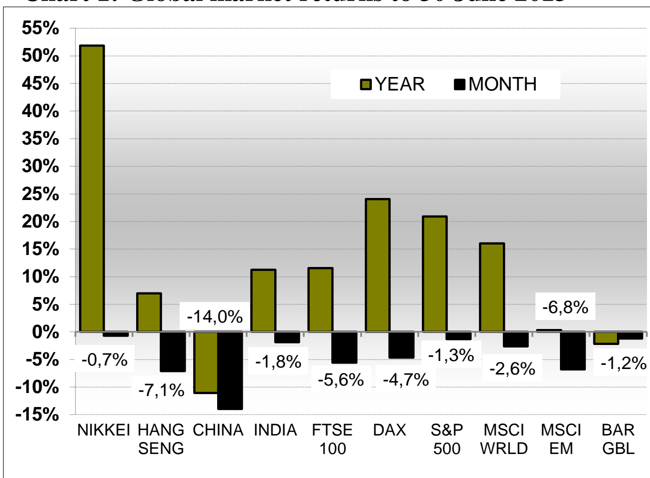
MAESTRO INTERMEZZO

Investment Letter | 13th Edition | July 2013

June in perspective – global markets

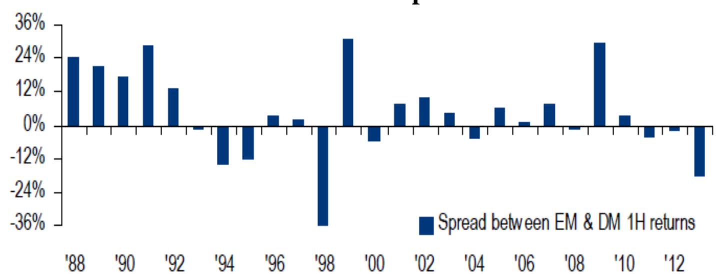
June will go down in economic history as the month in which the US Federal Reserve (the Fed) signalled the "start of the end" of their massive experiment in economic policy, the outcome of which is still far from certain. After their meeting at which monetary policy is decided the Fed signalled that they could begin tapering their unprecedented efforts to artificially supress interest rates and thereby hoping to stimulate economic growth – a policy that has come to be known as quantitative easing (QE) and which has been widely copied by central banks in the UK (the BoE), Europe (ECB) and Japan (BoJ). That in itself would be an interesting academic exercise were it not for the fact that, since the Fed began its little experiment in 2009, global investors have become addicted to the cheap money that has been so merrily issued by central banks. And we all know what happens when you try and wean an addict off his or her substance; it is never pleasant and the subsequent behaviour is far from predictable. Emerging markets and commodities in particular, enjoyed the most psychedelic world since 2009 as they floated to new heights on cheap (in some cases free) money (QE). Not surprisingly, they bore the brunt of the shock with which investors greeted the Fed's announcement – refer to chart 2. It could hardly have come as a surprise; it was always going to happen, it was just a question of when. Yet as long as it never came, the party continued. And during the past month, that party ended, for which we should be grateful as we may just see the slow return to a more normal environment.

Chart 1: Global market returns to 30 June 2013



The market returns during June make for unprofitable reading. We have already alluded to weak commodity and emerging markets but what exacerbated the poor returns is the fact that many of the latter markets are struggling with their own unique problems. India's economy is slowing and inflation is rising; Brazil is experiencing unprecedented social discontent just as the country tries to impress the world ahead of the Olympic Games and Soccer World Cup Final. China's economy is slowing and it is experiencing its own liquidity crisis as the central bank (the PBoC) tries to reign in local and regional lending by over-zealous officials; and South Africa… well, you know what's happening in our mining industry on top of the economy slowing. And then I am not talking about the social discontent in Turkey or Egypt. From being the darlings of investors since 2009 emerging markets have suddenly become anathemas to global investors, who have voted emphatically with their feet. Emerging equity markets were squashed in the investor stampede after the Fed's QE announcement. Their currencies were trashed. Some developed markets even suffered in the stampede; the Australian dollar collapsed 4.5% against the US dollar in June. The Brazilian real fell 3.5%, the Indian rupee fell 5.0% and the Russian rouble 2.7%. The standout emerging currency was the rand, which actually rose 1.3% against the dollar, although its strength must be seen in the light of last month's 10.7% meltdown.

