

Date: 01 September 2010

USD-ZAR 7.3095/4190
 GBP-USD 1.5344/448
 GOLD \$1249.33

EUR-ZAR 9.3059/4201
 USD-JPY 84.16/59
 ALLSHARE 27 253.87

GBP-ZAR 11.2767/3994
 AUD-USD 0.8957/9039
 DJI 10 014.72

EUR-USD 1.2671/753
 R157 7.205%
 3M JIBAR 6.375%

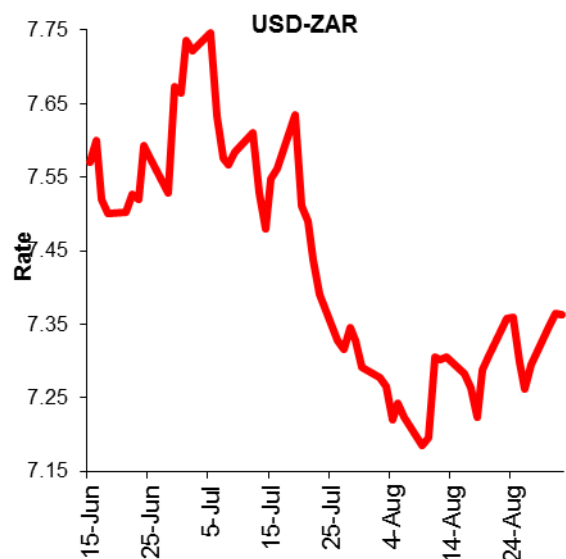
Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	Kagiso PMI	Aug	50.2	49.5
07:30	CH	Manufacturing PMI	Aug	51.7 a	51.2
07:55	DE	Manufacturing PMI	Aug	58.2	58.2
08:00	EZ	Manufacturing PMI	Aug	55.0	55.0
12:15	US	ADP Employment	Aug	18.0k	42.0k
14:00	US	Construction spending	Jul	-0.50%	0.10%
14:00	US	ISM Manufacturing	Aug	53.0	55.5
	US	Vehicle sales	Aug	11.50mn	11.52mn

Today's Talking Point

Kagiso PMI (Aug) preview: The Kagiso PMI has been in contractionary territory for the past two months with the Jun and Jul readings coming in at 48.4 and 49.5 respectively. However the slight improvement in activity in Jul was underpinned by general business activity expanding again after two months of contraction, and this bodes well for a pick-up in the PMI in the months ahead. Furthermore, the contraction in Jun and Jul can be attributed to the effects of the World Cup as the construction and manufacturing sectors in particular saw reduced working hours. As such, one can expect a return towards the global trend in Aug, which is one of moderately positive growth. Consensus shows the market is expecting a reading of 50.2.

