21 July 2011

dailyview

Today's highlights

- Employment: The annual strike (that is the loss of jobs) season is well under way
- Upcoming dividend dates and corporate actions
- Company calendar – 21 July to 28 July
- Economic calendar – 21 July to 28 July

Talking point: Meetings, meetings, meetings

Today is a key day for markets, not so much for data releases but for meetings. In Europe, Eurozone leaders meet to discuss the ongoing crisis in the euro currency zone, while locally the Monetary Policy Committee (MPC) of the Reserve Bank concludes its meeting on exchange rates. Meetings over how to resolve the US government debt ceiling impasse are of course ongoing.

The summit of Eurozone leaders is important due to the ongoing failure of the different countries (and the European Central Bank) to agree on a path forward: should it involve further loans, partial or restructured debt, or a passing on of the obligations of the troubled periphery countries to the taxpayers of the wealthier countries, or a combination of all of these? Unlike central bankers, presidents and prime ministers have elections to contest, and need to sell their ideas to disgruntled voters at home. Given the complexities and the different interests, it will be a surprise if a joint solution is agreed on.

Locally the MPC will in all likelihood leave rates unchanged, after inflation for June came in exactly in line with expectations and retail sales for May were worse than expected. Given such softness in the economy, there seems little logic to raising rates before the year is out and stronger signs of growth emerge.

Conditions also appear to be softening in China, where preliminary PMI manufacturing numbers for July showed an important fall to below 50, indicating contraction. Should the final number come out low as well, the case for monetary tightening diminishes considerably.

Market highlights

US equities closed a little lower yesterday following Tuesday's sharp rise as resistance from hard liner Republicans in Congress deflated confidence over President Obama's support for a bipartisan plan to reduce government debt. The decline in equity markets came despite another day of good earnings numbers on Wall Street.

The JSE ended flat as concerns over the US and uncertainty over Europe continued to weigh on local markets, wiping out earlier gains in the day.

Bonds rallied yesterday as inflation data came in as expected and weak retail data for May seemed to argue against any rate hike this year. The rand gained yesterday ahead of a key summit of Eurozone leaders.

Copper declined for the first time in four days yesterday, while gold returned to its winning ways of the last two weeks on worries about the US debt ceiling and the Eurozone crisis.

Key indicators in a nutshell – Wednesday 20 July 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32056.06**	-0.01%	4.66%	-1.85%	-0.20%	17.29%
S&P 500	**1325.84**	-0.07%	3.71%	-0.86%	5.42%	23.77%
Nikkei	**10005.9**	1.17%	6.97%	3.31%	-2.18%	6.35%
Rand/US $	**6.85**	0.87%	-1.04%	-2.11%	-3.41%	11.50%
Rand/GB Pound	**11.06**	0.65%	-0.68%	0.00%	-6.82%	5.01%
US$/Euro	**1.43**	-0.69%	0.38%	1.99%	-6.20%	-9.32%
Gold $/oz.	**1602.1**	0.83%	4.02%	6.50%	12.71%	35.32%

Investec

Company results and updates

Kumba Iron Ore reported diluted HEPS for the six months to June of R28.13, up from a previous R20.19. An interim dividend of R21.70 was declared, up from a previous R13.50.

Lonmin grew its June quarterly refined production by 81.4% to 166 832 platinum ounces, compared with the June quarter in 2010. However the 2010 number was distorted by down time at the Number One Furnace.

Vodacom grew its revenues in the June quarter by 8.1% to R15.6bn, and its customer base grew by 20.4% to 45.4m, year on year.

Afgri expects to report a decline in HEPS for the year to June of between 30% and 40%. Results are due on 7 September.

Metorex reported a 1% increase in copper production for the six months to June, and a 6% decline in cobalt production over the same period.

Ellies reported a 22.2% increase in diluted core HEPS for the year to April, to 32.09c.

