The Weekly Focus

A market and economic update

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Economic Update

Last week, the SA FNB/BER Consumer Confidence indicator remained largely unchanged in Q2 2010. Although confidence levels moved essentially sideways, the overall levels remain well above the long-term average. The sideways move was a little surprising given the close proximity of the Soccer World Cup to when the survey was undertaken as well as the fact that domestic interest rates were cut in March 2010. These two factors together should have boosted confidence. According to the BER, consumers remain very concerned about the poor employment conditions as well as the state of their personal finances.

SA retail sales data for April 2010 fell fractionally. Despite the monthly decline, the annual rate of change moved noticeably higher, mainly as a result of base effects. On a trend basis, SA retail sales are clearly improving but the rate of improvement remains relatively sluggish. Fortunately, although consumers remain under pressure, there is a sense that the pressure will systematically ease during the course of 2010.

Offshore, the US Federal Reserve released the Q1 2010 update of the US household balance sheet. In particular, it is worthwhile examining the overall improvement in US household wealth since the peak of the credit crisis in early 2009, as well as the extent to which the consumer has been able to improve their debt to income ratio. Overall, US household net wealth has risen by an impressive $6.3 trillion since the worst of the credit crisis in Q1 2009, but remains $11.2 trillion below the record level set in Q3 2007.

In May 2010, the US leading economic indicator rose modestly. The leading indicator has turned over on an annual basis and is likely to trend lower over the next few months. The 6-month rate of change has already moderated. In terms of an economic recovery, the leading indicator has clearly been pointing to an accelerating improvement in US GDP growth in 2010. In fact, the Conference Board’s Leading Indicator has an excellent track record in forecasting GDP growth by up to one year. However, the most recent moderation in the annual and six-month rate of change, if sustained, would suggest that the US economic recovery could start to lose momentum during 2011.

Over the weekend, the Central bank of China announced that the official exchange rate will revert to a managed float, which should result in the currency slowly appreciating. The announcement is critically timed, coming a week ahead of a G-20 summit in Toronto at which President Hu Jintao and other Chinese officials will likely face critics of their currency policy.

South Africa

SA FNB/BER Consumer Confidence

- In Q2 2010 consumer confidence was at +14 versus +15 in Q1 2010.
- Over the past year, confidence levels amongst all income groups, race, age and language groups have generally improved.
- Importantly, there is a reasonably close (but lagged) relationship between consumer spending and consumer confidence, which points to some (modest ongoing) improvement in consumer activity during 2010, off a very low base.

SA Retail Sales

- SA Retail sales fell 0.2%m/m in real terms, seasonally adjusted. On an annual basis, retail sales rose by 3.2% y/y,
- In the three months to April 2009, retail sales were up 1.8%q/q, seasonally adjusted (but not annualised), highlighting that the SA consumer spending has slowly started to improve;, despite the monthly decline in April.
- There was a very noticeable surge in sales of appliances in April (possibly TV's etc ahead of the soccer World Cup)
- There have been continued strong sales in cosmetics and pharmaceutical goods as well as clothing.
- A key area of sustained weakness is undoubtedly spending on hardware, paint and glass, which has been struggling for the last year off a high base of activity that was established in the period from 2004 to early 2008.

United States

US household balance sheet

- At the end of Q1 2010, the value of **US household assets amounted to $68.53 trillion.** This is **$6.1 trillion** above the Q1 2009 level, mainly as a result of a $5.5 trillion improvement in the value of financial assets (mostly in the form of listed equities, pension funds and unit trusts). In addition, the value of residential property has risen by $0.54 trillion over the past year. While total asset values are up $6.1 trillion relative to the worst of the credit rises, they are still $11.4 trillion below the record level set in Q3 2007.

