



financial services group

## MONTHLY MARKET REPORT DECEMBER 2010

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### DECEMBER 2010 COMMENTARY

Welcome to the first edition of NFB AM's Monthly Market Report for 2011. We trust you had an excellent and safe break and that you have returned refreshed and reinvigorated. We wish you and your family all of the very best for the year to come, may it be a prosperous and peaceful year!

NFB Asset Management is not ordinarily in the habit of forecasting what the future might hold, but there are existing circumstances that are likely to continue during the course of the year. Though a year is a rather poor container for global events; which will happen when they want to for how long they want to and do not subscribe to any form of calendar, Gregorian; Julian or otherwise. We'll dedicate this newsletter to setting out briefly what these circumstances are.

#### Starting with the euro...

More specifically, and at the same time more broadly, Europe; which appears to be a lot like a car crash in slow motion. First there was Greece and then came Ireland. Speculation is rampant that any one or more of Italy, Portugal or Belgium may be next. Belgium! Goodness, Brussels is the seat of the European Union. The very institution that is meant to embody the morals of a unified Europe and it is seated in a country that may require bailout funds of its own. The situation seems absurd, and yet as absurd as it seems it is very real. Particularly for the current and next few generations of taxpayers who will have to pay the bill for previous generation's profligate ways. And more specifically for those who find themselves unemployed as individuals and corporations around the world pay down debt.

The euro is likely to survive this crisis, even though many Germans may wish to secede from the European Union (in the same way, Texas is no more likely to secede from the United States of America). 4% of German GDP is in the form of Irish debt. That's a not inconsiderable amount. And yet it remains in German interests to remain a part of the EU. It is highly likely that Germany will emerge from this a stronger and more central component of the EU, having negotiated all kinds of concessions from debtor nations desperate for bailout funds. France's take on this is unknown to us, though we suspect that French sensibilities must be affronted by a more powerful Germany. Angela Merkel put it brilliantly when she recently said, something along the lines of, Germans are not going to retire at 67 so that Greeks can retire at 58.

Further, if the Stability Fund were to run out of assets (it has some \$1 trillion available), there is always the Chinese with trillions in reserves to provide further funding in order to secure the next generation of western consumers of Chinese exports.

And that's just about enough on the euro.

#### Moving on to South African interest rates

By the time you read this Report the South African Reserve Bank is likely to have already made an announcement on interest rates following their January Monetary Policy Committee Meeting. As mentioned, NFB AM does not forecast but we'd have a flutter on rates remaining where they are, even though there is scope for further interest rate cuts.

South African interest rates are already at generational lows and yet inflation remains subdued on the back of a stronger rand, weaker than normal retail spending (though this is improving fairly quickly) and close-to-anemic credit extension numbers. Whilst South Africans were protected to large extent from the depravations of the Credit Crisis, and before that the Sub-Prime Crisis, by a combination of, primarily, the National Credit Act and exchange controls we have not been able to, nor would we ever be able to, completely safeguard ourselves against a downturn in global economic activity which has affected the everyday lives of individual citizens. What it hasn't affected is the South African listed equity and property markets, which have both roared ahead since the middle of 2008.

This is largely on the back of a glut of foreign portfolio inflows (see earlier comment about the stronger rand), which have desperately sought yield because rates in their home markets are so close to zero they may as well be at zero. The risk South Africa runs is that at the first sign of trouble, of which there are many in SA not the least of which is corporate and state governance, these foreign portfolio inflows do a swift about turn and in so doing unwind some of the excellent economic advantages South Africa has enjoyed over the last 18 months. We suspect, however, that this scenario is being horribly overstated by, partly, the media in the collective consciousness. Much of these flows are being redirected toward emerging markets as they are likely to be the engine of global economic growth over at least the next decade, of which South Africa is but one.

#### And finally...

There is the not trivial matter of a massively expanded Super 15 to look forward to as well as a Cricket and Rugby World Cup, may the South African teams do well.

## DECEMBER 2010 DATABANK

	Index Value	Last Month	Year-to-Date	1 Year
SA Repo Rate	5.50%	0.00%	-1.50%	-1.50%
JSE ALSI	32,118.89	6.12%	16.09%	16.09%
ALBI	343.74	1.73%	14.96%	14.96%
R157	7.31%	7.46%	8.39%	8.39%
USDZAR	6.62	-6.70%	-10.55%	-10.55%

All charts and data are sourced from I-Net Bridge.