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Some Notes On The World Around US
31 July 2009

A lot of Good News

The announcement by listed companies of their financial results for the second quarter of 2009 in the USA commenced on July 9 with Alcoa surprising to the upside. Although not profitable, the quarterly loss per share was much smaller than analysts had anticipated.

In fact, of the 70 firms that reported since July 9, only 15 had worse than expected results. This piece of very good news helped motivate markets to achieve very strong runs during the last two weeks of July 2009. The picture below shows the 24 month price behaviour of the Dow Jones Industrial Average up to Friday 24 June 2009.

At the close of business on 10 July 2009 the Dow's index number was 8147. At the close of business on 24 July this index closed at 9093, an increase of almost 12%. The price change since the very strong run since 6547 on 9 March 2009 to the close of 9093 on 24 July 2009 is 31.3% - wow! Some commentators called this the strongest move since the 1930's, which it may very well be.

Why this concentration on US earnings? Well the US constitutes about 25% of the world economy but more important, the world financial markets look to Wall Street for direction and mood. Boosting the effect of upbeat earnings were reports of good news from the US housing market, a major culprit in the recent meltdown. Data seems to indicate that the housing market is stabilizing. World markets were given an extra fillip by the news that home prices in the United Kingdom rose for the first time in 17 months.

With a few exceptions the US, banks were also among the culprits during the big bear. However in late July two of the largest US banks Goldman Sachs and JP Morgan, announced strong growth in second quarter earnings. Simultaneously China announced resurgent economic growth. Such news would further stimulate the idea that the world has seen the bottom of the recession because China is one of the large consumers of oil, steel, and all manner of industrial metals and resources. More and more commentators seem to be of the opinion that the world has seen the worst of the economic slowdown.

Then the other thing that had happened almost unnoticed (in the sense that CNN and Bloomberg seldom advertise these returns on their television services) is the year to date performance the equity markets of emerging countries/markets.

As at the middle of July 2009 net foreign equity purchases (year to date) amounted to ZAR 38 billion versus net foreign sales of ZAR 54.5 billion for 2008. Foreign flows into our equity market helps support prices and partially explains the nice bull period enjoyed from early March 2009. Invariably this would be true for many emerging markets which, almost without exception, enjoyed strong markets so far this year. In fact the year to date (The Economist of July 25 2009) performance of (a few) emerging markets in US dollars are as follows:

China (Shangai Stock Exchange A)	81%
China (Shangai Stock Exchange B)	90%
Russia	52%
Brazil (Bovespa)	73%
India (Bombay Stock Exchange)	55%
South Africa	32%
Poland	19%
Hungary	31%

Remember the huge inflows of foreign currency into South Africa (or any country) will cause the currency to be strong. Markets will remain volatile. Cheer up, things look much better. Internationally, risk appetite has improved significantly and will probably continue to do so during the next number of months. A selection of quality listed equities will not disappoint. And remember, cash does not have a real return.

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Sources - Financial Times Europe – various issues
Some Notes on the World Around Us – various previous issues
The Economist of 25 July 2009
Bloomberg News