- US household asset values have declined in only 26 of the last 233 quarters. 6 of these declines occurred following the bursting of the Tech-bubble in 2001/2002 and another 6 occurred with the bursting of the credit bubble in 2008/2009. The total loss in household asset values during the credit crisis (-$17.5 trillion, or a decline of a staggering 21.9%) far exceeds the loss during the bursting of the Tech-bubble (-$2.8 trillion, or a decline of 5.5%).
- At the end of Q1 2020, the **level of US total household debt was a substantial $13.97 trillion**; comprising mostly home mortgages (74% of total) and consumer credit ($17% of total). Household mortgage debt rose by a massive 104.3% from after 9/11 to the first quarter of 2008. That is an increase of $5.4 trillion in a period of just 7 years. During this time US new home starts rose from an annual rate of 1.55 million house to over 2.2 million homes a year in early 2006. (With the bursting of the sub-prime bubble, home starts fell to a record low of 477 000 a year in April 2009). The total stock of US housing units increased from 119.3 million in 2002 to 130.8 million in 2008, a rise of 10.8 million units in 6 years. Unfortunately, around 14.4 million homes are now currently vacant, which is extremely high by historical standards.
- **US consumers have been trying to deleverage**. Consumer debt (excluding mortgage debt) fell by a significant $96 billion over the year to end Q1 2010; an annual decline in US consumer credit is actually a very rare event. In addition, US mortgage debt declined by a substantial $256 billion over the same time period. These declines coupled with a rise in personal income, has meant that the ratio of US household debt to personal disposable income has fallen from 131.4% in Q1 2009 to 125.9% currently. While this ratio would still be considered relatively high by historical standards, it is meaningfully below the peak of 136.4%, which was recorded in Q1 2008. Debt servicing costs has also been on the decline, dropping from almost 14% of disposable income in early 2008 to around 12% currently. (Total household debt is currently $596 billion below the all-time peak of $14.57 trillion).
- As a result of the increase in assets values (mainly financial assets) over the past year, the net worth of US households rose to $54.56 trillion at the end of Q1 2010. That is $6.3 trillion higher than a year-ago, but still $11.2 trillion below the record level set in Q3 2007. **US net wealth now represents a very respectable 491% of household disposable income**. The current ratio is actually exactly in-line with the long-term ratio, which dates back to 1952, although there have been times when the ratio has risen over 600%. Ironically, with hindsight, a ratio of higher than 600% has been associated with an asset bubble (i.e. the Tech-bubble in 2001/2002 and sub-prime housing bubble in 2008/2009). Overall the US consumer remains extremely wealthy by historical and international standards; despite the high level of debt.

US Leading Indicator

- The 0.4% rise was below market expectations for an increase of 0.6%m/m. The April reading was revised up from an initial decline of 0.1%m/m to unchanged month-on-month.
- Over the past year, the leading index is still up a very healthy 9.2%y/y but, importantly, it is below the peak annual rate of change of 11.6%y/y recorded as recently as March 2010.
- The leading indicator is comprised of ten components. During the month only 5 of the 10 components that make up the index rose, while 5 fell. Stock prices, building permits, and new orders for capital goods made the largest negative contributions to the index. These declines were more than offset by the positive contributions from the interest rate spread and money supply.

Kevin Lings and Laura Jones
(STANLIB Economics)

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 18/06/10	Weekly Move (%)	YTD (%)
Indices			
*MSCI World – US Dollar	1115.35	3.21	-4.55
*MSCI World – Rand	8367.21	0.89	-3.40
*MSCI Emerging Market – US Dollar	953.48	3.96	-3.64
*MSCI Emerging Market – Rand	7152.90	1.62	-2.48
All Share Index – US Dollar	3706.45	5.79	-0.87
All Share Index – Rand	27761.70	3.40	0.34
All Bond Index	317.04	0.36	6.00
Listed Property J253	744.69	2.14	10.97
Currencies			
US Dollar/Rand	7.49	-2.26	2.04
Euro/Rand	9.29	-0.10	-11.51
Sterling/Rand	11.11	-0.36	-6.48
Euro/US Dollar	1.24	2.27	-13.90
Commodities			
Oil Brent Crude Spot Price ($/bl)	77.23	4.00	0.04
Gold Price $/oz	1256.30	2.48	14.54
Platinum Price S/oz	1586.00	3.12	7.93

Source: I-Net Bridge

* MSCI - Morgan Stanley Capital International

Rates

The following yields are calculated using an annualised seven-day rolling average as per the unit trust industry standard. These rates are expressed in nominal and effective terms and should be used for indication purposes ONLY.

Standard Bank Money Market Fund

Nominal: 6.72% per annum

Effective: 6.93% per annum

A constant unit price will be maintained. Past performance is not necessarily a guide to future performance. A schedule of fees and charges and maximum commission is available on request from the Manager. Commission and incentives may be paid and if so, are included in the overall costs. The yield is calculated using an annualised seven-day rolling average as at 18 June 2010.

STANLIB Cash Plus Fund

Effective Yield: 7.43%

This is a current yield as at 18 June 2010.

