

The Weekly Focus

A market and economic update

28 November 2011



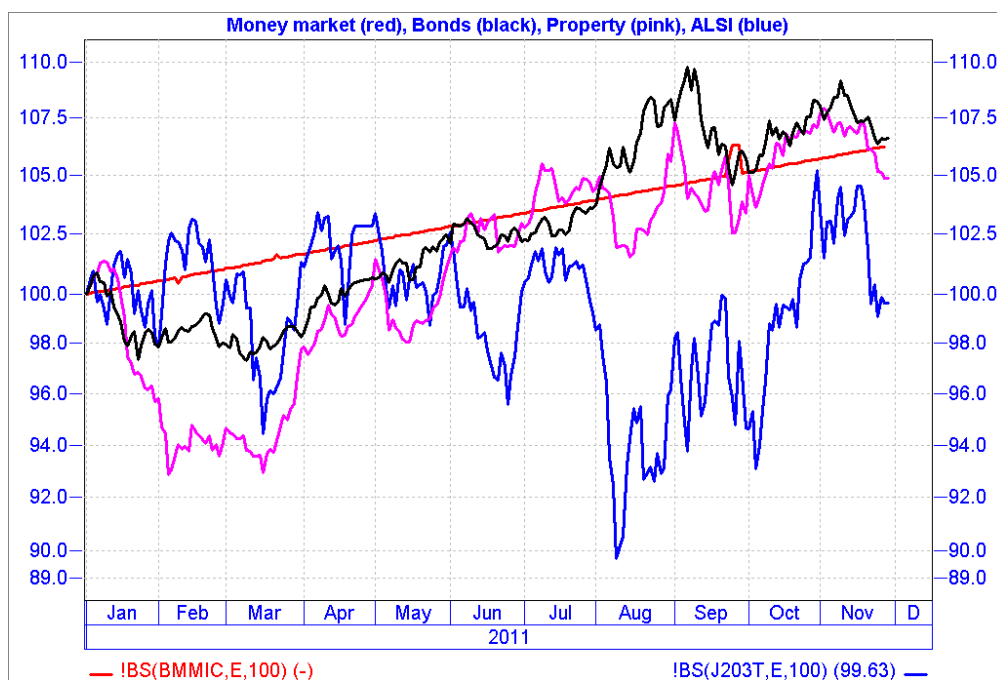
Contents

Newsflash	3
Market Comment	3
Snippets of Info	6
Economic Update	7
Weekly Market Analysis	9
Rates	10
Standard Bank Money Market Fund	10
STANLIB Cash Plus Fund	10
STANLIB Dividend Income Fund	10
Glossary of terminology	12

