



Your Oasis

Monthly News Update

Your Oasis | July 2009

CEO Introduction

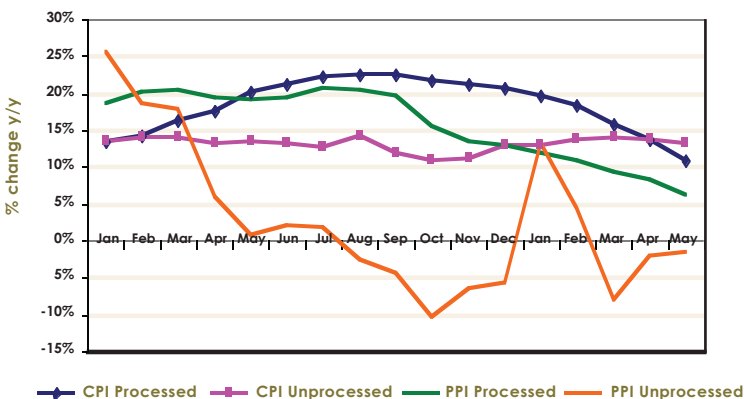


Sir Winston Churchill left us with a vast legacy of sayings. The one I believe most appropriate for our current times is: "If you are going through hell, keep going." At the moment it may seem as if we are going through an economic downturn that has no end, but both individuals and businesses see a light at the end of the tunnel and confidence surveys show a stabilization and/or increase. This too is reflected in the strength of the rand, which however is making it harder for the manufacturing sector to recover. The other factor hampering a recovery is the sharp downturn in private sector fixed investment and investment in inventories, which is showing up in the record R27.3bn repayment of debt in May by companies. We at Oasis are committed to walking with you, and coming out smiling on the other side by providing superior returns at lower than market risk. We do this sustainably by rigorously researching each company we invest in. This newsletter shares some of our insights, so that you can make a better informed investment decision. Should you have any queries regarding your investment please contact our client services department at 0860 100 786.

The Impact On Your Pocket

The South African Reserve Bank (SARB) kept the repo rate steady at the end of June Monetary Policy Committee (MPC) meeting, as it said that despite the most recent inflation forecast by its staff showing that inflation is still expected to continue its moderate downward trend and to enter the SARB target range during the second quarter of 2010, a more favourable exchange rate assumption was offset by higher expected petrol price increases and higher-than-expected inflation outcomes. One of the reasons for the higher-than-expected inflation is the "stickiness" in food inflation at the consumer level, as at the producer level food prices are easing with unprocessed food prices showing y/y declines for the past three months. The "stickiness" in consumer food inflation of 12.1% y/y in May has also attracted the attention of the competition authorities and after investigating bakeries last year, they are now focusing on the large supermarket groups.

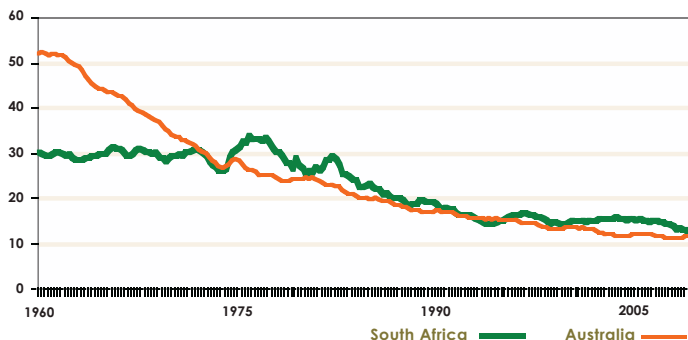
Food Prices at Producer (PPI) and Consumer (CPI) level



Inventories

The reason for the surprise quarterly increase in South African gross domestic expenditure in the first quarter was a reduced scale of inventory de-stocking. This is definitely a case of when "less bad" does have a positive impact, as the constant 2000 rand R10.2bn inventory reduction was less than half that of the fourth quarter contraction of R21.1bn. This positive contribution to national accounts was also evident in Australia, which had a surprise increase in its gross domestic expenditure in the first quarter as well. The question is whether the record low of 11.5% as a percentage of GDP is the bottom or whether further de-stocking will continue. We expect the second quarter to show a move lower to the 11% level, but inventories should then rise in the second half of the year adding to positive growth momentum.

Inventories as percentage of GDP



Sports events

The rand has benefited from all the foreign exchange that sports tourists are spending in South Africa, as we hosted the cricket IPL, the soccer Confederations Cup and the rugby British Lions tour. That is one of the reasons why we expect the current account deficit to narrow sharply in the second quarter, but the major reason is that the foreign trade goods balance has surprised by registering a surplus in May 2009 for the first time since December 2006. This means that in the first two months of the second quarter we have a R560m surplus compared with a R20.9bn deficit in the first quarter.

Monthly Foreign Trade Balance since January 2008

