GRINDROD BANK

GRINDROD ASSET MANAGEMENT
INVESTMENT REVIEW – MAY 2010

"Some people believe football is a matter of life and death, I am very disappointed with that attitude. I can assure you it is much, much more important than that."
Legendary Liverpool manager, Bill Shankly.

ECONOMIC OUTLOOK

Will the problems currently being experienced in Europe derail the global economic recovery? Probably not. However, one thing is certain, the problems in Europe will not be resolved quickly and will weigh on the speed of the economic recovery, not only in that region, but throughout the world. That will mean lower interest rates for longer, little or no inflation, a weaker Euro (chart 1) and continued volatility in financial markets. The Dollar is likely to benefit as investors continue to seek safe havens for their investments – the gold price is also likely to keep rising for the same reason (chart 2).

Economic activity continues to expand in the United States and the recovery now appears more broad-based. The only area of concern is the high level of unemployment, which remains close to 10% (chart 3). As has been noted in previous Investment Reviews, job creation and a significant drop in the unemployment rate are key ingredients in sustaining the economic recovery. Without job security, households will not increase spending and will continue to pay down debt.

Index	May%	12m%	YTD %
Dow Jones	-7.9	19.2	-2.8
S&P 500	-8.2	18.5	-2.3
FTSE 100	-6.6	17.4	-4.1
EuroStoxx50	-7.3	6.5	-12.0
Nikkei 225	-11.7	2.6	-7.4
Hang Seng	-6.4	8.8	-9.7
Australia	-7.9	16.8	-8.8

Source: I-Net Bridge

Canada became the first G-7 country to start raising official interest rates when the Bank of Canada raised the key lending rate by 0.25% to 0.5%. The commentary that accompanied the announcement suggested that the move, although needed to combat rising inflation, was nevertheless undertaken rather reluctantly. While the Canadian economy avoided going into recession and has grown strongly in 2010, the Bank of Canada is concerned about the uncertain future facing Europe and the prospect of a slowing Chinese economy which would reduce demand for Canada's mining exports.

The Soccer World Cup is just around the corner and while Europe's economy is struggling to turn the corner, the region's football teams are expected to perform strongly. Spain are currently favoured to win the tournament, while England, Holland, Germany, Italy, France and Portugal are all considered in the running to lift the trophy. Hopefully the SWC can provide some cheer for Europeans in desperate need of good news.

MARKET OUTLOOK

Global equity markets plummeted during May (chart 4) – at one point the S&P 500 index was 15% off its April highs. On 6 May, the Dow Jones Industrial Average lost almost 1,000 points in a matter of minutes. The cause of the "Flash Crash" is unknown but it did highlight the volatility and nervousness in financial markets as the problems in Greece were unfolding. May's sell-off has pushed global equity markets into negative territory since the start of the year, with European markets the worst hit. Adding to the markets' woes, BP's inability to plug the well which is leaking tens of thousands of barrels of oil into the Gulf of Mexico weighed negatively on the shares of energy companies and has wiped nearly £45 billion off BP's market value since April (chart 5).

Yields on US treasuries continued to fall as investors sought the sanctuary of investments carrying lower risks. This also helped the US dollar strengthen against the currencies of most of its trading partners. Particularly hard hit was the Euro, now trading at $1.22/EUR versus last month's closing level of $1.31/EUR. A number of market commentators expect the Euro to trade at parity to the US dollar within the next 2 years.

Index	May%	12m%	YTD%
All Share	-5.1	21.9	-0.9
Resources	-6.5	10.8	-6.1
Financials	-5.5	33.6	4.6
Industrials	-3.5	29.5	2.0
Property	-2.2	25.4	9.4
Bond	-0.4	9.4	5.3
Cash	0.6	7.7	3.0

Source: I-Net Bridge

Broad-based selling helped push South Africa's equity markets lower in May. While the Resources sector was once again the hardest hit, Financials and Industrials also lost ground as investors took their cue from falling global markets. The JSE All Share index is now 1% lower since the start of the year, although the Financial and Industrial indices are both higher over that period. The Rand lost ground to the US dollar as investors pulled back from riskier markets, while commodity prices continued to fall sharply (chart 6).

Bond yields drifted higher in May as the Rand weakened, raising the prospect of higher inflation in the future. The South African Reserve Bank left interest rates unchanged at the May meeting of the Monetary Policy Committee, providing little guidance for the bond market. With bond yields rising, the listed property sector also lost ground, exacerbated by weaker than expected guidance from sector heavyweight, Redefine. The forward yield on the sector remains attractive at 8.8%, with distribution growth forecast at around 7% per annum for the next three years.

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Chart 1 - US$/EURO EXCHANGE RATE

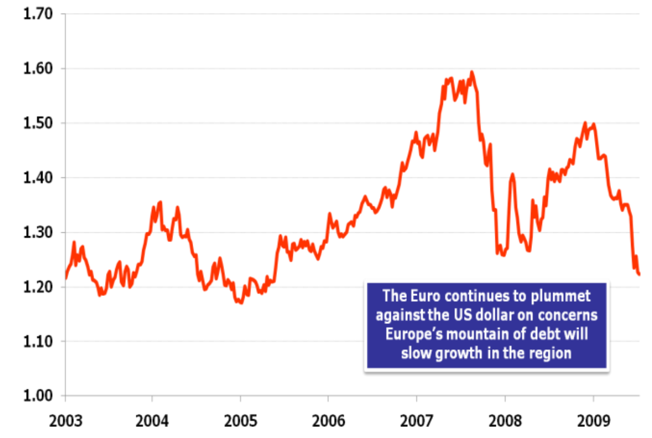

Chart 2 - GOLD PRICE (US$)

Chart 3 - US UNEMPLOYMENT RATE (%)

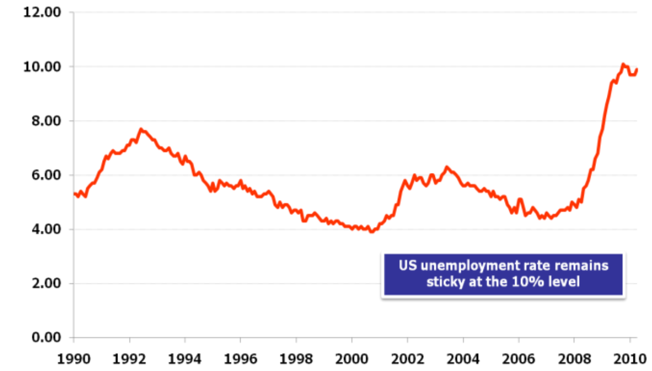

Chart 4 - MSCI WORLD INDEX

Chart 5 - BP SHARE PRICE (pence)

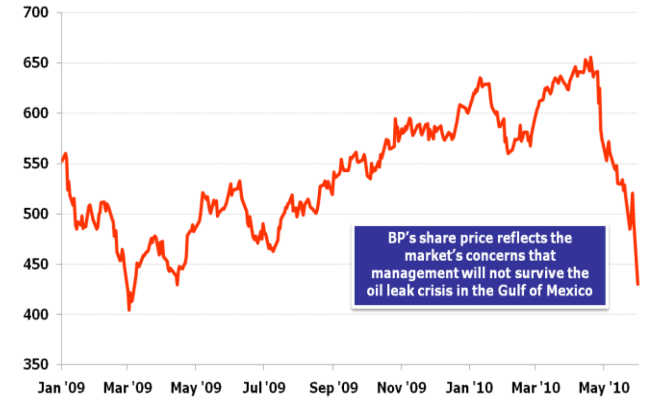

Chart 6 - REUTERS/JEFFERIES CRB INDEX