Chart 2: The worst EM market performance since 1998



Source: Merrill Lynch

As for their respective equity markets, India lost 1.8%, Russia 4.6% (despite a stable oil price), Brazil 11.3% and China 14.0%! South Africa's All share index decline of 4.4% in dollar terms doesn't look that bad in this context. All of these returns helped the MSCI Emerging market index to a monthly decline of 6.8% although I would hasten to add that it was well off its intra-month trough. Compare that to the 2.6% decline in the MSCI World index. The latter is up 7.1% so far this year while the former is down 10.9% over the same period. During June, despite all the turmoil experienced during the month, developed markets emerged relatively unscathed, though somewhat shaken. The US is now seen as a safe haven (that's bad news for the gold price, which duly tanked 14.5% on the month); the US equity market lost only 1.3% in June. Germany lost 4.7%, the UK 5.6% and Hong Kong 7.1%. Japan, where investors remain intoxicated by the BoJ's QE program, lost only 0.7% but it experienced one of the most volatile rides in history. That market is up 31.6% year-to-date and has risen 51.9% in the past year. Whoever said that investing was not fun? ☺

We have considered selected equity and currency markets, but there was action on other markets, too. We have mentioned the 14.5% collapse in gold, but I draw your attention to the 16.4% decline in silver. The platinum and palladium prices lost 9.7% and 13.6% respectively although inextricably the oil price rose 1.8%. Amongst base metals, copper and nickel both lost 6.8% and aluminium 6.7%. Most soft commodities rose during the month. And then we must not forget bond markets, which probably endured the most shock from the Fed's announcement, albeit not in return terms. Remember as yields now start tracking higher, bond investors face a long, painful road; they more than any other class of investor, were the most addicted to QE. The Barcap global aggregate bond index lost 1.2%, after May's 3.0% decline. This index has lost 4.8% so far this year, which in bond terms is quite traumatic. Emerging market bonds have fared far worse; they declined 4.8% in June, bringing their year-to-date decline to 10.8%.

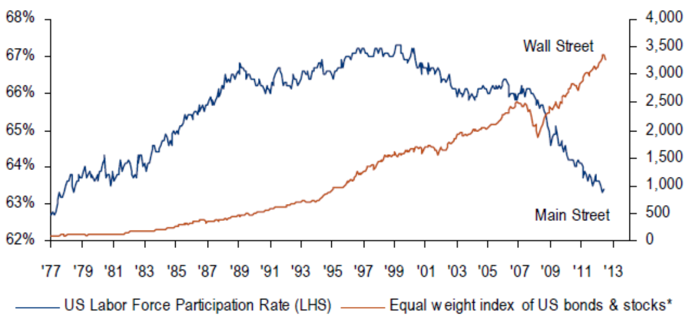
All in all June was a traumatic month from a return point of view, a significant one from a historic point of view and a volatile month no matter which way you looked at it. The good news is that returns looked a whole lot worse during the month (the last week saw strong gains across the board) so it was not as bad as it could have been. The bad news is that we are most certainly likely to see more on this in the second half of the year. Ben Bernanke and his merry band of central bankers have set us up for extremely volatile and nervous months for the remainder of the year. Note in passing that they need not necessarily be unprofitable months; the perverse aspect of a tapering in QE is that it actually heralds good news: the Fed feels sufficiently confident to announce that the "end of QE is in sight" (even if that "end" only starts next year). Rising interest rates in the US are indicative of a healthy economy, not a weak one and ultimately QE tapering should be good for equity markets but bad for bond markets. So don't despair – the ride is going to be bumpy but not necessarily negative.