Newsflash

So finally we're seeing offshore funds contributing positively in rand terms

Market Comment

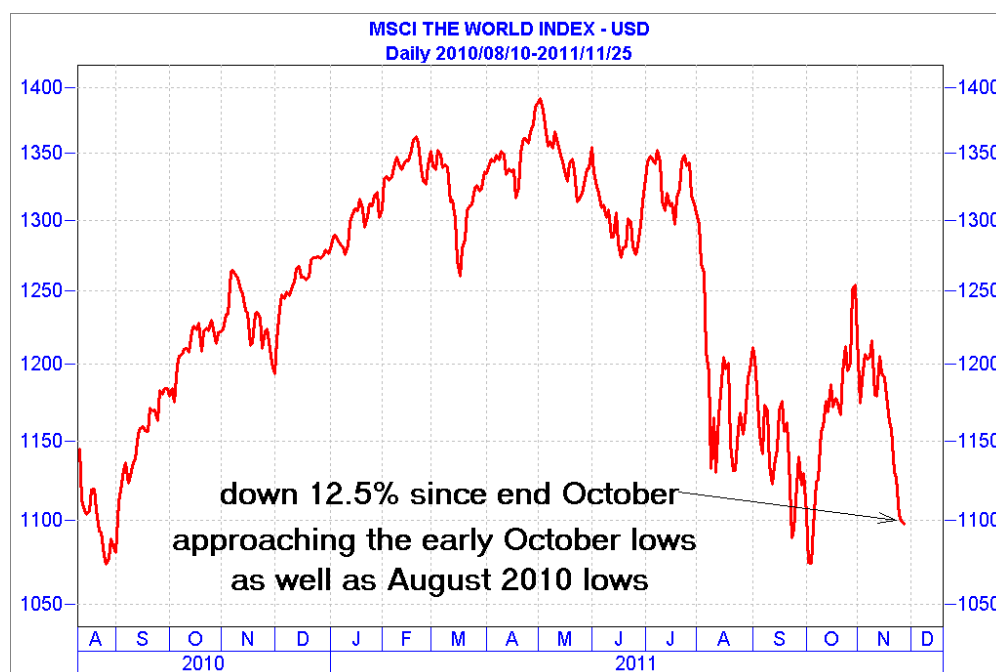


Source: I-Net Bridge

- The JSE All Share Index is down around 4.5% since end October, trading where it was in early November 2010, as well as back in October 2007, some 4 years ago.
- The SA Listed Property Index is down 3.6% over the past 3 weeks on the back of the weaker currency and higher bond yields and is also at the same level as November 2010 and 4 years ago.
- On local asset classes, the All Bond Index is leading the way so far in 2011, up 6.6% (black line on chart above), followed closely by cash at 6.2% (red line), then listed property at 4.9% (pink line) and finally equities' -0.37% (blue line).
- A better return on equities comes from the Financial & Industrial Index, which is up 4% so far in 2011, while the JSE Industrials index is up 5.5%. Resources are down 7%.
- On the offshore front, in dollar terms the Citibank Global Government Bond Index has done best, up 7% in dollars or a whopping 35% in rand terms, with the rand down about 28% so far in 2011.
- Global equities are down 14% in dollars, or up 14% in rand terms.
- So finally we're seeing STANLIB offshore funds showing decent rand returns so far in 2011.

- Otherwise, there is a little bit of hope this morning for risk assets on the back of superb US Thanksgiving weekend retail sales, up over 16% year-on-year (online retail sales were up 38%) and some hope that Europeans may announce more details on their bailout fund this week, plus rumours that the IMF may assist Italy, whose borrowing costs are dangerously high (7.3% for 10 year bonds).
- However, skepticism remains high as many believe Europe is dealing poorly with its banking and debt crisis and placing the region and world in a dangerous spot, with a break-up of the eurozone more and more a possibility, especially with Germany's weakly supported bond sales last week, where they raised only 60% of what they were looking for. If Germany cannot raise money, then who in Europe can?
- MRB Partners notes that Euro area bank funding problems are worsening and there are growing reports that interbank and commercial lending is drying up - shades of just after the Lehman Bros crisis in 2008.
- Non-German bond yields have surged in recent weeks, despite the onset of what appears to be an economic recession in the region.
- What started as a modest problem 18 months ago is now threatening the euro currency and regional banking system, not to mention the global economy. A core group of conservative politicians, led by Merkel and the Bundesbank, seems determined to carry on regardless, despite Merkel's assertion that Europe faces its biggest challenge since World War II.
- BCA notes that European politicians and governments have lost their credibility with financial markets and investors have no confidence in them. BCA is extremely critical of Germany's perennial fear of hyper-inflation, with the entire eurozone potentially facing the biggest deflationary fallout in modern history.
- BCA says the timing of the European Banking Authority forcing banks to increase their capital ratio to 9% by end June 2012 from a current level of about 7% is shocking. This 30% jump in capital implies that banks will have to shrink their balance sheets, which will only further aggravate the credit crunch in Europe. The problem is that the eurozone economy is much more dependent on bank financing than the US economy and so a full-blown contraction in credit could easily plunge the regional economy into a tailspin.
- It's another sign, says BCA, that policymakers often become part of the problem rather than part of the solution during times of stress.
- Both MRB Partners and BCA Research say that current eurozone borrowing rates and economic policies are unsustainable. The eurozone seems headed for a train smash, barring a major about-turn, although time is running out fast. With 43% of its total exports going to the eurozone, Germany does have a vested interest in keeping the eurozone alive, but at what cost?
- BCA notes that China and the rest of Asia are hurting from the eurozone crisis, because Asia is heavily tied to manufacturing and trade, so the fallout from European demand is hurting. Singapore export growth has crashed and the Chinese purchasing managers index is weak.

