22 July 2011

dailyview

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Talking point: Rare consensus as Europe plots a way forward

The deal thrashed out between European leaders yesterday to further assist troubled economies within the Eurozone will certainly not resolve all of the fiscal and debt problems facing the region. But it is a step in the right direction, and sees leaders, bondholders and central bankers at least reaching some consensus on how to travel the rocky road to fiscal redemption. This consensus was not there just a few days ago.

The plan, worth some EUR159bn, involves the extension of some repayment schedules for the troubled government debt of countries like Greece, Portugal and Ireland, and the lowering of the interest charged on assistance to these countries of 100 to 200bps. The new plan also sses a bigger role for the European Financial Stability Facility (EFSF) to assist other countries under stress and to recapitalize struggling banks. The plan is similar to the TARP programme adopted by the US during the financial crisis.

Elements of the plan, such as the extension of repayment dates for bondholders, amount to what rating agencies will call a default, but it appears as if the market is comfortable with this, judging by the improvement in yields on Greek, Portuguese and Italian bonds yesterday.

This is clearly not the endgame for the Eurozone crisis, though it does buy the region some time to deal with their deeper problems. Debt levels remain very high and countries will ultimately have to address the structural hindrances to growth within their economies.

Market highlights

Wall Street rose overnight on a collective sigh of relief around global financial markets as Eurozone leaders hammered out a EUR159bn bailout package for Greece. Equity markets were also helped by good earnings reports out of the likes of Morgan Stanley.

The JSE reversed early losses as reports came through of a breakthrough in negotiations between Eurozone leaders on a bailout plan for Greece.

Bonds remained firm after the MPC decided to leave rates on hold, while the rand rose as the euro made good gains on first news of a breakthrough on Eurozone debt.

Commodities were mixed overnight as copper prices were weighed down by weak Chinese manufacturing data, while gold prices also fell on news of progress on talks between Eurozone leaders over a bailout for Greece.

Key indicators in a nutshell – Thursday 21 July 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32125.79**	0.22%	3.73%	-1.63%	0.02%	17.46%
S&P 500	**1343.8**	1.35%	3.73%	0.48%	6.85%	24.03%
Nikkei	**10010.39**	0.04%	5.82%	3.39%	-2.14%	7.63%
Rand/US $	**6.76**	1.29%	-1.09%	-1.15%	-2.16%	11.61%
Rand/GB Pound	**11.03**	0.32%	-1.48%	0.27%	-6.53%	4.62%
US$/Euro	**1.44**	-1.02%	-0.28%	1.00%	-7.15%	-10.58%
Gold $/oz.	**1589.92**	-0.76%	2.76%	5.35%	11.86%	33.36%

Investec

Company results and updates

Royal Bafokeng Platinum expects to report HEPS of between 95c and 110c for the six months to June, down from a previous 132c. Results are due out on 16 August.

Mondi expects to report HEPS of between 37 euro cents and 42 euro cents for the six months to June, up from a comparable 24.8 euro cents for the six months to June 2010. Results are due out on 28 July.

Palabora Mining expects to report HEPS of between 1529c and 1646c for the six months to June, up from 630c in the previous year. Palamin reports on 2 August.

Country Bird expects to report a 170% to 190% increase in HEPS for the year to June. The group reports on 24 August.

SABMiller reported increases in both lager and soft drink volumes of 5% (on an organic basis) for the June quarter. Revenue grew by 7%.

Daily ideas

Interest rates: Sombre is good

A sombre outlook for the domestic and the global economy was presented yesterday by Reserve Bank governor Gill Marcus, helping the case for leaving rates unchanged, as had been confidently expected. The case for higher rates any time soon was weakened by the arguments presented in the MPC statement and in the Q&A session that followed. The opportunity to lower rates was not considered, as we were informed, though perhaps it should have been. Cost push pressures on inflation were again emphasized in the statement – and second round effects of higher inflation expected (on inflation itself) were regarded as not in evidence. Inflationary expectations, as measured for the Bank, were reported as stable to lower.

The Reserve Bank expects the small breach of the upper 6% band of the inflation targets by the first quarter of 2012 but is of the view that this breach will be very temporary and therefore no reason in itself to raise the repo rate. Base effects are pushing inflation higher in the second half of 2011 and will reverse in 2012. The key to the inflation target remains the foreign exchange value of the rand and this is proving very helpful and we think will continue to be so – to the point that the Reserve Bank is over- rather than underestimating inflation.

Prominent reference was made in the statement and in the Q&A to the “core” rate of inflation, that is inflation excluding food and energy prices, which is of the order of just over 3%. An inflation target set in terms of core inflation rather than headline inflation is preferred by many of the leading authorities on inflation targeting and the Reserve Bank may well be moving in that direction. This represents an important and welcome departure from previous Governor Mboweni’s practice and rhetoric, who was determined to allow no such distinctions or escape clauses for meeting the inflation targets. This different mindset reinforces our argument for and prediction of low interest rates for longer. Moreover it raises the likelihood of generally more stable short term interest rates in the future which would be very helpful for SA business and its customers.