What's on our radar screen?
Here are a couple of items we are keeping a close eye on:

- *The SA economy:* the current account deficit declined from 6.5% in the December quarter to 5.8% in the March quarter. The annual increase in retail sales declined from 2.8% in March to 1.9% in April while inflation registered a surprise monthly decline, bringing its annual increase in June to 5.6%. This respite is likely to be short-lived though as the country faces massive fuel price hikes in the coming months.
- *The US economy:* one of the factors that prevented further declines in global equity markets was weaker than expected US economic data, giving rise to the hope that the Fed was unlikely to be over-enthusiastic about QE tapering. First quarter growth, for example, which was originally tabled as 2.5%, was revised down sharply to only 1.8%.
- *Developed economies:* **Japan's** economy rose at an annualized rate of 4.1% during the first quarter (Q1) or 1.0% quarter-on-quarter, up from 0.9% in Q4 last year.
- *Emerging market economies:* **China's** inflation declined to 2.1% in May while Q1 economic growth was 7.7% versus the 7.9% during the December quarter. Retails sales rose 12.6% year-on-year. Unemployment in **Hong Kong** is now 3.4% and retail sales there are growing at 19.4%. **Indian** inflation declined marginally from 9.4% in April to 9.3% in May. The Reserve Bank of India (RBI) left interest rates unchanged after having reduced them at their three previous policy meetings but nonetheless warned against upside risks to inflation – remember that the rupee fell about 5% in both May and June. **Indonesian** Q1 growth was 6.0%, down from 6.1% in Q4. Inflation remained around 5.0%. **Malaysian** Q1 growth was 4.1%, down from 6.4% in Q4; inflation rose at rate of 1.8%. In a sign of the times **Brazil** decided to scrap the controversial tax on foreign inflows destined for fixed income assets like bonds. It imposed the tax in the heyday of 2009 when foreign inflows into emerging markets drove the real to new heights. It also eliminated reserve requirements for banks on short dollar positions. How times have changed.

Global chart of the month
Central Bank intervention over the past number of years has been unprecedented. The jury is still out in terms of its success and of course the future "unintended consequences" of this aggressive stimulus are still open to debate. Policy implementation over the last five years has been nothing short of heroic. Ironically, government intervention has ultimately benefited the wealthiest citizens (Wall Street) far more than the average households (Main Street). This is clearly shown in chart 3. While the US Labour Force Participation Rate (Main Street) has fallen since 2008, financial assets (Wall Street) have risen aggressively over the same period. Since Ben Bernanke's speech on the Federal Reserve's stance on tapering (22 May 2013), market volatility has increased dramatically. This highlights the fact that financial markets have become fixated on loose monetary policy i.e. quantitative easing.

Chart 3: Wall Street boom, Main Street bust
Equal weighted total return index of US equities (DJIA) and US government & corporate bonds



Source: BofA Merrill Lynch, Bloomberg, Global Financial Data

Over the past five years $12 trillion of financial assets have been purchased by the big five central banks. In conjunction with this we have seen 520 central bank rate cuts. US government bond yields have subsequently traded at a 220-year low while almost half of government bond markets are trading at a yield below 1.0%. What has subsequently taken place is that risk asset prices have risen strongly. The global equity market capitalisation has more than doubled since its lows on 5 March 2009. This means that a $100 invested equally in US bonds and stocks is now worth $175. Capitalists have rejoiced but the workers have been notably less rewarded. To throw salt on the wound, it is important to remember that these tax payers and their offspring will be left to foot the bill. The rich get richer…

A few quotes to chew on
What *Fed Chairman Ben Bernanke* actually said on 19 June regarding the tapering of QE: "If the incoming data (on jobs and growth) are broadly consistent with (our) forecast, the committee currently anticipates that it would be appropriate to moderate the monthly pace of (US government bond) purchases later this year (and) continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around midyear."

Bill Gates, Microsoft founder and chairman: "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten."

Africa still growing strongly
In the light of Victor's article, which appeared in the April edition of *Intermezzo*, I thought you would find the following interesting. In the World Bank's latest global economic prospects report, it estimates that sub-Saharan Africa will grow at 4.9% this year versus 4.4% last year. 2014's growth is estimated at 5.2% followed by 5.4% in 2015. If South Africa is excluded from these numbers, the growth in 2013 and 2014 rises to 6.2% and 6.4% in 2015. The World Bank added that this kind of growth is not new but has been going on for more than a decade. The underlying reason for the acceleration of growth is rooted in fundamentals, it added, noting that foreign direct investment (FDI) into the region was expected to increase from $32.1bn last year to $40bn this year. It also noted that SA was lagging behind; it noted its weak prospects compared to other countries in the region and did not expect a significant turnaround in the short to medium term.

