S.Africa investor confidence slumps on growth concerns

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JOHANNESBURG (Reuters) - South African investors have become increasingly pessimistic about expected returns on the domestic equity market, a survey showed on Thursday.

The June Sanlam Investment Management (SIM) Investor confidence indicator -- a monthly measure of investment professionals' sentiment -- showed that over one and three months the average expected returns have both dropped to negative 1.2 percent.

The JSE's Top-40 Index has been largely volatile. While it is up 7.3 percent so far this year, the index has fallen 10.2 percent to 28,170.67 in the past month after reaching a record high of 31,393.10 in mid-May.

The broader All-share Index is up 3.4 percent this year but has dropped 10 percent in the past month.

Concerns over economic growth and rising inflation are the main worries for investors.

South Africa's inflation hit a 5-1/2 year high of 10.9 percent in May, on the back of rising food and fuel prices, putting pressure on the central bank to raise rates.

The central bank has raised the repo rate by 5 percentage points since June 2006 to 12.0 percent.

"In this tussle between inflation and growth, the dominant theme over the last month has been rising interest rate expectations," said Frederick White, SIM head of research, said.

"The result was that investors started pricing in higher interest rates and started reducing their outlook for local growth."

Risks to South Africa's growth outlook include a chronic power shortage and higher interest rates strangling local demand.

Most analysts have downgraded their forecasts for this year's growth. The National Treasury expects a 4.0 percent expansion -- much lower than the average 5 percent of the previous four years.

The survey also showed that less than a third of respondents expected positive returns over the short term, while the fear of a market crash has risen markedly.

Sanlam Investment Management

Press Office Feature : Investor confidence eroded by tussle between growth and inflation concerns

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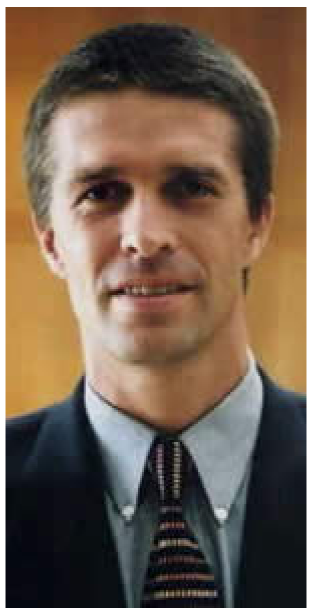
How would you value the SA equity market?

South African investors have considerably reduced their expected return outlook for local equity markets and have again become especially negative on the outlook for the near term.



This is according to the June 2008 Sanlam Investment Management (SIM) Investor Confidence Index, a monthly measure of sentiment among investment professionals and financial planners.

"The world finds itself in a precarious position," explains Frederick White, head of research and process at SIM, the asset manager within the Sanlam Group.

"On the one hand, there are still big downside risks to growth in the aftermath of the credit crisis due to tightening credit standards and extremely low consumer confidence, combined with - and as a consequence of - rising unemployment and falling asset prices."

"These growth concerns are putting pressure on central banks to lower interest rates."

"On the other hand, unusual movements in important external factors, such as oil and food, are not only putting upward pressure on inflation, but are also raising concerns that such pressure is now starting to become more broad based."

"These inflation concerns are placing pressure on central banks to increase interest rates," said White.

"The fact that the external drivers have proved to be nearly impossible to forecast and are themselves influenced by factors that cannot be forecasted, such as the weather and disease, all add to the uncertainty surrounding interest rates and growth," he said.

This uncertainty is manifesting itself in the volatility we are seeing in financial markets and in the swings in confidence among financial market participants.

“It is therefore no surprise to see that the volatility that has characterised investor confidence over the last year continued to be reflected in the June measurement,” said White.

“Despite the fact that the market was about five percent lower in June compared with the previous month, the number of respondents who felt that the SA equity market is offering value declined,” he said.

According to the results of the survey, there has also been a marked deterioration in investors’ return expectations, especially when it comes to short-term returns – the average of which has actually turned negative again.

In this tussle between inflation and growth, the dominant theme over the last month has been rising interest rate expectations.

“On the local front, the SA Reserve Bank expressed concern over broadening inflation pressure and a determination to act decisively to fight inflation."

"The result was that investors started pricing in higher interest rates and started reducing their outlook for local growth,” said White.

“On the international front the broadening in inflation pressures also came under the spotlight as confirmed by central bank speeches."

"This resulted in financial market participants becoming more concerned about potential increases to interest rates and the consequent downside risk to growth."

"In both cases the accompanying risks are for lower earnings growth and lower valuation levels,” he said.

“Over one and three months, the average expected returns have both dropped to negative 1.2 percent. The outlook for six months is just over one percent, while the twelve month number has fallen to less than 4.7 percent – the weakest it has been since the slump experienced in December last year. Less than one in three respondents now expects positive returns over the short term.” said White.

Among the other aspects of confidence measured in the survey, there seems to be little expectation for recovery on days following big market dips, but the fear of a market crash has risen markedly again and is rivaling its previous peaks.

“The percentage of respondents who believe the market is too expensive has increased to 36 percent, close to the highest its been since the survey started and much bigger than the percentage who believe the market is too cheap – which has dropped to 16 percent,” concludes White.

Difficult times of uncertainty for investors

2008/06/30

By TRAVIS McCLURE

NFB Finance Brokers

THE screens were bathed in red again over the last week as investors tried to digest the inflation numbers and the higher oil prices. May's inflation numbers were released and once again they surprised on the upside.

Our market continues to be propped up by the four big resource shares, namely Billiton, the Anglos, Amplats and Sasol. For the year to date the overall market is up 3.84% while the resources index is up 30.33%.

South Africa's current account deficit, the broadest measure of trade in goods and services, widened to a record R194.6 billion in the first quarter of this year, signalling that the rand could become more vulnerable to shifts in the mood of global investors.

According to the June 2008 Sanlam Investment Management (SIM) Investor Confidence Index, South African investors have considerably reduced their expected return outlook for local equity markets and have again become especially negative on the outlook for the near term.

Investors are faced with a double-edged sword. Economic growth is under threat due to the tightening of credit, low consumer confidence and rising unemployment. This puts pressure on central banks to lower interest rates.

On the other side you have upward pressure on inflation from higher oil and food prices and this places pressure on central banks to raise rates. These external drivers are themselves influenced by factors that cannot be forecast , such as the weather and disease .

This uncertainty is manifesting itself in the volatility we are seeing in financial markets and in the swings in confidence among investors.

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