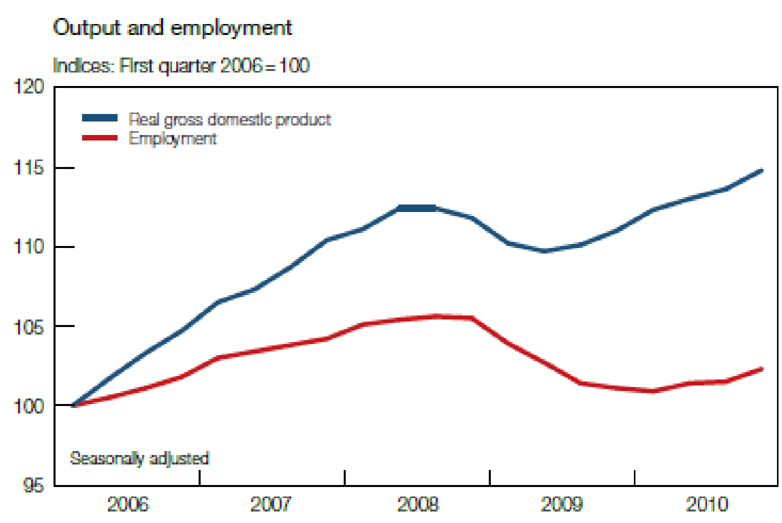
Daily ideas

Employment: The annual strike (that is the loss of jobs) season is well under way

The annual strike season is well under way. The usual well above inflation increases are being demanded accompanied by the usual marches, highly rhythmical toi-toing and some violent intimidation of workers, less inclined to put their jobs at risk. And after losses of production and presumably also of wages, management and unions settle on still significant increases above recent inflation rates.

The season might well be called the season of further loss of permanent jobs in the formal sector of the economy. Wages and benefits improve for those who keep their jobs, while management are strongly encouraged to proceed with operating strategies that rely less and less on unskilled labour and more on capital equipment employed.

The outcomes are plain to see in the ever widening gap between output growth and formal employment growth. This has become ever more conspicuous after 1995, due to more onerous regulation of the SA labour market (for management).

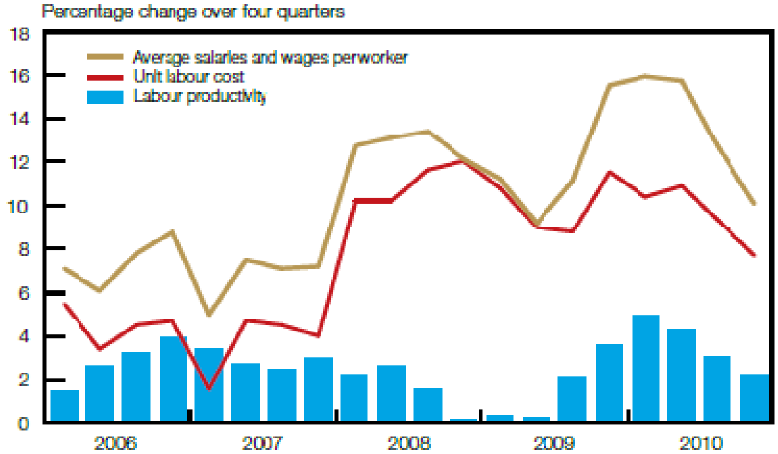


Source: SA Reserve Bank, Quarterly Bulletin, June 2011

The labour saving logic practised by management is sensible enough – including their willingness to concede well above inflation increases. The logic driving union action is less obvious to those outside the ranks of union leaders and presumably their generally supportive rank and file who seem to appreciate a good fight with their bosses. One might be inclined to think, given the long established employment trends, that the leaders would rather wish to encourage employment (perhaps of their sons and daughters) and so union membership and the dues they collect with less militancy and less aggressive demands for more. Clearly there is something else at work that makes union militancy, rather than co-operation, the action that keeps the union leadership in their jobs. And so the history repeats itself: higher real employment benefits, fewer formal sector jobs and productivity gains to compensate for more expensive labour.

Remuneration per worker, labour productivity and unit labour cost in the formal non-agricultural sector