For the record
Table 1 below lists the latest returns of the mutual and retirement funds under Maestro's care. You can find more detail on our website at www.maestroinvestment.co.za. Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table are available on our website.

Table 1: The returns of funds under Maestro's care

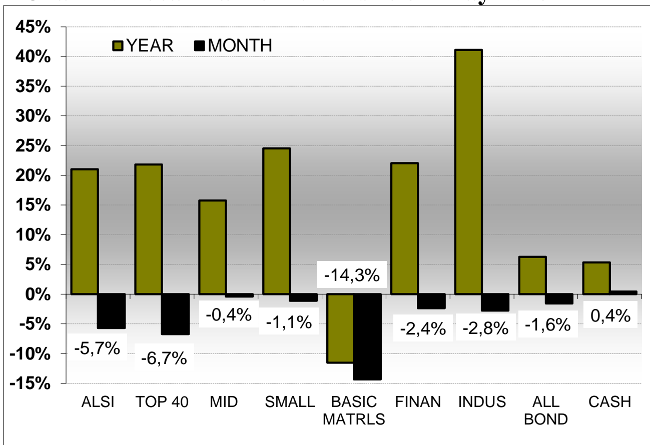
	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Jun**	**-0.5%**	**3.7%**	**19.1%**
JSE All Share Index	*Jun*	*-5.7%*	*2.3%*	*21.0%*
Retirement Funds				
Maestro Growth Fund	**Jun**	**-1.7%**	**3.0%**	**15.6%**
Fund Benchmark	*Jun*	*-4.0%*	*3.4%*	*17.5%*
Maestro Balanced Fund	**Jun**	**-1.6%**	**3.0%**	**14.5%**
Fund Benchmark	*Jun*	*-3.4%*	*3.5%*	*15.9%*
Maestro Cautious Fund	**Jun**	**-0.4%**	**3.1%**	**12.2%**
Fund Benchmark	*Jun*	*-2.0%*	*1.5%*	*10.4%*
Central Park Global Balanced Fund ($)	**May**	**-1.3%**	**-8.8%**	**-3.5%**
*Benchmark**	*May*	*-0.6%*	*4.3%*	*11.6%*
*Sector average ***	*May*	*-0.2%*	*4.5%*	*11.3%*

* 40% MSCI World Index, 20% each in Barclays US Aggregate Bond Index, Credit Suisse Tremont Hedge Index and 3-month US Treasury Bills
** Lipper Global Mixed Asset Balanced sector ($)

June in perspective – local investment markets
It will not come as a surprise to you that the SA markets – bonds and equities alike – suffered severe declines during June. If the following information sounds disconcerting, do remember that markets rose strongly off their intra-month lows, which means that things were actually far worse during the month than at the end of the month. For example, on 24 June the All share index was actually down 9.4% for the month-to-date although for the whole month, it declined "only" 5.7% (the index thus rose 4.7% between 24 and 28 June, indicating just how volatile the market was within the month). We have discussed the reasons for the turmoil, so let me move straight to the returns. Of the three major indices,

the basic materials index led the market lower, with a decline of 14.3% on the month – let me remind you that the respective monthly returns for April, May and June from this index stand at -9,3%, 11.1% and -14.3%; now that's what I call volatile! Financials declined 2.4% in June and industrials 2.8%. Not surprisingly, seeing that most of the trauma occurred in the mining sector, mid caps produced the best return across the size spectrum, declining only 0.4%. Small caps ended down 1.1% while large caps fell 6.7%. The best performing sector was fixed line telecoms, which rose 11.4% (Telkom rose 11.4% on the month), followed by the pharmaceutical and biotechnology index, up 6.8% (Aspen rose 9.4%) and tech hardware and equipment up 4.8% (Pinnacle rose 4.8%). The most bloodshed occurred in the gold index, which collapsed unceremoniously, by 19.7%, bringing its year-to-date return to -45.4%; this is after it lost 18.5% in 2012 (*Ed*: I see a trend developing here!) Hard on the gold index's heel was general mining down 15.2% (Anglo fell 18.4%) and platinum mining down 12.4%.

