

Banking, Finance and Insurance

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Compiled by

BANKING IN SHORT

In the news this morning, private-sector borrowing fell in January for the fourth month running, supporting the view that the economy would not enjoy a rapid recovery from its first recession; Cosatu and its partners in the People's Budget Coalition have called for a special wealth tax for those earning over R1 million a year and condemned a youth wage subsidy; Fitch Ratings has updated its rating methodology for assessing credit risk in South African residential mortgage loan pools that are used as collateral for structured finance transactions; and food inflation has declined to below the lower limit of the Reserve Bank's target inflation bracket. Inflation on food and non-alcoholic beverages slowed to 2.4% on a year-on-year basis in January.

NEWS REVIEWS

NATIONAL ECONOMY

Rand and dollar report

A quiet rand tracked the euro in the afternoon session on Friday. The local currency earlier bounced off R7.68 against a weaker dollar, a local trader said. At 15:44, the rand was bid at R7.718 to the dollar, from R7.732. It was bid at R10.464 to the euro from R10.455 and at R11.709 against sterling from R11.763. The euro was bid at \$1.357 from \$1.353.

BUSINESS DAY (National), Companies & Markets

Food prices fall below bank's inflation target

Food inflation has declined to below the lower limit of the Reserve Bank's target inflation bracket. Inflation on food and non-alcoholic beverages slowed to 2.4% on a year-on-year basis in January. The National Agricultural Marketing Council (NAMC) said food price inflation was expected in the region of 2% to 3% for the next three months. Food inflation would then increase in the second half due to hikes in several administered prices as well as wage costs beyond the control of farmers, processors and food retailers. Retail prices of grain products decreased in rural and urban areas for the year to January. However, rural citizens still paid more for food than their urban counterparts, the NAMC said.

BUSINESS REPORT (National)

Borrowing points to a gradual recovery

Private-sector borrowing fell in January for the fourth month running, supporting the view that the economy would not enjoy a rapid recovery from its first recession in 17 years. Private-sector credit extension was down 1.1% on the previous January's, after December's quickening from a revised contraction of 0.6%, official data showed on Friday. A sharp fall in corporate borrowing was mainly to blame, with households taking up credit at a sluggish pace.

BUSINESS DAY (National)

Zuma wants UK money

About 200 business people will accompany President Jacob Zuma on his first state visit to Britain, where he will stay at Buckingham Palace at the invitation of Queen Elizabeth II. Each year the Queen extends only two invitations for state visits, which are traditionally accompanied with great fanfare. Zuma's visit next week, escorted by 12 ministers, is the Queen's third invitation to a South African president since the end of apartheid. The purpose of Zuma's state visit - his fourth since his inauguration in May last year and his first to Europe - is to strengthen economic and political ties with Britain, the biggest foreign investor in South Africa and one of our top trading partners.

FIN24.CO.ZA - FINWEEK

NATIONAL BUSINESS

Weekly discount rate falls

The average discount rate for South African three-month Treasury Bills fell to 7.05% on Friday, from 7.08% the previous week, the Reserve Bank said. The average yield was also down at 7.18% from 7.21% and applications for the R3.7 billion of bills on offer totalled R8.518 billion. The average discount rate for six-month bills slipped to 7.13% from 7.18%, while the average yield was at 7.39% from 7.45%.

BUSINESS DAY (National)

Standard earnings growth of up to 15% expected

Standard Bank and FirstRand were pricing in earnings growth from existing operations of as much as 15%, said RMB Morgan Stanley Research. Nedbank and Absa were factoring in only an "unwind" of bad debts, Johannesburg-based analyst Louis Chetty and London-based analyst Magdalena Stoklosa wrote in a report on Friday. In the year to December, Absa's impairments jumped 54% to almost R9 billion as consumers defaulted on loans and it wrote down R1.36 billion of investments in four small South African companies, it said last week. Nedbank profit declined 25% last year as customers struggled to repay debts it said. Standard Bank shares, which have climbed 8.2% in the last six months to close at R107.46 on Friday, were pricing in a return on equity of 20.4% by fiscal 2011, the analysts wrote.

BUSINESS REPORT (National)

Brimstone 'working hard' to make empowerment work

Brimstone Investment Corporation, the empowerment group that turned around to a profit in the year to 31 December, had been working hard to manage its empowerment status and dividends would be paid to black shareholders holding 54% of the group, Executive Deputy Chairperson Fred Robertson said last week. Brimstone made a R337.5 million profit in the year to 31 December after a R106.4 million loss the previous year. The group declared a dividend of 32c per share, from 24c. Robertson told the Investment Analysts Society in Johannesburg last week there was a big debate on empowerment, whether it was successful, and whether black businessmen tended to become only silent partners. He said this was not the case for Brimstone, with short-term insurer Lion of Africa being built into a successful company almost from scratch.