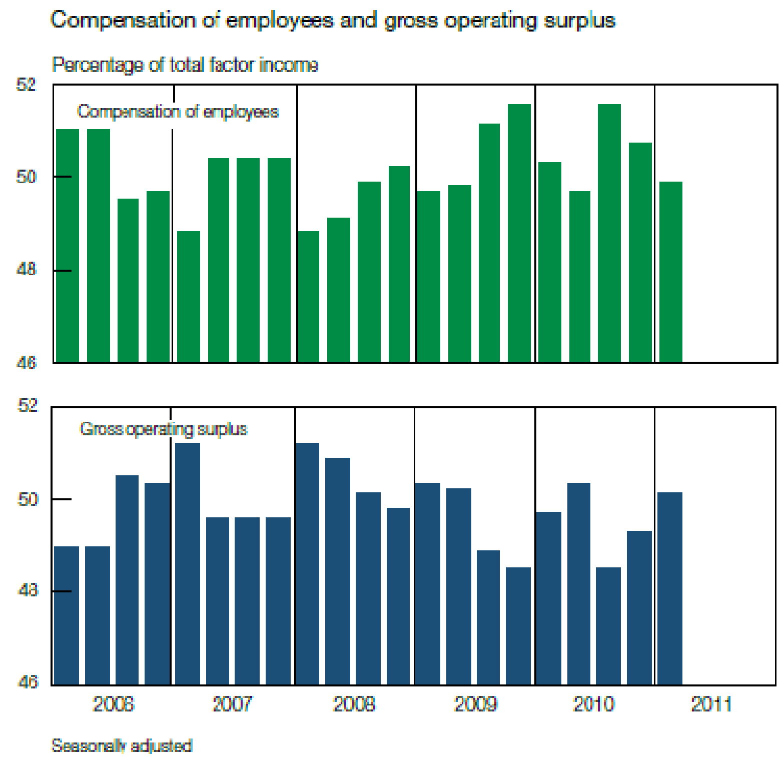
Percentage change over four quarters



Source: SA Reserve Bank, Quarterly Bulletin, June 2011

Shareholders by contrast have no reason to be immediately concerned about these trends, unless they fear, as they may well, the instability threatened by the growing divide between those in good jobs and those increasingly excluded from gaining access to them. But this is an issue that the management of any one firm cannot address. The reality is that management teams have adopted labour saving or especially unskilled labour saving policies that have proved to be consistently profitable and can be expected to continue to be profitable.

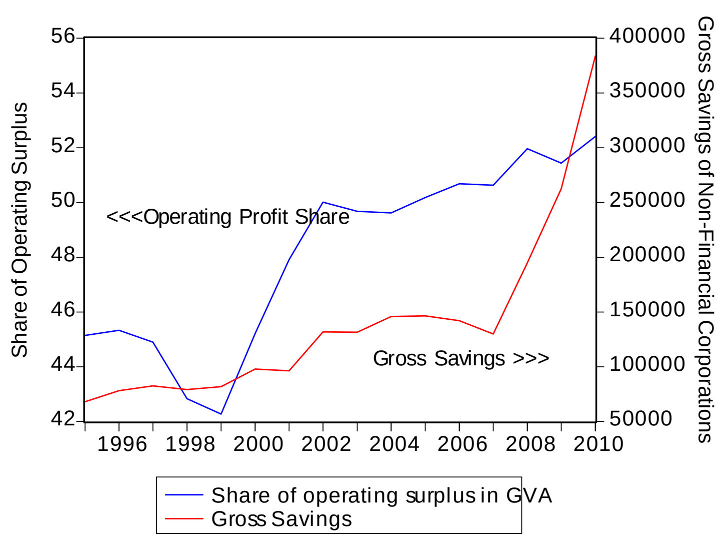
Over recent years the share of operating surpluses in the gross value added by the SA corporate sector has if anything tended to rise while that of employees (including managers) in the form of wages in cash and kind has tended to fall. In other words operating profits have been improving despite higher wages for those who hold on to their jobs.



Source: SA Reserve Bank, Quarterly Bulletin, June 2011

The share of the operating surplus in the value added by non-financial corporations in SA and their gross cash savings is shown below. As may be seen it is a much improved picture, especially in the form of cash flow generated by these firms that has no doubt added to balance sheet strength and added value for shareholders.

SA Non-Financial Corporations Share of Operating Surplus in Value Added (LHS) and Gross (Cash) Savings R millions (RHS)



Source: SA Reserve Bank, Investec Wealth and Investment

The issue confronting the firms, the unions and SA generally, is how these cash flows and profits should best be employed – in reducing debt, paying dividends, making acquisitions or (much more helpfully) for economic growth adding to capital equipment or workers employed.

The answer for SA is obvious enough to all – more jobs. The uncomfortable truth is that management has no good reason to alter its ways. They are reacting to the fact of economic life in SA that the real cost of capital, in the form of a lower risk premium paid by SA firms, has come down materially, given a most helpful political transformation. Over the same period their real cost of hiring labour has increased materially.