STANLIB Dividend Income Fund

Effective Yield: 4.82%

This is a current yield as at 18 June 2010.

Liberty Investments' Life Annuities

Current Rates for 21st June – 25th June 2010

Payments are assumed to be paid monthly in advance with no guarantee period or annual escalation in income. Ages indicated assume client is the exact age shown. No tax has been deducted.

Gender		Male			Female		
Age last birthday		55	60	65	55	60	65
Contribution	R 100,000	R 789	R 853	R 934	R 719	R 762	R 824
	R 250,000	R 1,996	R 2,156	R 2,358	R 1,818	R 1,928	R 2,082
	R 500,000	R 4,006	R 4,326	R 4,733	R 3,651	R 3,870	R 4,179
	R 1,000,000	R 8,028	R 8,668	R 9,481	R 7,316	R 7,756	R 8,373

The table above shows the monthly annuity that an annuitant will receive for life in return for the single premium in the left hand column. Note that the annuity depends on the annuitant's exact age and gender.

The rates above were calculated assuming maximum commission and will be enhanced if a commission discount is selected.

Glossary of terminology

Bonds A bond is an interest-bearing debt instrument, traditionally issued by governments as part of their budget funding sources, and now also issued by local authorities (municipalities), parastatals (Eskom) and companies. Bonds issued by the central government are often called “gilts”. Bond issuers pay interest (called the “coupon”) to the bondholder every 6 months. The price/value of a bond has an inverse relationship to the prevailing interest rate, so if the interest rate goes up, the value goes down, and vice versa. Bonds/gilts generally have a lower risk than shares because the holder of a gilt has the security of knowing that the gilt will be repaid in full by government or semi-government authorities at a specific time in the future. An investment in this type of asset should be viewed with a 3 to 6 year horizon.

Cash An investment in cash usually refers to a savings or fixed-deposit account with a bank, or to a money market investment. Cash is generally regarded as the safest investment. Whilst it is theoretically possible to make a capital loss investing in cash, it is highly unlikely. An investment in this type of asset should be viewed with a 1 to 3 year horizon.

Collective Investments Collective investments are investments in which investors‟ funds are pooled and managed by professional managers. Investing in shares has traditionally yielded unrivalled returns, offering investors the opportunity to build real wealth. Yet, the large amounts of money required to purchase these shares is often out of reach of smaller investors. The pooling of investors’ funds makes collective investments the ideal option, providing cost effective access to the world’s stock markets. This is why investing in collective investments has become so popular the world over and is considered a sound financial move by most investors.

Compound Interest Compound interest refers to the interest earned on interest that was earned earlier and credited to the capital amount. For example, if you deposit R1 000 in a bank account at 10% and interest is calculated annually, your balance will be R1 100 at the end of the first year and R1 210 at the end of the second year. That extra R10, which was earned on the interest from the first year, is the result of compound interest ("interest on interest"). Interest can also be compounded on a monthly, quarterly, half-yearly or other basis.

Dividend Yields The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. The higher the yield, the more money you will get back on your investment.

Dividends When you buy equities offered by a company, you are effectively buying a portion of the company. Dividends are an investor’s share of a company’s profits, given to him or her as a part-owner of the company.

Earnings per share Earnings per share is a measure of how much money the company has available for distribution to shareholders. A company’s earnings per share is a good indication of its profitability and is generally considered to be the most important variable in determining a company’s share price.

Equity A share represents an institution/individual’s ownership in a listed company and is the vehicle through which they are able to “share” in the profits made by that company. As the company grows, and the expectation of improved profits increases, the market price of the share will increase and this translates into a capital gain for the shareholder. Similarly, negative sentiment about the company will result in the share price falling. Shares/equities are usually considered to have the potential for the highest return of all the investment classes, but with a higher level of risk i.e. share investments have the most volatile returns over the short term. An investment in this type of asset should be viewed with a 7 to 10 year horizon.