Closing the gap

At the Q&A, so called output gaps received interesting attention, that is the gap between potential GDP and actual levels of output. This gap is judged still to be open but is said to be closing with current growth rates ahead of potential growth. Potential output growth this year was indicated as only 3.5% with second half growth slowing down rather than picking up. This represents a very pessimistic view of SA’s long term growth potential and is not one consistent with much growth in employment and the government objectives for employment growth.

This Reserve Bank sense of potential growth is presumably derived from a limited estimate of SA’s ability to attract foreign capital, equivalent by definition to the sustainable size of the current account deficit – both usually measured as a share of GDP. We have argued that such pessimism may be unjustified and that growth can lead capital inflows that finance and sustain growth. In other words, grow faster to improve the returns on capital invested, and the capital from global sources will be forthcoming. There is a potential virtuous circle for SA that was in evidence between 2003 and 2007 (grow faster- attract more capital - sustain the value of the rand - holds down inflation and interest rates). But expressing faith or confidence in such possibilities of faster growth with less inflation aided by foreign capital, is not behaviour expected of inflation vigilant central bankers.

GDP growth is expected by the Reserve Bank to be about 3.7% in 2011 and 3.9% in 2012, increasing to 4.4% in 2013. When the presumed output gap is finally closed (on these assumptions) late in 2012 the case for raising rates will then be more confidently made. Pressures on global food inflation are however thought by the MPC to have peaked. The MPC outlook is for inflation at the upper band 6% rate by year end and is expected to remain above this 6% upper band for the inflation target until the second quarter of 2012 and receding thereafter.

Something in reserve ...

Had we been at the Q&A session we would have asked the Governor and her bench of advisors why the Reserve Bank thinks it still useful to add to its already abundant supply of foreign exchange reserves. These are large enough for any conceivable emergency that might shock the SA balance of payments. The governor indicated her own confusion about the forces that drive the rand. Clearly Reserve Bank interventions in the currency market have had no predictable influence on the rand. The realised strength of the rand has made such intervention very expensive for the SA taxpayer on whose behalf the Treasury borrows rands at 6% to 8%, to offset the impact of dollar purchases on the money supply, for the Reserve Bank to invest in US dollars and Euros that return around 2% at best. It has been an expensive and futile exercise in trying to resist market forces.

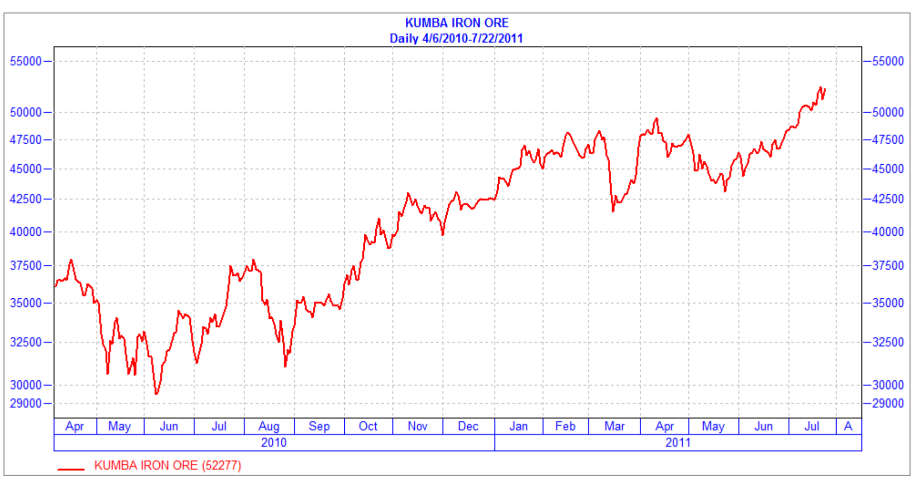
We might suggest that the behaviour of the rand is not that mysterious and will continue to take its cue from global risk appetite, well reflected in emerging equity and bond markets. The well understood rand does not make it easier to predict. This remains the essential problem for monetary policy in SA, which is to hold inflation down not for its own sake but to encourage long term economic growth (lest we forget the purpose of inflation targeting). ***Brian Kantor***

Kumba Iron Ore (KIO): Feeding the China beast

Kumba Iron Ore (R512.56; market cap: R168bn; forward PE: 7.5x; DY: 8%): Kumba released its results for the six months ended 30 June 2011 which showed operating profit up 51% to R16.9bn and headline earnings up 40% to R9.1bn. HEPS came in at R28.23 and EPS at R28.20, both of which were at the top end of the trading statement released a few weeks ago. Interestingly 69% of Kumba's exports in the half year were to China which is up 21% from H1 2010, and this once again reinforced the reliance of iron ore producers on a growing China.

Iron ore prices were particularly strong during this period and despite a stronger rand, earnings were extremely robust. The key question for investors looking to take a position is whether this kind of momentum can be maintained. It ultimately comes down to what camp you are in with regards to the China debate as the dragon consumes the lion's share of worldwide production(47%) and a slowdown would dramatically impact the iron ore price. The company also experienced unit cost pressure at Sishen (+36% year on year) due to production issues and an uptick in input costs. Despite this, margins on iron ore are still extremely high.

