.8% – both of which look quite attractive. **Bradley Seaward**



Source: I-Net Bridge

Upcoming dividend dates and corporate actions

| Share/security | Last day to trade | Ex-dividend | Record date | Pay date | Description | Per share amount/result |
|------------------------|-------------------|--------------|--------------|--------------|--|---------------------------------------|
| Avusa | 22 July | 24 July | 29 July | 1 August | Cash Dividend | R0.85 |
| 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 |
| Mix Telematics | 22 July | 24 July | 29 July | 1 August | Cash Dividend | R0.06 |
| Nampak 6.5% Cum Pref | 22 July | 24 July | 29 July | 1 August | Cash Dividend | R0.065 |
| Nampak 6% Cum Pref | 22 July | 24 July | 29 July | 1 August | Cash Dividend | R0.06 |
| RGT Smart | 22 July | 25 July | 29 July | 1 August | Minority Offer | R0.10 |
| Reunert 5.5% Cum Prefs | 22 July | 25 July | 29 July | 1 August | Cash Dividend | R0.055 |
| 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 |
| Hudaco | 12 August | 15 August | 19 August | 22 August | Cash Dividend | R1.30 |
| SBR002 | 2 September | 5 September | 9 September | 15 September | Interest | R1.45 |
| Argent | 2 September | 5 September | 9 September | 12 September | Cash Dividend | R0.03 |
| Richemont | 9 September | 12 September | 16 September | 23 September | Cash Dividend | CHF0.02925 less Swiss withholding tax |
| Naspers | 16 September | 19 September | 23 September | 26 September | Cash Dividend | R2.70 |
| Foschini Prefs | 16 September | 19 September | 23 September | 26 September | Cash Dividend | R0.065 |
| Metorex | 23 September | 26 September | 30 September | 3 October | Scheme of arrangement (Jinchuan offer) | R8.90 |

Source: JSE

Company calendar – 20 July to 27 July

| | |
|--------------------------|---|
| Wednesday 20 July | Ellies finals |
| Thursday 21 July | SABMiller quarterly trading update Kumba Iron Ore interims Vodacom quarterly trading update Bonatla AGM Hulamin AGM |
| Monday 25 July | Anglo American Platinum interims Zurich Insurance interims Litha Healthcare AGM |
| Tuesday 26 July | Aquarius Platinum quarterlies Santova Logistics AGM |
| Wednesday 27 July | Arcelor Mittal interims South Ocean interims Medi Clinicedi Clinic AGM |

Source: I-Net, Company updates

Economic calendar – 20 July to 27 July

| Date | International | South Africa |
|------------------------------|--|--|
| Wednesday 20 July | Germany – June PPI [08h00] EMU – July Consumer confidence prelim [16h00] US – June Existing home sales [16h00] | May Retail sales [13h00] |
| Thursday 21 July | June – June Trade balance China – July PMI flash Germany – July PMI flash [09h30] EMU – May Balance of payments [10h00] EMU – July PMI flash [10h00] UK – June Public sector finances [10h30] UK – June Retail sales [10h30] US – Initial jobless claims for previous week [14h30] US – June Leading indicators [16h00] | May Wholesale trade sales [10h00] Reserve Bank MPC meeting and rates announcement [15h00] |
| Friday 22 July | Germany – July IFO Business survey [10h00] | |
| Monday 25 July | Germany – June Retail sales [08h00] | |
| Tuesday 26 July | UK – Q2 GDP advance [10h30] US – May S&P/Case Shiller house price index [15h00] US – June New home sales [16h00] US – July Consumer confidence [16h00] | |
| Wednesday 27 July | Germany – July CPI prelim [08h00] EMU – June M3 [10h00] US – June Durable goods orders [14h30] US – Beige Book [20h00] | |