- Fortunately for China, capital investment and consumer spending, which together account for over 80% of the Chinese economy, are expected to remain strong.
- Will stock markets break down further? If you look at the graph below of the MSCI World Index, you can see that the index is down 12.5% since end October, which is a sharp retracement.
- With markets caught in the grip of political paralysis in both Europe and in the US, answering questions is particularly difficult because one has no idea which way German politicians in particular will go, other than let Europe slide into a bigger mess.
- BCA's Managing Editor of their Global Investment Strategy, Chen Zhao, thinks the October lows should hold because of the US economy perking up and increasing odds of Chinese financial easing.
- However, he says upside is limited for shares until major policy catalysts are applied to rejuvenate optimism and boost economic growth.



Source: I-Net Bridge

- It was interesting to read that Fidelity's legendary 61 year old fund manager, Anthony Bolton, who has had a very tough year managing money in China from his base in Hong Kong, is quite bullish for the next few months. His view is that stock markets usually move contrary to investor sentiment, which is currently very negative. Bolton has frequently in the past made good calls on markets.
- Market analyst Elaine Garzarelli says her quants system remains bullish, albeit less than recently and she recommends buying into weakness. She is forecasting 5% growth in operating earnings of S&P 500 companies for 2012 and says fair value for this index is over 20% higher than current levels.
- She says a lot of economic reports are expected over the next few weeks which should show an improving US economy, possibly including home sales and construction.

Snippets of Info

- BCA calculates that in a mild recession scenario, in which Europe's real GDP falls by 1% next year and the euro depreciates by 10% against the dollar, S&P 500 profits would fall by about 2%.
- BCA estimates that US exports to the eurozone comprise around 1.3% of US GDP.
- Property in the City of London, notes the FT, is for the first time majority-owned by foreign institutions, as the global flight to safety continues to alter the landscape of UK real estate ownership.
- Investors from the US, Germany and the Middle East have spearheaded an international buying spree which has seen foreign ownership of offices in the Square Mile soar to 52% of total floorspace during the downturn. Why? A bid to find investments away from the volatility of the financial markets.
- Also, JP Morgan Cazenove tells us that European Insurance Companies have only 1-3% of total assets invested in equities, UK ones perhaps 20-25%.
- The current debt crisis should in the end be good for Europe, since it will force the continent to adopt long-awaited reforms, said the head of Norway's state pension fund. As a sign of its confidence in a European recovery, Norway's so-called oil fund, one of the biggest sovereign wealth funds in the world, is currently spending most of its cash flow of around one billion euros a week on shares across the continent. The 400bn euro fund is already Europe's biggest investor, holding 2% of the continent's shares by value.
- Iraq's stock market (85 listed companies) is up about 33% so far in 2011. Investment bankers are flocking into the country as it prepares to rebuild its war-torn infrastructure.

Paul Hansen

(Director: Retail Investment Marketing - Investments)

Economic Update

Locally, last week the focus was firmly on inflation. October 2011, headline CPI inflation rose by a relatively substantial 0.5%*m/m*, with the annual rate rising to 6.0%*y/y*. For 2010 as a whole, SA CPI inflation averaged a very respectable 4.3%*y/y*, but is clearly trending higher and is expected to rise above 6.5% in the coming months. In addition, inflation could struggle to move convincingly below 6% during most of 2012 - especially if the Rand exchange rate remains around current levels. During October 2011 there was a relatively large monthly increase in food prices (+2.2%*m/m*), which added 0.3 of percentage points to the monthly rise in CPI. The large monthly increase pushed the annual rate of food inflation up to 11.0%*y/y*, which is the highest food inflation reading since May 2009. The increase in food inflation was very broad-based with almost every major food category rising. In particular, vegetable prices jumped 7.5%*m/m*, while meat prices rose 2.7%*m/m*. Meat inflation, which comprises 32% of the measured food inflation basket, is now up at 14.6%*y/y*. While we have been expecting that the upward momentum in domestic food price inflation would plateau at around 10% to 12%, the recent weakness of the Rand could create further food inflation pressure in the short-term. Fortunately, international food prices have moderated a little in recent months. Looking ahead, there are still upside risks to SA inflation. These include a range of administered prices (electricity, water, fuel etc) as well as the recent Rand weakness. All of these factors suggest that the annual rate of consumer inflation in South Africa is set to move higher in the coming months. We currently expect consumer inflation to breach 6.5%*y/y* in early 2012 and could start to approach 7%*y/y*.

