



Economic and Market Report Third Quarter 2011

Economic Overview

International:

The last quarter continued to show low growth in the USA coupled with high unemployment in this region. No further quantitative easing was forthcoming and an economic recovery has become a hotly debated topic amongst the politicians. European economies continued to struggle as the debt crisis deepened with the threat of default in countries such as Greece, Italy and Spain. Growth in the UK remained sluggish with further quantitative easing becoming increasingly probable.

The last quarter has also been characterized by falling commodity prices resulting in certain middle-eastern countries cutting interest rates further. Loosening of monetary policy however resulted in a currency sell off as exchange rates have been pressurised by risk-aversion. Latin American countries in particular have experienced sharp currency declines in recent times.

South Africa:

The deteriorating global growth outlook and the deepening global sovereign debt crisis were major factors that lead to Rand weakness over the last quarter. Global risk aversion and increased market volatility has also negatively influenced local economic activity in recent months.

Inflationary pressures remained strong with wage negotiations and rising prices posing further upside risk. Growth remained sluggish with trade numbers falling back sharply over the period.

Interest rates remained unchanged over the period but the levels of money supply and credit extension bore testimony to the fact that households are struggling to cope with the current financial environment and have little capacity for further uptake of debt.

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Market Overview:

International:

The French and German markets suffered the most over the quarter. This came as no surprise as these two countries have the highest exposure to Greece.

The quarter was characterized by extraordinary volatility with most tradable indexes posting substantial losses

US Treasuries were once again the winners over the period as safe haven buying amidst renewed credit default fears drove bond yields significantly lower.

Domestic:

Local equities performed poorly over the quarter as share prices were weighed down by declining global markets. Local equities shed more than 5% on average on the back of renewed volatility in this asset class. Resource stocks were the hardest hit with some property counters managing to buck the trend and end in positive territory.

Nominal bonds managed to end in positive territory despite a sharp rise in yields towards the end of the quarter.

Inflation linkers once again proved their resilience in troubled times by posting solid gains over the period.

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