BUSINESS DAY (National), Companies & Markets; BUSINESS DAY (National)

Small business tax changes you should know about

Small business corporations received very minute tax changes in the Budget 2010. However, of the few that there were, you ought to take note. You could save just under R60 000 in taxes and avoid being smacked with treble penalties for non-disclosure. According to Colin Wolfsohn, a member of the Saica National Tax Committee, the change that will have the biggest impact on small businesses from Budget 2010, is that there will be no tax on the first R57 000 of taxable income and then they will be taxed on a sliding scale of 10% for the income that goes up to R300 000; normal corporations get taxed at a flat rate of 28% (the R300 000 maximum has not been adjusted for inflation since the 2007 tax year). To get this benefit, mark off the box on your annual tax return which asks if this corporation is a small business. SARS defines a small business as a company that has turnover of under R14 million a year.

CITIZEN, Citi Business

GENERAL NEWS

Cosatu calls for special wealth tax

The Congress of South African Trade Unions (Cosatu) and its partners in the People's Budget Coalition have called for a special wealth tax for those earning over R1 million a year and condemned a youth wage subsidy. The special wealth tax would deal with the "meteoric" rise in executive management salaries which, together with a decline in real wages, has contributed to a widening income and inequality gap, the coalition told MPs last week.

BUSINESS DAY (National)

Busa to meet ANC on mine nationalisation

Business Unity of South Africa (Busa) will present the African National Congress (ANC) with arguments against proposals to nationalise the country's mines, said its CE Jerry Vilakazi. Vilakazi said last week that at a council meeting last month, Busa members decided to pre-empt a potential shift in policy by engaging with ANC leaders to present the views of business and to tell them how nationalisation would affect the economy. The State should own at least 60% of all mining assets in SA, the world's largest producer of precious metals, says an ANC Youth League (ANCYL) policy document. League President Julius Malema, who rallied behind President Jacob Zuma to help him into SA's top job, said the group would campaign against any politician who did not support this policy. Busa includes the SA Chamber of Mines, which, in turn, includes BHP Billiton's BHP Billiton Energy Coal; De Beers Consolidated Mines; AngloGold Ashanti; and Anglo American. Zuma and the ANC have said it is not their policy to transfer SA's mines to State ownership as requested by the youth league.

CITIZEN, Citi Business

PROPERTY AND HOUSING

Queensgate hit by double whammy

Queensgate had been "hit by a double whammy": the drop in tourism and the drying up of promised investment funds from Germany due to the worldwide economic situation, Executive Chairperson Colin Human said on Friday. Until recently, Human was the non-executive chairperson of the listed hotel development and management company, in which black empowerment company Mvelaphanda owns a 15% stake. He has been appointed Executive Chairperson "on an interim basis". Human said that since its inception Queensgate, whose main activity is developing hotels for investors, had attracted investment in these developments from Germany. But Germany had been affected by the worldwide financial crisis and promised investment had not arrived.

BUSINESS REPORT (National)

Fitch updates rating methodology

Fitch Ratings has updated its rating methodology for assessing credit risk in South African residential mortgage loan pools that are used as collateral for structured finance transactions. The main changes to the criteria include a more forward-looking approach, increased market value decline assumptions, foreclosure time assumptions and high-low property value adjustments.

BUSINESS DAY (National)

Affordable housing for Ballito

A 427ha site between Shakaskraal and Ballito is to be developed into a R1.5 billion self-contained community. The project, called Woodmead will target the lower to middle income market. Standard Bank's Integrated Residential Development (IRDev) division is to finance the project. A memorandum of understanding was signed by Human Settlements and Public Works MEC Maggie Govender and Standard Bank at the launch of the project. Managing Director of IRDev Kevin Duncan, said this is not a RDP housing scheme but is designed to offer affordable housing for a range of incomes not catered for in most coastal housing estates. Woodmead is expected to be completed in five years' time.

MERCURY, Sport MERCURY

State apiles for Sea Kay liquidation

The National Housing Finance Corporation, the state's low-cost housing financing arm, has applied for the liquidation of Sea Kay and subsidiary Sea Kay Engineering Services. The application arises from a R128 million loan to the latter that has an outstanding balance of R108 million for which Sea Kay signed surety.