Financial Markets	Financial markets are the institutional arrangements and conventions that exist for the issue and trading of financial instruments.
Fixed Interest Funds	Fixed interest funds invest in bonds, fixed-interest and money market instruments. Interest income is a feature of these funds and, in general, capital should remain stable.
Gross Domestic Product (GDP)	The Gross Domestic Product measures the total volume of goods and services produced in the economy. Therefore, the percentage change in the GDP from year to year reflects the country's annual economic growth rate.
Growth Funds	Growth funds seek maximum capital appreciation by investing in rapidly growing companies across all sectors of the JSE. Growth companies are those whose profits are in a strong upward trend, or are expected to grow strongly, and which normally trade at a higher-than-average price/earnings ratio.
Industrial Funds	Industrial funds invest in selected industrial companies listed on the JSE, but excluding all companies listed in the resources and financial economic groups.
Investment Portfolio	An investment portfolio is a collection of securities owned by an individual or institution (such as a collective investment scheme). A funds' portfolio may include a combination of financial instruments such as bonds, equities, money market securities, etc. The theory is that the investments should be spread over a range of options in order to diversify and spread risk.
JSE Securities Exchange	The primary role of the JSE Securities Exchange is to provide a market where securities can be freely traded under regulated procedures.
Price to earnings ratio	Price to earnings ratio or p:e ratio, is calculated by dividing the price per share by the earnings per share. This ratio provides a better indication of the value of a share, than the market price alone. For example, all things being equal, a R10 share with a P/E of 75 is much more "expensive" than a R100 share with a P/E of 20.
Property	Property has some attributes of shares and some attributes of bonds. Property yields are normally stable and predictable because they comprise many contractual leases. These leases generate rental income that is passed through to investors. Property share prices however fluctuate with supply and demand and are counter cyclical to the interest rate cycle. Property is an excellent inflation hedge as rentals escalate with inflation, ensuring distribution growth, and property values escalate with inflation ensuring net asset value growth. This ensures real returns over the long term.
Resources and Basic Industries Funds	These funds seek capital appreciation by investing in the shares of companies whose main business operations involve the exploration, mining, distribution and processing of metals, minerals, energy, chemicals, forestry and other natural resources, or where at least 50 percent of their earnings are derived from such business activities, and excludes service providers to these companies.
Smaller Companies Funds	Smaller Companies Funds seek maximum capital appreciation by investing in both established smaller companies and emerging companies. At least 75 percent of the fund must be invested in small- to mid-cap shares which fall outside of the top 40 JSE-listed companies by market capitalisation.
Value Funds	These funds aim to deliver medium- to long-term capital appreciation by investing in value shares with low price/earnings ratios and shares which trade at a discount to their net asset value.

Sources: Unit Trust and Collective Investments (September 2007), The Financial Sector Charter Council, Personal Finance (30 November 2002), Introduction to Financial Markets, Personal Finance, Quarter 4 2007, Investopedia (www.investopedia.com) and The South African Financial Planning Handbook 2004.

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In terms of the Association for Saving & Investment South Africa (ASISA) Code of Practice for Advertising of Collective Investment Schemes in Securities and ASISA Standard Pricing and Valuation, STANLIB is required to quote a current yield for Income Portfolios. This is an effective yield. The above quoted yield will vary from day to day and is a current yield as at 18 June 2010. The net (after fees) yield on the portfolio will be published daily in the major newspapers together with the "all-in" NAV price (includes the accrual for dividends and interest). This yield is a snapshot yield that reflects the weighted average running yield of all the underlying holdings of the portfolio. Monthly distributions will consist of dividends (currently tax exempt) and taxable interest. Interest will also be exempt from tax to the extent that investor's are able to make use of the applicable interest exemption as currently allowed by the Income Tax Act. The portfolio's underlying investments will determine the split between dividends and interest.

In terms of the ASISA Code of Practice for Advertising of Collective Investment Schemes in Securities and ASISA Standard Pricing and Valuation, STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. This seven-day rolling average yield may marginally differ from the actual daily distribution and should not be used for interest calculation purposes. We however, are most happy to supply you with the daily distribution rate on request, one day in arrears. The price of each participatory interest (unit) is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio.

Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. An investment in the participations of a CIS in securities is not the same as a deposit with a banking institution. CIS are traded at ruling prices and can engage in borrowing and scrip lending. Different classes of units apply to this portfolio and are subject to different fees and charges. A schedule of fees and charges and maximum commissions is available on request from STANLIB Collective Investments Ltd (the Manager). Commission and incentives may be paid and if so, would be included in the overall costs. This portfolio may be closed. Forward pricing is used. TER is the annualised percent of the average Net Asset Value of the portfolio incurred as charges, levies and fees. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. This portfolio is valued on a daily basis at 15h30. Investments and repurchases will receive the price of the same day if received prior to 15h30. The Manager is a member of the ASISA.