In October 2011, SA Producer Inflation (PPI) fell by 0.3%*m/m*, although the annual rate of change rose marginally to 10.6%*y/y* from 10.5%*y/y* in September. The lower than expected monthly change in PPI was mainly due to a further seasonal decline in electricity prices, although agricultural prices rose by a further 3.4%*m/m* to 12.9%*y/y*. During the first ten months of 2011, PPI inflation has averaged 8.0%. This compares with 6.0% for calendar 2010 and a mere 0.2% for calendar 2009. As previously mentioned, there were substantial increases in agricultural prices during October, up 3.4%*m/m*. The monthly rise was relatively broad-based and included a sharp jump in the price of vegetables, grains, fruit, oil seeds, and live animals. On an annual basis agricultural inflation is now up at 12.9%*y/y*, which is the highest since March 2008. Agricultural prices contributed 0.3 percentage points to the monthly change in PPI. Overall, while PPI inflation benefited from the relative strength of the Rand in 2010 and early 2011, the strong rise in utility (electricity) inflation coupled with still high energy and commodity (including food agricultural inflation) price inflation and the recent Rand weakness is keeping the overall rate of producer inflation relatively high. Clearly, the high PPI reading worsens the outlook for consumer inflation, although the relationship between PPI inflation and CPI has diminished since the new PPI was introduced in 2008

SA's Leading Indicator rose by 0.3%/y/y in September down from a revised 0.9% (1.1%) in August according to data released by the South African Reserve Bank. On a month to month basis, it was down 0.3%. Five components for September 2011 decreased, while five increased. The major negative contributor was the number of residential building plans passed. The largest positive contribution came from the twelve-month percentage change in the number of new passenger vehicles sold. A fall in the leading economic indicator points to a challenging economic climate ahead, both locally and globally and continues to suggest a relatively soft growth outlook going into 2012.

The uncertainty in the Euro-area continues. This is reflected in rising bond yields, with the yield on 10-year Italian bonds back above 7%.

In emerging markets, renewed protests and heightened political instability in Egypt last week threatens to reverse the slight economic recovery under way. After a strong dip in tourism, which constitutes 4% of GDP (down from 5% prior to Revolution), tourist arrivals were starting to recover to almost pre-revolution levels. GDP fell 4.2% in the first quarter of 2011, but recovered 0.04% in the second quarter, helped by the retail and construction sectors, which had fallen in the first quarter. For the year to June 2011, the economy expanded 1.8%, significantly below earlier predictions of 2.6%, and the previous year's 5.1%. The currency saw a slight weakening as authorities defended it against the sell-off, using foreign exchange reserves. Foreign exchange reserves have now fallen by US\$13 billion, or 38% from January to October 2011 on the back of portfolio outflows as well reduced tourist receipts. Unfortunately, financial markets are weakening again on the back of new protests. Authorities continue to support the currency, although this is not sustainable given the low levels of reserves, which have negative implications for inflation.

Kevin Lings, Laura Jones and Xhanti Payi
(STANLIB Economics Team)

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 25/11/11	Weekly Move (%)	YTD (%)
Indices			
*MSCI World - US Dollar	1097.81	-5.16	-14.76
*MSCI World - Rand	9407.11	-1.17	10.14
*MSCI Emerging Market - US Dollar	877.41	-6.07	-24.59
*MSCI Emerging Market - Rand	7518.47	-2.12	-2.55
All Share Index - US Dollar	3654.12	-5.98	-25.15
All Share Index - Rand	31123.96	-2.16	-3.67
All Bond Index	366.31	-0.91	6.17
Listed Property J253	912.34	-1.20	4.51
Currencies			
US Dollar/Rand	8.52	4.06	28.70
Euro/Rand	11.27	2.98	27.54
Sterling/Rand	13.13	1.48	28.27
Euro/US Dollar	1.32	-2.11	-0.88
Commodities			
Oil Brent Crude Spot Price (\$/bl)	106.07	-1.88	11.11
Gold Price \$/oz	1683.45	-2.29	19.04
Platinum Price S/oz	1531.00	-3.95	-13.21

Source: I-Net Bridge

* MSCI - Morgan Stanley Capital International

Rates

These rates are expressed in nominal and effective terms and should be used for indication purposes ONLY.