Chart 4: Local market returns to 31 May 2013



Before we all slit our wrists though, let me remind you that although it was not easy, there was sufficient room to post reasonable returns, if only in relative terms. As an example, I draw your attention to the fact that our Maestro Equity Fund only declined 0.5% in June; not surprisingly it was some of the shares that declined sharply during the first quarter (the likes of Aspen, Cashbuild and Mr Price) that contributed most to the June returns. Our long-entrenched preference for industrial and financial shares, and a bias in favour of mid caps, also worked in our favour. Of course, there is likely to be a dead-cat bounce eventually, when the really beaten up shares will rebound and not much is required to make the gold index rebound by double digits, but how sustainable it will be remains to be seen. The other bit of good news I draw your attention to again is the fact that, despite all the negativism directed towards it, the rand actually rose by 1.3%, beating virtually all other emerging market currencies in June. Admittedly, it did decline 10.7% in May, but my point here is that, over a two-month period, most other emerging market currencies have declined by as much, if not more, than the rand. One therefore needs to appreciate the bigger picture when contextualizing the rand's recent movements. The rand's decline is not necessarily only a "South African" phenomenon; we are declining along with all other emerging market currencies and if they were to recover somewhat, as they surely will in the fullness of time, our market will recover, too. Finally, let me highlight the All bond index return of 1.6% - it, too, was down by a far greater percentage about two thirds of the way through June, but managed to claw back some of its composure. June's return was sufficient, though, to push the All bond index year-to-date return into negative territory; it is now down 1.4% over this period while the All share index is still up 2.3% over the same period. Clearly, the rest of this year is going to be an interesting but volatile period.

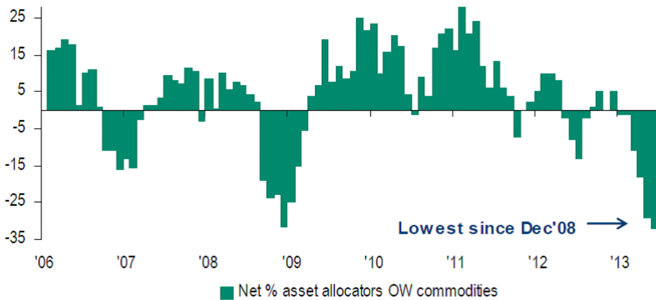
Local chart of the month

Emerging markets that are rich in commodities, such as South Africa, are heavily reliant on global growth prospects to ensure that their economies flourish. Although mining is not nearly as important to the South African economy as it was in the early 80's, it still plays a critical role in determining the broader fortunes of our country. What is often not measured is the importance of mining to industries that benefit from this sector. Global growth ultimately dictates commodity prices and resource based companies are price takers at the mercy of future expected global demand. What often transpires in an environment of weakening global growth is that emerging market currencies devalue relative to developed markets. One of the primary reasons this takes place is that when the demand for commodities is in decline, so too is the demand for the country's currency. We are not suggesting that the emerging market currencies are perfectly correlated to a basket of commodity prices, but we do believe this is still a major determinant of their relative value. One could argue that a declining currency is supportive of resource companies due to its hedge against the weakness. However, if the currency is weakening for the "wrong reasons" and the decline in commodity prices in US dollars is dramatic, this relationship does not hold true.

Chart 5 clearly highlights global investor exposure to commodities, which is currently at the lowest since the midst of the Great Financial Crisis in December 2008. The primary concern, or tail risk as it is commonly called, of the vast majority of investment managers is that China may slow dramatically resulting in a further collapse in commodity prices. China, considered as the growth engine of the world, has a lot resting on its shoulders. The SA rand has lost 40.0% of its value in US dollar terms over the last two years.