It would seem obvious to all but those who find it convenient to deny the relationship between employment levels and employment benefits. That is to say. in the interest of more formal jobs, it is the unions that need to become less militant and more co-operative with management. The unions need to promote employment by encouraging the adoption of policies that would make for a more flexible labour market and a much more mobile labour force that could adapt appropriately to the state of the economy. Maybe only an economic policy Codesa will lead to this. ***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
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 – 21 July to 28 July

Thursday 21 July	SABMiller 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
Thursday 28 July	Mondi interims Investec interim management statement

Source: I-Net, Company updates

Economic calendar – 21 July to 28 July

Date	International	South Africa
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]	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]	
Thursday 28 July	**Japan** – June Retail sales **Germany** – June Employment [09h55] **EMU** – July Business and consumer confidence [11h00] **US –** Initial jobless claims for previous week [14h30] **US** – June Pending home sales [16h00]	June PPI [11h30]

Sources: Bloomberg, StatsSA, SA Reserve Bank

Key market indicators – Wednesday 20 July 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32056.06**	-0.01%	4.66%	-1.85%	-0.20%	17.29%
JSE Fini 15	**8088.99**	0.25%	2.48%	-0.97%	-1.01%	4.22%
JSE Indi 25	**28157.39**	0.14%	5.39%	3.17%	5.09%	25.50%
JSE Mining	**35385.05**	-0.30%	5.70%	-7.55%	-4.87%	15.77%
JSE Resi 20	**53845.76**	-0.24%	5.29%	-7.49%	-4.36%	16.62%
S&P 500	**1325.84**	-0.07%	3.71%	-0.86%	5.42%	23.77%
DJI	**12571.91**	-0.12%	4.07%	0.53%	8.59%	23.81%
NASDAQ	**2814.23**	-0.43%	7.02%	-0.21%	6.08%	28.02%
Nikkei	**10005.90**	1.17%	6.97%	3.31%	-2.18%	6.35%
Hang Seng	**22003.69**	0.46%	1.87%	-8.84%	-4.48%	9.52%
FTSE 100	**5853.82**	1.10%	2.82%	-2.73%	-1.96%	13.70%
CAC 40	**3754.60**	1.61%	-1.19%	-6.65%	-1.32%	7.69%
DAX	**7221.36**	0.40%	1.00%	-1.02%	4.44%	20.17%
ASX-ORD	**4618.40**	1.74%	2.35%	-7.55%	-4.71%	5.62%
JSE All Share (in US$)	**4678.21**	0.86%	3.57%	-3.92%	-3.60%	30.78%
MS EM Index	**1136.79**	0.69%	3.50%	-5.73%	-1.27%	20.29%
MS World Index	**1324.12**	0.58%	3.32%	-2.71%	3.44%	21.56%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US $	**6.85**	0.87%	-1.04%	-2.11%	-3.41%	11.50%
Rand/GB Pound	**11.06**	0.65%	-0.68%	0.00%	-6.82%	5.01%
Rand/Euro	**9.77**	0.14%	-0.63%	-0.08%	-9.50%	1.13%
Rand/Aus $	**7.38**	0.50%	-2.68%	-2.30%	-8.44%	-10.26%
Yen/ US $	**78.75**	0.48%	1.88%	4.00%	3.00%	10.16%
Swiss Franc/US $	**0.82**	0.15%	2.67%	7.68%	13.55%	28.17%
US $/Euro	**1.43**	-0.69%	0.38%	1.99%	-6.20%	-9.32%
US $/GB Pound	**1.62**	-0.15%	0.28%	2.18%	-3.40%	-5.82%
US $/Aus $	**1.08**	-0.23%	-1.62%	-0.20%	-5.02%	-19.48%
Nominal Effective Exchange Rate (2000 = 100)	**74.90**	-0.61%	1.72%	1.40%	8.49%	-2.44%

Commodities	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Gold $/oz.	**1602.1**	0.83%	4.02%	6.50%	12.71%	35.32%
Platinum/oz.	**1776.5**	0.34%	2.42%	-2.20%	0.37%	17.69%
Brent Crude $/bbl	**117.22**	0.02%	4.91%	-4.78%	23.72%	57.11%

Fixed income	Closing yield %
SA R157	**7.41**
US 2 YEAR	**0.37**
US 10 YEAR	**2.91**
UK 2 YEAR	**0.54**
UK 10 YEAR	**3.06**
EURO 2 YEAR	**1.26**
EURO 10 YEAR	**2.69**

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