Sources: Bloomberg, StatsSA, SA Reserve Bank

Key market indicators – Tuesday 19 July 2011

| Indices | Last price | 1 Day | 1 Month | 1 Quarter | Year to date | 1 Year |
|-------------------------|------------|--------|---------|-----------|--------------|--------|
| JSE All Share | 32058.68 | 0.59% | 4.53% | -1.44% | -0.19% | 16.45% |
| JSE Fini 15 | 8068.74 | -0.01% | 2.07% | -0.85% | -1.26% | 3.19% |
| JSE Indi 25 | 28118.94 | 0.19% | 5.92% | 3.29% | 4.95% | 23.98% |
| JSE Mining | 35492.78 | 1.41% | 5.39% | -6.87% | -4.58% | 15.33% |
| JSE Resi 20 | 53973.09 | 1.40% | 4.90% | -6.79% | -4.14% | 16.20% |
| S&P 500 | 1326.73 | 1.63% | 4.34% | -0.27% | 5.49% | 24.59% |
| DJI | 12587.42 | 1.63% | 4.86% | 1.08% | 8.72% | 24.65% |
| NASDAQ | 2826.52 | 2.22% | 8.03% | 0.86% | 6.55% | 29.71% |
| Nikkei | 9889.72 | -0.85% | 5.76% | 2.94% | -3.32% | 5.12% |
| Hang Seng | 21902.40 | 0.45% | 0.95% | -8.34% | -4.92% | 8.16% |
| FTSE 100 | 5789.99 | 0.65% | 1.31% | -3.86% | -3.03% | 12.23% |
| CAC 40 | 3694.95 | 1.21% | -3.37% | -7.73% | -2.89% | 5.57% |
| DAX | 7192.67 | 1.19% | 0.40% | -0.78% | 4.03% | 19.08% |
| ASX-ORD | 4539.40 | -0.01% | -0.26% | -8.11% | -6.34% | 2.31% |
| JSE All Share (in US\$) | 4638.25 | 1.47% | 1.83% | -3.21% | -4.42% | 27.65% |
| MS EM Index | 1129.00 | 0.59% | 2.29% | -5.52% | -1.94% | 18.98% |
| MS World Index | 1316.54 | 1.50% | 2.81% | -2.49% | 2.85% | 20.80% |

| Currencies | Last price | 1 Day | 1 Month | 1 Quarter | Year to date | 1 Year |
|--|------------|--------|---------|-----------|--------------|---------|
| Rand/US \$ | 6.91 | 0.88% | -2.58% | -1.80% | -4.24% | 9.62% |
| Rand/GB Pound | 11.13 | 0.41% | -1.71% | -0.21% | -7.42% | 3.86% |
| Rand/Euro | 9.78 | 0.45% | -1.14% | 0.59% | -9.62% | -0.13% |
| Rand/Aus \$ | 7.42 | -0.27% | -2.94% | -2.34% | -8.89% | -13.29% |
| Yen/ US \$ | 79.13 | -0.10% | 1.14% | 4.18% | 2.50% | 9.40% |
| Swiss Franc/US \$ | 0.82 | -0.81% | 2.99% | 7.83% | 13.38% | 27.45% |
| US \$/Euro | 1.42 | -0.43% | 1.00% | 2.41% | -5.54% | -8.77% |
| US \$/GB Pound | 1.61 | -0.48% | 0.35% | 1.59% | -3.25% | -5.18% |
| US \$/Aus \$ | 1.07 | -1.24% | -1.18% | -0.60% | -4.80% | -18.99% |
| Nominal Effective Exchange Rate (2000 = 100) | 74.86 | 0.00% | 1.30% | 1.82% | 8.55% | -1.67% |

| | Last price | 1 Day | 1 Month | 1 Quarter | Year to date | 1 Year |
|--------------------|------------|--------|---------|-----------|--------------|--------|
| Commodities | | | | | | |
| Gold \$/oz. | 1588.88 | -0.95% | 3.23% | 5.78% | 11.78% | 33.17% |
| Platinum/oz. | 1770.5 | -0.25% | 0.80% | -1.83% | 0.03% | 17.29% |
| Brent Crude \$/bbl | 117.2 | 0.90% | 3.29% | -5.15% | 23.69% | 57.55% |

| Fixed income | Closing yield % |
|--------------|--------------------|
| SA R157 | 7.50 |
| US 2 YEAR | 0.37 |
| US 10 YEAR | 2.94 |
| UK 2 YEAR | 0.54 |
| UK 10 YEAR | 3.06 |
| EURO 2 YEAR | 1.26 |
| EURO 10 YEAR | 2.69 |

Feedback

We welcome your feedback. Please email iso@investec.co.za or call 0861 003 020.

Unsubscribe

Should you no longer wish to receive this newsletter in future, please reply to this e-mail with the word "unsubscribe" in the subject box.