BUSINESS DAY (National), Companies & Markets

Wilderness Safaris to list in SA and Botswana

Wildlife and tourism group Wilderness Safaris, owner of southern Africa's most iconic wildlife lodges, announced on Friday that it will list on both the Botswana stock exchange and the JSE on 8 April. The listing has attracted some interesting investors, with international shoe group Puma taking a 20% stake and Vulcan Capital, the investment vehicle for US billionaire Paul Allen, also buying into the group. Wilderness Safaris CEO Andrew Payne said Puma viewed its investment as a way to attach its brand to a company with deep environmental roots. "Not only do they want to be associated with the environmental work we do, but also see further possibilities of using the Wilderness brands in other parts of their business," said Payne.

BUSINESS DAY (National), Companies & Markets

Sun finds recession inhospitable

Gaming and hospitality company Sun International was helped by its investment in a new casino resort in Chile to lift revenue by 2% to R4.1 billion in the six months to December. However, like most of the hospitality industry, it has been hit by the recessionary conditions and slowdown in international and domestic tourism. Excluding income from Chile, revenue fell 5% and earnings before tax, interest, depreciation and amortisation (Ebitda) declined 11%. Gaming revenue grew by 5% but hotel room rates were cut in response to lower demand and revenue from these was 14% lower. David Coutts-Trotter, the Chief Executive of Sun International, said he expected the World Cup to make June and July better than usual for the hotel and restaurant business. But after that "business will remain tough or the next 12 months. Unemployment is high and there are cost increases," he said.

BUSINESS REPORT (National); BUSINESS DAY (National), Companies & Markets

Redefine seeks greater control

In an effort to create potential for significant annual savings in the future, South Africa's second-largest listed property group, Redefine Properties, is moving the property management function of its portfolio in-house. The group, which has an R18.2 billion property portfolio, said on Friday the change in strategy was aimed at increasing service delivery and streamlining processes and efficiency to enhance profitability.

BUSINESS DAY (National)

Standard Bank backs KZN housing project

Standard Bank is backing another housing project that will give families who earn too much to qualify for government subsidies and too little to get bank loans a chance to own a home. Kevin Duncan, the head of Standard Bank's integrated residential development division, said on Friday that, "Middle income families earning between R3 000 and R9 000 a month, are at risk of being stranded in a position where they earn too much to qualify for a state housing subsidy, but not enough to qualify for a traditional bank loan." The development in Woodmead north of Durban will provide 500 homes in the first phase. It is 50km from Durban and close to Balito and the new King Shaka International Airport, where a light industrial zone is being developed.

BUSINESS REPORT (National)

Tough times ahead for consumers

Financial woes are looming on the horizon for many households. If you are buying a house now, consider opting for a smaller or cheaper property and keep some money back in your monthly budget to cope with home loan and household costs - they are set to rise, maybe even dramatically. If you are staying out, revise your spending habits and start thinking of ways to prune your bills. Economic experts say you will be paying a lot more for basics in the future. FNB's leading property economist John Loos politely terms these financial storm clouds as the "new housing affordability challenge". The announcement of a 25% electricity hike for next year, and more steep price increases set to follow, will be a blow to consumers as it will push up the costs of the goods and services they buy.

CITIZEN, Citi Business

RESTRUCTURING AND APPOINTMENTS

Blue set to name long-awaited chairperson

Blue Financial Services, the pan-Africa micro-financier, had finally appointed an independent non-executive chairperson, ending a search that started about 12 months ago. Sources on Friday said that the new chairperson would be announced sometime this week after the appointee had signed the employment contract. The would not name the new chairperson, but said he was a "black and very dynamic" person with lots of experience in micro-financing.

BUSINESS REPORT (National)

INTERNATIONAL ECONOMY & BUSINESS

RBS fears £1bn loss from staff defections

Royal Bank of Scotland paid 100 investment bankers more than £1 million each - yet has still warned that hundreds will defect this year over pay restrictions, costing the state-backed lender £1 billion in profit. Speaking after RBS unveiled a £3.6 billion loss last year, Chief Executive Stephen Hester claimed a thousand top bankers quit in 2009 for better pay elsewhere, adding: "This year will look a lot like the last... The people who left us last year would have increased our profits by up to £1 billion... [This year] we will lose uncomfortable amounts of staff." Despite the tight rules on pay, RBS chairperson Sir Philip Hampton admitted that "a good number of people, more than 100" earned bonuses of over £1 million. The disclosure will fuel public outrage even though Mr Hester and deputy chief executive Gordon Pell, who retires in March, waived their £1 million-plus awards.