This should be seen in the context of gold falling 20.8% over the same period, platinum 23.5%, palladium 22.0%, silver 52.4%, nickel 40.8%, iron ore 31.6% and of course the bellwether for global growth, oil, which is down 9.2%. Copper has declined 27.3%. The performance of certain resource shares over the same period should not, then, come as much of a surprise; Anglo is down 42.8%, Billiton 4.1% (note the difference) and Exxaro 18.5%. This theme has continued to play out over the first half of this year with developed markets outperforming emerging markets by some margin. At Maestro, we have maintained an underweight position in resources for a number of years and this has obviously been a material benefit to our clients.

Chart 5: Global investors' exposure to commodities



Source: BofA Merrill Lynch Fund Manager Survey

Freak markets – chapter 3

During the past year or so we have often alluded to the prevailing market conditions as unusual or abnormal. Some of you might wonder why, so we started this short section to explain why we view the current market conditions as anything but normal.

In the past the focus has been on economic trend, indicators and relationships that are long-term in nature. But of course a lot of what we would describe as abnormal, or freak, market conditions occurs over short periods, sometimes even intra-day on occasion. So this month, let's walk through the US equity market movements during a few days in June. Remember, the point we are focussing on is how abnormal certain aspects of current markets conditions are. This is a good example of what we sometimes refer to as "good news is bad and bad news, good". Confused? Let me explain.

The big event this month was the Fed's announcement that the issue of a reduction in the current loose monetary policy i.e. QE is now officially on the agenda. By all accounts, that is good news. The Fed is confident enough that the economy is sufficiently strong to withstand a reduction of Fed support. Most economists would admit that that alone is reason to cheer. Yet, the market took one look at the announcement – indeed even started pre-empting it a few days before the announcement – and headed down at a frenetic pace.

Chart 6: The US equity market (S&P500); 18 Jun – 2 Jul

Source: Saxo Bank

I have depicted the US equity market by way of the S&P500 index in the chart above, specifically between 18 June and 2 July. The chart is depicted on an hourly basis i.e. each data point in the line depicts the market's level at the top of each hour, to illustrate my point, rather than simply depicting the closing day's level. The Fed's announcement was made on 19 June, where I have drawn the first vertical line; the effects of its announcement on the equity market are clear for all to see. So, what under normal circumstances would be regarded as good news took the market down dramatically – hardly what you would call normal!

Fast forward a few days, admittedly with the US market down some 5.2% in a period of 3 trading days. US retail sales came in slightly worse than expected (on 25 June – refer to the second vertical line) followed by the news (on 26 June, the third vertical line) that the US first quarter economic growth rate, initially estimated at 2.5% was actually far less; 1.8% to be exact. Now, surely both of these two data points should be regarded as bad or at least disappointing news. But no, the market decided to interpret this bad news as, well … good news, and those two data points proved rather decisive in the turnaround that ensued following the Fed's QE announcement on the 19th. Thus, the good news was perceived as really bad news, while the bad news was perceived as good news. In short, the thinking or explanation behind this apparent paradox is that equity markets have become addicted to QE and any indication of a withdrawal of QE would remove a large pillar of support for the market – hence the market decline. And if the economy was actually not as strong as expected, evidenced by the retail sales and Q1 GDP data, then perhaps the Fed would stay its withdrawal further into the future than expected,

which in turn would mean more "artificial stimulus" (QE) for equity markets – hence the sharp recover on 25 and 26 June and beyond. For your information, I have drawn the German equity market, depicted by the Dax index, in the chart below, to illustrate the effects of the same forces.

Chart 7: The German equity market (Dax)

Source: Saxo Bank

Normal? Hardly; but I hope it gives you an idea of just how crazy some of the market movements have become in recent years. The over-riding influence on the markets, which we believe has driven them to such strange and paradoxical behaviour, has been the interference by policymakers in the form of unconventional fiscal and monetary policy. While this is unlikely to be a permanent feature of the investment landscape, we are convinced it will be with us for a number of years to come.