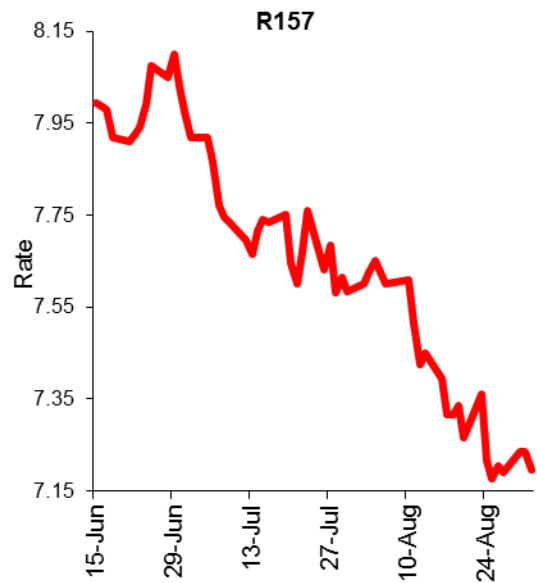
Rand Update

Those market participants calling for a weaker ZAR will have looked on in total amazement as the SA economy posted yet another healthy trade surplus for the month of July to bring the cumulative deficit down to just R3.2bn vs. the R14.23bn recorded for the Jan-July period in 2009. Indications that SA's exports would be severely affected have been wide of the mark with exports having risen 26% y/y. Further analysis shows that more often than not, SA's GDP improves in a strong ZAR environment pouring cold water on the mistaken belief that a weak ZAR is good for SA's economy. There are always two sides to every debate on the ZAR and increasingly, it is becoming obvious that simply looking at a weaker ZAR as a driver of SA's export performance is flawed. Two things are important to note. Firstly, SA's economic cycle is very strongly correlated with that of the rest of the world and secondly, quite often factors of production into the SA manufacturing sector are import related. According to Reuters data (bid chart), the ZAR weakened against the USD on Tuesday, closing at R7.3645 from R7.3475 on Monday. The ZAR also lost ground vs. the EUR, ending at R9.3419 from R9.3049 on Monday, while finishing stronger vs. the GBP at R11.3045 from R11.3607 the previous day.



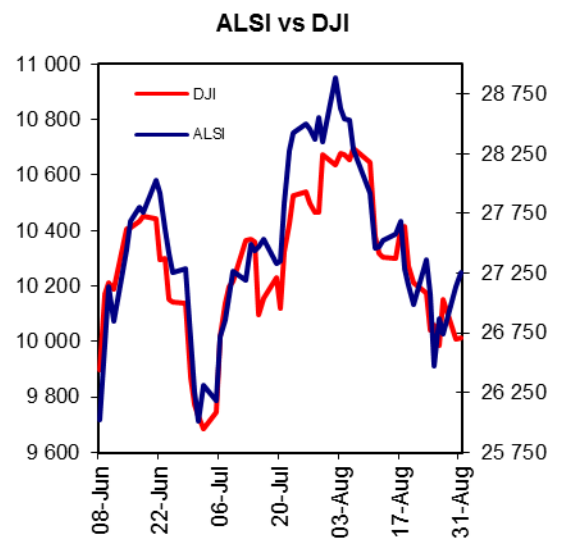
Bond Update

As pointed out in yesterday's morning commentary underlying credit creation remains soft. Some suggested that yesterday's round of stronger than expected money supply and PSCE data points to a big new rising trend in credit data, however, one needs to remain on guard. Recent in-house research suggests that a lot of the new credit creation is coming from re-mortgaging homes. This is more desperation borrowing by individuals and small business owners than outright new strong borrowing and speaks of deleveraging still in full force. What is likely to have buoyed this type of borrowing is rising property prices and home equity, which can be used as collateral for other types of lending. However, one needs to bear in mind home values will stop rising and may even retreat again, eradicating that source of finance. This space needs to be watched. From an inflation point of view, the bottom-line is that the disinflation bias of soft M3 and PSCE growth remains in play. Coupled with the strong demand for ZARs by foreign investors and in real relative terms the supply of currency is actually shrinking, which is further disinflationary/deflationary. At the close, the key benchmark R157 (2015) ended flat with the yield unchanged at 7.235% while the R186 (2026) similarly end largely unchanged at a yield of 8.065%.



JSE Update

After trading in the red for most of the day yesterday, the JSE ALSI reversed into positive territory in late trade on the back of better than expected US consumer data, which helped lead Wall St off its morning lows. This data overshadowed other data, supporting domestic equity sentiment into the close of the month. At the close of trade the JSE ALSI was up 0.4%, reducing losses on the month to 3.9%. Resources fell 0.1% but financials gained 0.6%. US stocks recovered after a disappointing Aug Chicago PMI release with Aug consumer confidence coming in better than expected. However the gains seen in early trade eroded through the course of the session, leaving the Dow Jones and S&P less than 0.1% stronger at the close. The Fed minutes showed support from the Fed would only happen if the economic recovery slowed significantly further. Meanwhile Asian stocks are well in the green overnight. The Nikkei has ended 1.2% higher, aided by some JPY weakness, and Aussie stocks gained 2.1% as Australian Q2 GDP beat market forecasts to the upside. At the time of writing the Hang Seng was up 0.4%, while the Shanghai composite was down 0.2%.



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