Having paid an interim dividend of R21.70 per share Kumba is currently on a very attractive dividend yield of 8% but good times seldom roll on forever and a decrease in margins will no doubt have an impact on cashflows and the generous dividend. If you're a China bull, on a forward PE of 7.5x the share looks good value. If you think Humpty Dumpty is going to fall off the Great Wall then keep clear. ***Ewan Naude***



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
MAS plc	29 July	1 August	5 August	12 August	Cash Dividend	EUR0.0214
SABMiller	29 July	1 August	5 August	12 August	Cash Dividend	USD0.615
Foord Compass CD	4 August	5 August	12 August	15 August	Scrip Dividend	R0.13 per debenture or 4.013 FSPD per 100
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
JOZI03	9 September	12 September	16 September	21 September	Interest	R15.06
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
Afrox	14 October	17 October	21 October	24 October	Cash Dividend	R0.22

Source: JSE

Company calendar – 22 July to 29 July

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
Friday 29 July	Anglo American interims DRDGold AGM Tongaat Hulett AGM

Source: I-Net, Company updates

Economic calendar – 22 July to 29 July

Date	International	South Africa
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]
Friday 29 July	**Japan** – July PMI manufacturing **Japan** – June Core CPI **Japan** – June Unemployment **Japan** – June Industrial production prelim **UK** – June M4 lending [10h30] **US** – Q2 Real GDP advance [14h30] **US** – July Chicago PMI [15h45] **US** – July Consumer sentiment [15h55]	June PSCE and M3 [08h00] June National exchequer [14h00] June Trade balance [14h00]

Sources: Bloomberg, StatsSA, SA Reserve Bank

Key market indicators – Thursday 21 July 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**32125.79**	0.22%	3.73%	-1.63%	0.02%	17.46%
JSE Fini 15	**8184.84**	1.18%	2.82%	0.20%	0.16%	5.75%
JSE Indi 25	**28178.94**	0.08%	5.08%	3.25%	5.17%	25.70%
JSE Mining	**35329.37**	-0.16%	3.50%	-7.70%	-5.02%	15.06%
JSE Resi 20	**53826.90**	-0.04%	3.02%	-7.53%	-4.40%	16.10%
S&P 500	**1343.80**	1.35%	3.73%	0.48%	6.85%	24.03%
DJI	**12724.41**	1.21%	4.38%	1.75%	9.91%	24.38%
NASDAQ	**2834.43**	0.72%	5.48%	0.51%	6.84%	27.53%
Nikkei	**10010.39**	0.04%	5.82%	3.39%	-2.14%	7.63%
Hang Seng	**21987.29**	-0.07%	0.63%	-8.91%	-4.55%	8.50%
FTSE 100	**5899.89**	0.79%	2.16%	-1.97%	-1.19%	14.80%
CAC 40	**3816.75**	1.66%	-1.56%	-5.10%	0.31%	10.06%
DAX	**7290.14**	0.95%	0.06%	-0.07%	5.44%	22.16%
ASX-ORD	**4626.20**	0.17%	1.34%	-7.40%	-4.55%	4.27%
JSE All Share (in US$)	**4748.96**	1.51%	2.59%	-2.46%	-2.14%	31.11%
MS EM Index	**1143.29**	0.57%	2.72%	-5.20%	-0.70%	19.88%
MS World Index	**1343.72**	1.48%	3.22%	-1.27%	4.97%	22.88%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US $	**6.76**	1.29%	-1.09%	-1.15%	-2.16%	11.61%
Rand/GB Pound	**11.03**	0.32%	-1.48%	0.27%	-6.53%	4.62%
Rand/Euro	**9.74**	0.27%	-1.09%	0.05%	-9.26%	-0.11%
Rand/Aus $	**7.33**	0.74%	-3.03%	-1.41%	-7.76%	-9.04%
Yen/ US $	**78.58**	0.22%	2.09%	4.14%	3.22%	11.05%
Swiss Franc/US $	**0.82**	0.67%	3.00%	8.40%	14.31%	28.64%
US $/Euro	**1.44**	-1.02%	-0.28%	1.00%	-7.15%	-10.58%
US $/GB Pound	**1.63**	-0.98%	-0.64%	1.08%	-4.34%	-6.34%
US $/Aus $	**1.08**	-0.63%	-2.24%	-0.84%	-5.62%	-18.57%
Nominal Effective Exchange Rate (2000 = 100)	**75.14**	-0.32%	1.77%	1.08%	8.14%	-2.54%

	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year

Commodities						
Gold $/oz.	**1589.92**	-0.76%	2.76%	5.35%	11.86%	33.36%
Platinum/oz.	**1785.5**	0.51%	2.00%	-2.00%	0.88%	17.70%
Brent Crude $/bbl	**118.37**	0.98%	6.19%	-3.84%	24.93%	57.26%

Fixed income	Closing yield %
SA R157	**7.36**
US 2 YEAR	**0.40**
US 10 YEAR	**3.01**
UK 2 YEAR	**0.61**
UK 10 YEAR	**3.17**
EURO 2 YEAR	**1.44**
EURO 10 YEAR	**2.88**

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