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JSE rallies to new peak as gold price rebounds

Revival in Chinese industrial production lifts resource shares

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THE JSE rallied to a record yesterday, with a broad-based surge in the resources sector and a rally in the gold price setting the market tone following fresh Chinese and US data.

News from China showed that industrial production in the world's second-biggest economy had picked up more than expected, boosting expectations of improved future demand.

Data from the US out on Friday showed that growth was taking longer to take off in the world's largest economy, prompting a take-up of physical gold.

US wholesale inventories fell unexpectedly for a second successive month in June, forcing economists to trim second-quarter growth estimates and raising speculation the Federal Reserve could continue its stimulus for longer.

Market participants were awaiting a US retail sales reading today to gauge the timing of any tapering of monetary policy by the Fed. Accommodative monetary policy in the US favours gold because low interest rates encourage investors to put money into noninterest-bearing assets.

Helping the gold rally was that China's gold consumption rose 54% to 706.4 metric tonnes in the first half of this year from a year earlier, the China Gold Association said yesterday. Gold-bar purchases surged 87% and jewellery demand rose 44%, it said.

The price of the metal rose as much as 2.3% to $1,344.40/oz, bouncing off last week's lows of about $1,285/oz.

The gold bullion price is still down nearly 20% in dollar terms this year.

As a result, gold shares were the standout performers yesterday, with the improving gold price and a weaker rand adding to market buoyancy and pushing the JSE gold index 12.84% higher. Harmony Gold leapt 20% to close at R39.56, with Gold Fields up 13.40% to R59.82 and AngloGold Ashanti up 11.87% to R131.99.

But the rest of the market performed well, too, especially the platinum and resource indices. The all share index ended 1.80% higher at 42,497.30 points.

Zwelakhe Mnguni, head of equities and portfolio manager at Mergence Investment Managers, said the "substantial price changes" in gold stocks had to be seen against a rise in the dollar gold price and a weaker rand.

"The gold stock price changes therefore beg the following questions: are we starting to see a turnaround in the price performance of gold stocks? If so, what has changed underground in these mines between last Thursday and today? We would argue very little," he said.

A case could be made for a "short-term relief rally" considering that some of the gold counters had lost more than 50% in the past six months, Mr Mnguni said.

"However, to make a longer-term call, one would have to make a call on a number of complex performance drivers that require some structural changes: the gold price, the rand exchange rate, labour productivity/inflation and falling ore grades."

Platinum and resource sectors similarly caught investor attention yesterday, with analysts pointing to the improving Chinese data late last week as the main catalyst for a strong buying momentum, although questions linger about the rally's sustainability.

Industrial production in China — which accounts for 79.63% of SA's mineral exports in the year to date, according to Standard Bank research — accelerated to 9.7%

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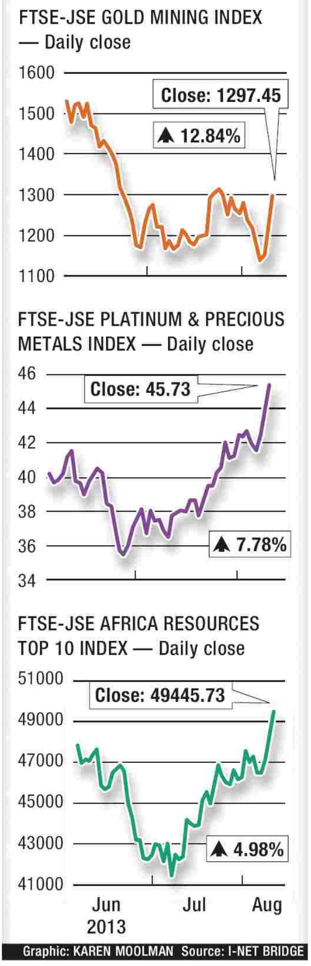
MARKETS RALLY AS GOLD SHARES SURGE



Graphic: KAREN MOOLMAN Source: I-NET BRIDGE

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JSE rallies as gold rebounds

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year on year last month from 8.9% in June, above an 8.9% consensus estimate. Import data showed a pick-up in China's imports of commodities.

"The catalyst to this performance is certainly being driven by the better than expected Chinese industrial production data, which intimated the worst may be over in terms of the Chinese growth slowdown," said Mohammed Nalla, head of strategic research at Nedbank Capital.

China has supported global growth, particularly since the financial crisis in 2008, and any sign of a slowdown makes the rest of the world uneasy, especially in the absence of spectacular growth in other regions, said Standard Bank research analyst Thabi Leoka.

Lesiba Mothata, head of markets and economic research at Investment Solutions, said: "The seemingly positive sentiment around China and its growth prospects could be short-lived. The less formal expansion of credit (there) has raised concerns to the point that its government has assembled an audit committee to look into the matter. The momentum therefore behind this rally is doubtful...." *With Bloomberg and Reuters*

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