

CNBC Africa interview: Double-dip recession theory in second quarter of 2010 and commodities outlook – Kagiso Asset Management Head of Research Abdul Davids

View on double dip recession in the second quarter of 2010

"I think recession is probably a very harsh word. What we are hopefully seeing is some sort of a pullback. There are a lot of factors that have driven markets to recent highs and I think the removal of some of the stimulus packages we have seen will impact on the market.

The extent of those impacts in terms of severity and the likelihood of recession is unclear and therefore it's difficult to say with confidence that we are facing a double dip recession. However, the removal of some of the factors that have driven commodity prices and equity markets to recent highs from their lows of December 2008 will have an adverse impact on equity markets."

View on a commodities super cycle

"In the short-term the trends are very much in place but I need to caution that **Kagiso Asset Management** sees some sort of pull back in commodity markets. What has happened is that Chinese demand for platinum has risen to new highs and I think a lot of what has driven the Chinese economy and others have been the stimulus packages that we spoke about earlier. In the absence of those we certainly see some sort of moderation in demand coming through bearing in mind, for example, that the platinum price bottomed out at US\$826 as early as December 2008 and has more than doubled since then.

Underlying demand, excluding China (seeing that China has grown so significantly over the last two years or so) is really not in place at the moment, so we don't believe in a super cycle to the extent that commodity prices have recovered. Having said that, short-term drivers are still in place but, in the longer-term, the absence of and the removal of stimulus packages will definitely have an adverse impact on those markets."

Short-term forecast for oil price

"We saw oil prices at US\$143 not so long ago. In the short-term again we've only seen demand out of China. US auto demand, for example, is still recovering but that's off a very low base. Underlying demand therefore has not shown the uplift that we expected given the rise in commodity prices and also the oil price."

Outlook for platinum – Is platinum the best metal to have going forward given numerous new uses in different areas including in the technology and medical space?

"Yes. In particular, Africa sits with more than 85% of the world's known platinum resources and the likes of Amplats, which is by far the dominant producer and dominant

owner of this resource. I think the outlook for platinum in 15 and even 30 years from now is going to be very bullish.

However, I think prices have run ahead of themselves in the short-term and short-term drivers of prices haven't been fundamental drivers. Excluding China, (with China now the dominant 'demander' of platinum, having overtaken Europe) underlying demand is still very sluggish and there's a lot of stock out in the market due partly to the slow recovering auto sales. Because auto sales in particular contribute so strongly to demand, it's unlikely that the new sources of demand will take off in the short-term and even in the medium-term."

Five-year forecast for platinum price

"Bearing in mind that it's difficult to forecast prices when you have cycles, we do have some confidence in our ability to forecast platinum prices given what has happened before and given the supply and demand fundamentals and dynamics. **Kagiso Asset Management** thinks platinum in the range of US\$1400 to US\$1500 an ounce should be the normal level.

Having said that, the CEO of Amplats Neville Nicolau said recently Amplats was looking at platinum prices of between US\$1650 and US\$1700 an ounce as normal prices. Those prices, although substantially higher than **Kagiso Asset Management's** prices, are still lower than current spot prices."

Views on the gold price

"As I've said before, it's difficult to forecast the gold price in the short-term because of its volatility. However, again bearing in mind supply and demand fundamentals and also given what's happened in the global economy, we see some short-term pull back in gold prices. I previously mentioned that we see a normalized gold price of between US\$850 to US\$900 and that is still very much intact. Clearly it's not a number that we can cast in stone. It's important to remember that previous factors (such as stimulus package removals) drove gold prices to their recent highs with the all time peak as recent as December.

From that point of view, once the impact of the removal of those stimulus packages comes through, you could have a scenario where bearish investors return back to the gold market - clearly a dynamic that is unique to the market. But in the absence of that, I think we should see some sort of draw back in the gold price in the short-term."

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