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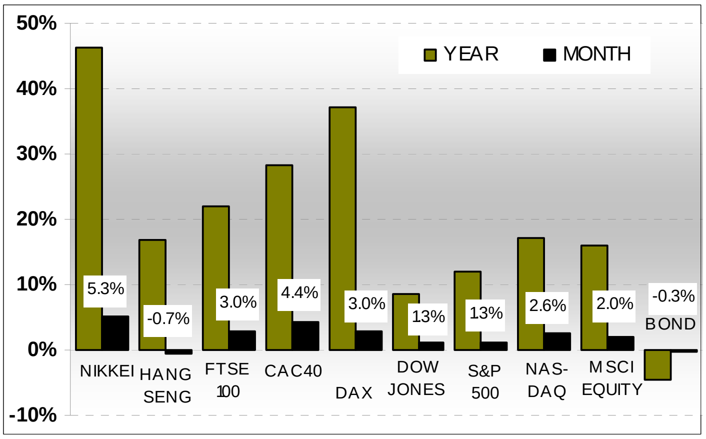
March in perspective – global markets
The quarter ended on a strong note with impressive monthly gains on most global equity markets. As has become the norm in recent months, global bond markets were weak, with the uncertainty surrounding when the US Fed will end its interest rate tightening cycle weighing on investors' minds. In that respect the equity gains might seem out of place, but unprecedented merger and acquisition (M&A) activity continues to be a major force in driving prices higher. Japan recovered from its sharp decline in February on the back of strong data, in particular the indications that inflation is returning. Ironically, inflation there is being welcomed - the Japanese economy has been hamstrung by more than a decade of deflation. European market returns again convincingly exceeded US ones – on the back of frenetic M&A activity there – and global tech shares logged a welcome gain, epitomised by the 2.6% gain in the Nasdaq. Emerging markets posted mixed returns, with the South African and Indian market posting amongst the higher returns – India rose 8.8% and is up 20% for the quarter.

Chart 1: Global market returns to 31 March 2006



What's on the radar screen?
Last week we initiated this periodic paragraph to give an idea about what was occupying our thoughts and attention. Without wanting to make it a regular feature, I would like to list more items, as they remain topical. Indeed, many issues are the same as last month, which will show the purpose of this column, and will serve as a useful follow-up to the stories as they develop.

Commodities: hardly a new story – it has featured periodically for more than three years in *Intermezzo* – last month we listed commodity prices as a topic to watch. This commodity cycle is already a couple of years old. Although most experienced investment managers know the danger of calling any cycle "different", we have continually highlighted some of the aspects we believe will sustain this cycle for longer. We have argued that there are more structural – as opposed to cyclical - features supporting commodity prices this time around. But even we have been surprised at the resilience of prices during the past month. Make no mistake; rising commodity prices were a dominant feature of investment markets during March:

- *Platinum* reached an all-time high of $1 023 a troy ounce, while *gold* touched a 25-year high. *Silver* touched a 22-year high – refer to "File 13" below.
- *Copper*, which gained 25% during the quarter and has tripled in the past four years, rose to a record high on the back of strong demand and dwindling supplies. Current warehouse stocks equate to only three weeks of global consumption.
- *Zinc* also touched an all-time high for the same reasons. London Metal Exchange (LME) stocks have declined 27% while the zinc price has gained 42% so far this year.
- Sugar reached a record high as well, and the oil price gained about 10% during the month

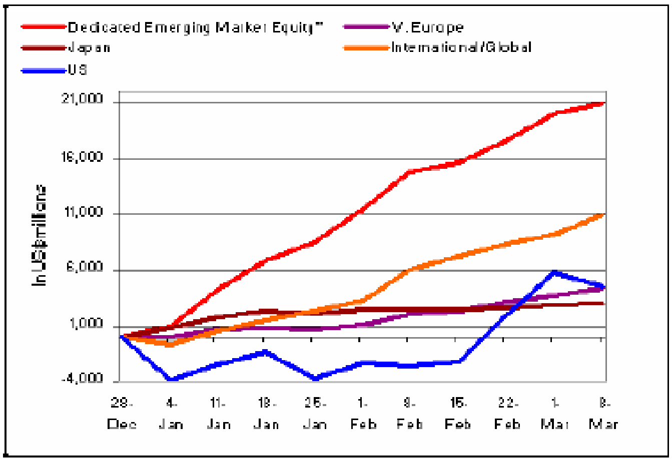
While on the aspect of the global demand for commodities, consider the following: *firstly*, the global economy is still firing on all cylinders – why else would all major central banks be raising interest rates? With Japan showing clear signs of a sustained economic upturn (that market is up 46% over the past year – refer to Chart 1) it is quite conceivable that the US, Japan and the EU could grow around 3% this year. That growth is highly supportive of emerging economies. And the largest developing markets – China and India – have unique situations, which are causing them to grow at even faster rates in their own right. *Secondly*, one area in which this is abundantly clear is the increasing spending on infrastructural spending – Merrill Lynch estimates that Brazil, Mexico, China, India, Indonesia and South African alone will spend $705bn in the next three years on infrastructure (you will be aware that the SA government alone has committed itself to spending $60bn in this area in the next three years). General Electric estimates that developing market spending on infrastructure could total $3 trillion in the next ten years. And these numbers relate to emerging markets only. I think you get the picture – commodities are going to be in demand for some time yet.