The Anniversary piece - Sue Joubert

On the occasion of each team member's anniversary they are afforded the opportunity write an "Anniversary piece" for *Intermezzo*, on any subject of their choice. This month Sue, who with 13 years of service is the second longest serving team member, writes as follows:

Our children are now 15 and 17 and Andre and I have started the process of assisting them in deciding in which areas they might want to study and eventually earn a living. Both teenagers have a wide range of interests and abilities. Several issues have become apparent immediately:

- The choice of study fields is immense, confusing and challenging. Simplistically, when I left school if you were pursuing a university career the options were broadly speaking; Medicine, Engineering, Accounting or Commerce, Science and the Humanities.
- A university degree does not guarantee a paying job on completion. It makes sense to aim all one's hard work and money in a direction that is most likely to ensure paying work at the end of the process. Unfortunately, some of the most desirable fields in which to work in 15 or 20 years' time have not been thought of yet or are only in their embryonic stages now e.g. biomedical engineering, cytogenetic technology and renewable energy to name a few.
- Our children are both clearly part of generation Z, which is defined as being born between the mid-nineties and 2010; they are also known as the "digital natives". The Internet, technology, terrorism, the recession and social media have shaped their lives. This generation is tech savvy, flexible, constantly multitasking, socially responsible, neither brand loyal nor expected to be loyal to future employers, tolerant of diversity and have short attention spans. According to several sources this generation's IQ scores are higher than those of previous generations although they have fewer interpersonal skills.

Having been shaped by recessionary times, one of the fears of generation Z is whether or not they will be able to afford to go to university and whether or not they will be able to secure suitable employment. With this in mind I had a look at the 2012 McKinsey report on jobs, pay and skills.

According to this report by 2030 there will be a worldwide shortage of university graduates. The global labour force will be 3.5bn and there is likely to be a shortage of 38-40m university educated workers. More surprisingly, there will most likely be a shortage of 45m workers with secondary education to work in the labour-intensive manufacturing and services in developing countries. Basically, there will be too few workers with the advanced skills needed to drive high productivity economies and far too few jobs for low-skilled workers. By 2020 there will most likely be *one billion workers* in the global pool *who lack secondary education.*

Developed economies need to increase the number of young people obtaining tertiary education in science, technology and maths (STEM.) In the developing countries, secondary and vocational education needs drastic attention. To meet government targets of secondary school graduate rates in India, 34m secondary school places need to be added in order to attain 82m secondary school places by 2016. In order to do this they need to hire twice the number of secondary school teachers *every* year.

When I look at the above facts I am shocked again by how badly our government is failing its population by letting the standards of secondary and vocational training drop. I am also deeply convicted that if each family in this country with at least one university graduate could help to uplift and skill a person with vocational skills, we could significantly

improve the employment opportunities and lives of many people.

Returning to those in generation Z who are able to afford tertiary or vocational education, it is likely that qualifications and skills in the following areas will be highly sort after in 2020:

- Data analysis; the era of big data is gathering momentum. Everything and anything will be researched and analysed with a view to devising marketing strategies.
- Healthcare sciences, particularly mental health sciences.
- Scientific research, especially in the medical and manufacturing fields.
- Computer engineering.
- Artisans such as plumbers, pipefitters, carpenters and brick masons.

Now, back to our two generation Z children: I am absolutely sure that they will continue to have sufficient opportunities to gain excellent vocational skills. From a family point of view, the next ten years are going to be an interesting journey - I'm putting on my safety hat.

File 13: Information that is almost worth remembering
Some interesting data on the smartphones
We keep half an eye on the world of tech and its lightning speed changes – I say "half an eye" because it is moving at such a rapid pace it is hard to hang on to it altogether. Here are some interesting facts about the smartphone market. Samsung announced (at the end of May already) that it had sold 10m Samsung Galaxy SR phones, its latest offering, within a month of its release. By way of contrast, it took 50 days to sell the same amount (10m) of its earlier model, the S3. The global smartphone market is now estimated to be worth $294bn. Apple, which arguably pioneered the smartphone market, sold 5m iPhone 5 units during the opening weekend in September last year, but has not brought out a new model since then. According to the latest data, Apple has an estimated market share of 17.3%, LG has 4.7% and Samsung has no less than 31.7%. Over the past year Samsung and other smaller players have been eating into Apple's market share, even though Apple's total sales value (31.8% of total spend) is higher due to the higher prices of their devices. One wonders what we will be using or working on in two or three years' time?