Standard Bank Money Market Fund

Nominal: 5.21% per annum

Effective: 5.33% per annum

STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. The above quoted yield is calculated using an annualised seven-day rolling average as at 25 November 2011. 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.

STANLIB Cash Plus Fund

Effective Yield: 5.80%

STANLIB Dividend Income Fund

Effective Yield: 4.09%

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 25 November 2011. 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.

The Manager has received a circular, (CISCA Circular No.11), from the Registrar of Collective Investment Schemes regarding a joint investigation of National Treasury, SARS and the FSB, which is currently in progress with regard to dividend income fund type portfolios. The Manager is obliged, in terms of this circular, to bring the following to your attention with regard to this investigation. The outcome of the investigation could affect certain structures and SPVs (special purpose vehicles) used by underlying investments of these types of portfolios, which may result in possible adverse tax consequences, and may require amendments to existing legislation. The abovementioned regulators still have concerns which could impact negatively on the future of these portfolios and the continuation of these portfolios can therefore not be guaranteed. The Manager however do not believe that there is any current cause for concern regarding the STANLIB Dividend Income Fund and should there be a more definitive outcome from the investigation investors in our STANLIB Dividend Income Fund will be informed timeously of any legislative changes that may affect their investment.

Liberty Investments' Life Annuities

Current Rates for 28th Nov 2011 - 01st Dec 2011

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 803	R 845	R 906	R 731	R 767	R 819
	R 250,000	R 2,077	R 2,181	R 2,333	R 1,895	R 1,985	R 2,116
	R 500,000	R 4,201	R 4,407	R 4,713	R 3,837	R 4,016	R 4,277
	R 1,000,000	R 8,448	R 8,861	R 9,472	R 7,720	R 8,078	R 8,599

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.

Disclaimer

The price of each unit of a domestic money market portfolio 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. 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. A fund of funds is a portfolio that invests in portfolios of collective investment schemes, which levy their own charges, which could result in a higher fee structure for these portfolios. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. 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. Portfolios are valued on a daily basis at 15h30. Investments and repurchases will receive the price of the same day if received prior to 15h30. Liberty is a full member of the Association for Savings and Investments of South Africa. The Manager is a member of the Liberty Group of Companies.

As neither STANLIB Wealth Management Limited nor its representatives did a full needs analysis in respect of a particular investor, the investor understands that there may be limitations on the appropriateness of any information in this document with regard to the investor's unique objectives, financial situation and particular needs. The information and content of this document are intended to be for information purposes only and STANLIB does not guarantee the suitability or potential value of any information contained herein. STANLIB Wealth Management Limited does not expressly or by implication propose that the products or services offered in this document are appropriate to the particular investment objectives or needs of any existing or prospective client. Potential investors are advised to seek independent advice from an authorized financial adviser in this regard. STANLIB Wealth Management Limited is an authorised Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act 37 of 2002 (Licence No. 26/10/590)



the art and science of investing

17 Melrose Boulevard, Melrose Arch, 2196
P O Box 202, Melrose Arch, 2076
T 0860123 003 (SA Only) T+27(0)11 448 6000
E contact@stanlib.com
Website www.stanlib.com

STANLIB Wealth Management Limited
Reg. No. 1996/005412/06
Authorised FSP in terms of the FAIS Act, 2002
(Licence No. 26/10/590)

STANLIB Collective Investments Limited
Reg. No. 1969/003468/06



24 Ameshoff Street, Braamfontein, 2001
P O Box 10499, Johannesburg, 2000
T 0860 456 789
E info@liberty.co.za
Website www.liberty.co.za

Liberty Group Limited
Reg. No. 1957/002788/06
Authorised FSP in terms of the FAIS Act
(Licence No. 2409)

L1891N