The rand: is always on Maestro's radar screen. Maestro's view is that the rand will be "stronger for longer" than most expect. When one considers the outlook for commodity prices, above, it is hard to be too bearish on the rand. It was interesting to see that two days prior to month-end the rand was trading at R6.34 to the dollar. Then the latter weakened marginally, and the rand ended the month at R6.16. If the dollar is going to weaken during the course of this year –

after all, the 2005 US trade deficit hit a record $805bn in 2005 – that, too, will provide some support to the rand. While one could argue with some justification that the rand should weaken *gradually* into the future, the point here is not to underestimate the positive effect of rising commodity prices – and hence portfolio flows into SA – on the rand.

GEM inflows: speaking of Global Emerging Markets (GEM), inflows into GEM mutual funds so far this year have totalled $20.9bn, exceeding the entire 2005 inflows. Do you now understand why the SA equity market has been strong, and resources (read commodities) in particular? Refer again to the February edition of *Intermezzo*, available on our website, where we discussed this topic in detail.

Chart 2: Year to date net equity inflows



Source: Emerging Portfolio Fund Research (EPFR). ** Combines GEM, Asia ex Japan, Latam and EMEA equity funds.

Iceland: changing tack slightly, its not all good news. Last month we highlighted developments in Iceland. During March, Iceland's central bank raised interest rates 0.75% to 11.5% in their ongoing battle to ward off a full-blown confidence crisis. The Iceland krona has fallen 14% against the dollar, while the New Zealand dollar has fallen 11% - refer to Table 1. The two countries are being linked because both served as a useful "carry destination" where investors (especially hedge funds) borrow in low-interest rate jurisdictions such as Japan and the EU and invest in high-rate environments like Iceland and New Zealand. However crumbling confidence in both countries has weakened their respective currencies, which has the effect of undermining whatever "carry" benefit there was. Hungary, Turkey, Australia *and South Africa* are frequently mentioned in the same breathe as New Zealand and Iceland – that's why this topic is on Maestro's radar screen. The data on Iceland makes for interesting reading: a nation of just less than 300 000 inhabitants, private sector borrowing trebled in the past three years. Outstanding loans are now three times the size of Iceland's GDP. The current account has swollen to 15% of GDP. Watch this space… the fat lady has not yet finished singing about this one.

Gulf markets: talking of crumbling markets, keep an eye on the Gulf markets. Time precludes me from going into detail, but recent falls in that region's markets have been quite alarming; almost as alarming as their gains in recent years. The Saudi Tadawul All Share index has risen from just above 4 000 (that's four thousand) in early 2004 to over 20 000 in February, before falling back to around 15 000 i.e. a 25% decline. Fortunately for the global community, the phenomenon seems to involve primarily local investors. The IMF forecasts that the Gulf's 2006 current account surplus will be about $275bn, while HSBC calculates that excess liquidity in that region since 2002 is $300bn and rising rapidly. Given this huge increase in wealth, the region's instability and its importance to the global community, this matter bears monitoring. It also makes an interesting case study to see how investors there get to grips with a new (capitalist-orientated) "system". Refer to Chart 4 below.

Table 1: Currency movements – year to date (%)

	Dollar	Pound	Euro
Icelandic krona	-13.9	-15.1	-15.2
New Zealand dollar	-11.1	-12.4	-12.5
Australian dollar	-3.9	-5.3	-5.4
Hungarian florin	-2.9	-4.3	-4.4
Mexican peso	-2.2	-3.5	-3.7
US dollar	---	-1.4	-1.5
Japanese yen	+0.8	-0.6	-0.8
Pound	+1.4	---	-0.1
Euro	+1.5	+0.1	---
Norwegian krona	+1.8	+0.4	+0.3
Swedish krona	+2.2	+0.7	+0.6
South African rand	+2.7	+2.0	+0.5