TELEGRAPH.CO.UK

RBS Chief Hester says 'worst' is behind bank

Royal Bank of Scotland hief executive Stephen Hester said the bank had put the "worst was behind it", as he struck the most bullish note since its rescue in 2008. "We've past the riskiest part for the bank," said Hester. "This is not to say there aren't difficult times ahead, but so far so good." Speaking on Thursday morning, Mr Hester said 2009 was a year of "substantial progress" for the bank as he highlighted how RBS was ahead of schedule on his targets for turning the lender around. Reporting a smaller than forecast loss of £3.6 billion for last year, RBS, which slumped to a record £24.3 billion loss in 2008, said it expected to make another loss this year and would not turn a profit before 2011 as it enters the second year of a five-year plan designed to return the bank to the private sector.

TELEGRAPH.CO.UK

Spectre of double-dip recession looms over UK

Fears of a double-dip recession and a sterling crisis in the run-up to the election were raised last night amid news of collapsing investment in British industry and a warning from one of the world's leading financiers that the pound could plummet within weeks. The pound fell sharply on the foreign exchange markets after a day of grim economic news which saw an admission from RBS that it had missed government targets for business lending, a downgrading of the UK growth prospects by the European commission and a warning from the CBI that consumer spending was likely to remain weak ahead of polling day. "Other currencies aren't strong and the euro has real problems, with cracks much wider than Greece beginning to show," Rogers said, "but it's the pound that's most vulnerable".

GUARDIAN.CO.UK

Virgin Money CEO says eyeing UK banking assets

Virgin Money is "still interested, still looking" to buy up banking assets in Britain, Chief Executive Jayne-Anne Gadhia said on Thursday. The group is looking to IPO in about five years time, Gadhia said at a conference. The consumer credit arm of Richard Branson's Virgin is frequently named as a potential suitor for a slice of the billions of pounds in British banking assets, set to be sold over the coming months and years, including making another approach for failed mortgage lender Northern Rock. "Any acquisition we might make, we will test against our organic growth plan. We have a five-year plan to get to a significant number of branches and we would hope to IPO at that time," said Gadhia. Virgin Money entered Britain's retail banking market earlier this year after agreeing to buy a small provincial bank, Church House Trust, in a £50 million (\$77 million) deal.

REUTERS.COM

Mervyn King: UK must face up to the dangers in banking

The Governor of the Bank of England has warned that the UK needs to "face up" to the dangers within the financial system and adapt radical reforms – or risk an "even bigger crisis next time." Mervyn King told a cross-party commission that it is a "false paradise" to call deposits "safe" in banks that are "investing in risky assets." King said the "heart of the problem is the inherent riskiness in the structure of the banking system." The Future of Banking Commission, whose members include David Davis the former shadow home secretary, Vince Cable, the shadow Chancellor for the Liberal Democrats, and John McFall, the chairperson of the Treasury Select Committee, aims to publish after the election recommendations for long-term reforms.

TELEGRAPH.CO.UK

HSBC's Asia moves could make colonial follow

HSBC Holdings Plc's decision to move Chief Executive Officer Michael Geoghegan and three more top bankers to Hong Kong from London may force Standard Chartered Plc to follow its example, money managers and analysts said. Geoghegan, 56, moved to Hong Kong this month, joining Sandy Flockhart, chairperson of personal and commercial banking. Standard Chartered CEO Peter Sands, a former British diplomat, said last year he will stay in London. HSBC is moving the executives to Asia as it focuses on faster-growing emerging markets like China and India, the bank said. The lender reaped more than half of its 2008 pretax profit in Asia, compared with 94% for Standard Chartered. HSBC's decision sparked concern in London that more financial firms might follow, jeopardising the British capital's position as a global financial center.

BUSINESSWEEK.COM

Berkshire Hathaway rebounds

Warren Buffett's Berkshire Hathaway said fourth-quarter profit surged, helped by derivatives bets tied to global stock markets. Profit rose for a third straight quarter and full-year profit increased 61% as Berkshire rebounded from perhaps its worst year since Buffet took over in 1965. In his annual letter to Berkshire shareholders, Buffet admitted that Berkshire's ability to out perform its own benchmarks "has shrunk dramatically" and that "our future advantage, if any will be a small fraction of our historical edge."

BUSINESS TIMES

INDICATORS

Rand - Dollar \$	7.6600	(+0.1920)
Rand - Sterling £	11.6156	(+0.3917)
Rand - Euro €	10.3992	(+0.2002)
JSE Allshare	26764.6	(+32.76)
Gold	1108.2	(+13.75)
Platinum	1533.0	(+19.00)
Brent Crude Oil	76.6	(+0.35)

The figures quoted are from the close of business yesterday, along with any movement, either up or down, from the previous day.