So just how big is the Chinese m-commerce market?
China's e-commerce exploits are well known but it seems that the nation is also dominating the newest playing field, namely mobile commerce or m-commerce. Estimates are that by 2016, 1bn people are expected to make more than $1tn (trillion) worth of transactions via mobile devices worldwide. In 2012, Chinese customers spent $210bn shopping online, $7.7bn of which were transacted on mobile devices, a growth rate of more than 200% from 2011's levels. Estimates are that Chinese customers will transact more than $15.3bn of goods via mobile devices in 2013.

China's largest online retailer, Alibaba, made $170bn in online sales last year – *more than eBay and Amazon combined*. Alibaba said that payment volume on Alipay, its online customer payment service, grew 546% via mobile devices in 2013. Alibaba predicts that m-commerce in China will be a $41bn industry by 2015, surpassing the $31bn American m-commerce market for the same year.

On China's "Single's Day", a burgeoning November consumer holiday, Alipay handled $193m in transactions. In 2011smartphone penetration in the US reached 42% but the country accounted for 5.4% of the m-commerce market. Meanwhile smartphone penetration in China was just 11% yet about 4.0% of goods were bought with a mobile device in 2012.

A forgotten casualty of the gold price plummet
Long-time clients will be aware of our aversion for gold shares and direct investments into the yellow metal. We have watched with some bemusement as the metal has collapsed in recent months, although we are obviously also concerned about the prospects of the local mining industry, and in particular what the collapse means in terms of jobs, government revenue and poverty alleviation for all South Africans. One rather forgotten "victim" of the gold price collapse has been Venezuela. You may not be aware that in the last few years of his life, late Venezuelan president Hugo Chavez stockpiled more than 70% of the country's reserves in gold by the end of last year. Thanks largely to the decline in the price of gold, that country's reserves are now at an 8-month low and is compromising the country's ability to repay foreign bondholders and also to simply do business with the outside world. Although the country's central bank's reserves still total $25bn, with most of that held in direct gold, there is a chronic shortage of dollars which is hampering the normal functioning of the economy. Although the official rate of the bolivar is 6.3 to the US dollar, the black market rate is around 31.4 already. Inflation is running around 35.2% and a shortage of staple goods is becoming common place in supermarkets. There is only one month's import cover i.e. levels of foreign exchange reserves (cash) will cover only one month of imports. So it is not only gold investors who are suffering as a result of the plummeting gold price; some countries are at serious risk of imploding, too.

Table 2: MSCI returns to 30 June 2013(%)

	YTD	MTD
ACWI	**4.7**	**-3.1**
DM	**7.1**	**-2.6**
Asia Pacific	**6.4**	**-1.3**
Australia	-8.1	-6.6
Hong Kong	-2.9	-5.7
Japan	15.4	1.7
New Zealand	-3.2	-3.3
Singapore	-5.1	-4.7
GEM	**-10.9**	**-6.8**
EM Asia	**-7.8**	**-6.5**
China	-13.2	-8.9
India	-8.8	-6.9
Indonesia	4.1	-4.8
Korea	-13.7	-8.2
Malaysia	3.5	-1.8
Philippines	6.9	-8.5
Taiwan	1.3	-2.3
Thailand	-1.1	-5.0
EMEA	**-15.1**	**-5.1**
Czech	-24.3	-8.3
Egypt	-21.0	-12.9
Hungary	2.0	-0.6
Morocco	-9.0	-2.8
Poland	-16.6	-9.1
Russia	-14.0	-4.3
South Africa	-16.9	-2.1
Turkey	-10.1	-13.7
LATAM	**-16.1**	**-9.1**
Brazil	-19.5	-12.6
Chile	-12.0	-4.6
Colombia	-20.9	-3.3
Mexico	-6.5	-3.6
Peru	-30.3	-10.3

Source: Merrill Lynch

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