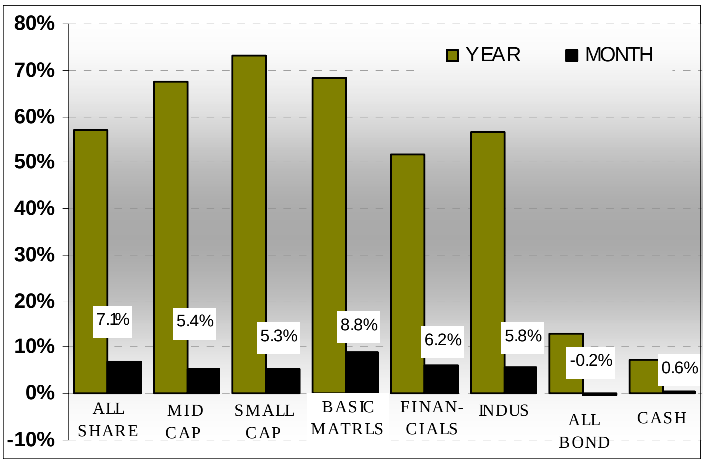
Source: Ashburton

M&A Activity: remains a huge influence on developed markets. I cannot over-emphasize the importance of this activity. So far this year, according to Deutsche Bank, there have been 4 843 M&A deals worldwide, worth $832bn, by far the busiest period on record. Moreover don't underestimate the effect of M&A activity on the major index returns. For example, the French market has done rather well so far this year – it is up 10.7%. But consider, too, that some of the larger companies on that market, like Gaz de France, Suez and Electricite de France (EdF), have risen 20%, 30% and 40% respectively over the same period on the back of M&A related activity. It's hard to outperform an index driven by those types of influences, particularly when the latter are not always fundamentally based.

March in perspective – local markets

Strong commodity prices during March should mean strong SA equity markets, and that's exactly what we got. Chart 3 reflects the relevant returns. The two most influential sectors during the month were the platinum and oil sectors, which gained 17.1% and 10.4% respectively. Other notable risers included the gold index up 5.5%, forestry and paper (Sappi) 17.8%, and construction and materials 8.4%. Financials were lead by the 7.6% gain from the life assurers despite the negative press they have received of late. Mid and small caps posted decent gains –up more than 5.0% - although they seem rather pedestrian (which they aren't of course) in the light of strong gains in other market sectors. The rand had a generally weak bias through most of the month, but the weaker dollar in the last couple of days pushed the rand higher, resulting in it ending virtually flat on the month. The quarterly and annual gains for the SA equity market in general are quite material – note from Chart 3 just how large the annual gains have been. I will deal with these returns in more detail in the Quarterly Reports that will be sent to clients during the next week or two.

Chart 3: Local market returns to 31 March 2006



For the record

The latest returns of the collective schemes (unit trusts) that Maestro manages are listed in Table 2. If you wish to find out more detail on the Funds, including the latest Maestro Equity Fund Summary, please visit our website at www.maestroinvestment.co.za.

Table 2: Returns of mutual funds under Maestro's care

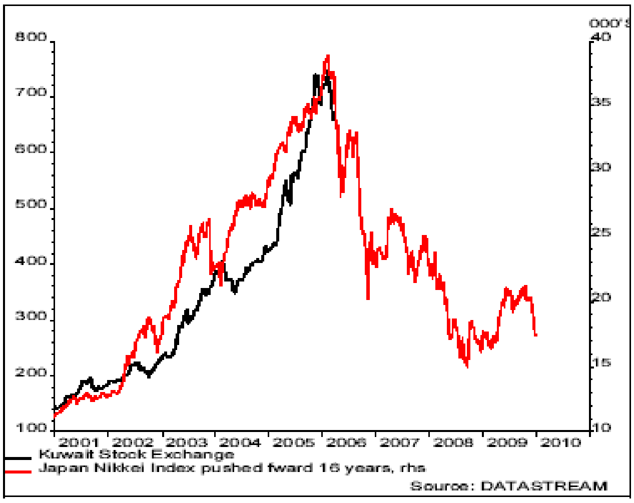
	Month	Return	Year to date
Maestro Equity Fund	Mar	**5.0%**	**11.9%**
Maestro equity benchmark *		6.8%	12.1%
JSE All Share Index		7.1%	13.2%
Central Park Global Balanced Fund ($)	Feb	**0.4%**	**5.5%**
Benchmark**		-0.1%	2.5%

* 50% JSE Top 40 Index, 50% JSE Financial & Industrial 30 Index
** 40% MSCI World Index, and 20% each in MSCI Sovereign Index, CFSB Hedge Index and 3-month US Treasury Bills

Chart of the month

We referred to developments in the Gulf markets, above. Chart 4 illustrates the past five years in the Kuwait stock exchange (black line) somewhat mischievously drawn against the Japanese Nikkei index, pushed forward 16 years.

Chart 4: The sense of *déjà vu* – Gulf style



Source: Merrill Lynch

File 13: Information you needn't retain

Two quick snippets and then we are done: *firstly*, did you see that China's foreign exchange reserves rose to $853.7bn in January, surpassing Japan's $850.1bn? Apart from the sheer quantum of this – it is, after all, *real* money – this development makes China's forex holdings the largest in the world. Viva la panda!

Secondly, the price of silver, as we noted above, has risen 31% so far this year and is up 60% for the full year. A large force behind the rise so far this year has been the expectation of a silver-backed exchange traded fund (ETF) – refer to the February and March editions of *Intermezzo* on our website for a discussion on ETFs. The progress of this ETF has been closely followed, and the US regulator, the Securities and Exchange Commission (SEC), has apparently already given its approval. The launch of a *gold*-backed ETF a couple of years ago had a significant influence on the price of gold at the time of its launch, although it remains to be seen just how long silver can maintain its dramatic increase notwithstanding the launch of the ETF.