

Date: 03 August 2010

USD-ZAR 7.2793/3878
 GBP-USD 1.5829/933
 GOLD \$1182.40

EUR-ZAR 9.5885/6981
 USD-JPY 86.226/656
 ALLSHARE 28 883.19

GBP-ZAR 11.5888/7059
 AUD-USD 0.9038/120
 DJI 10 674.38

EUR-USD 1.3109/91
 R157 7.640%
 3M JIBAR 6.585%

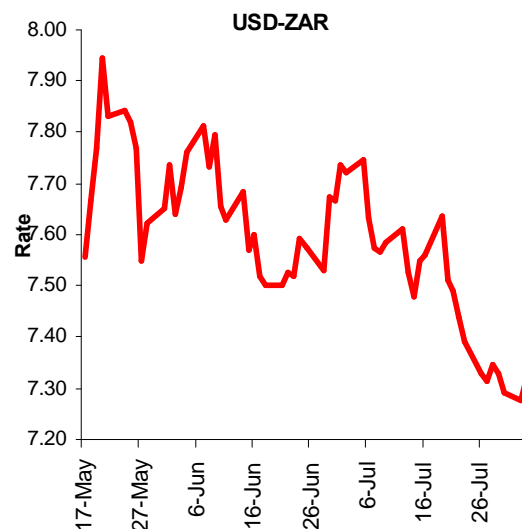
Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	Vehicle Sales	Jul		20.70%
09:00	SA	Bond Auction (R186 - R1200mn; R207 - R900mn)			
09:00	EZ	PPI m/m	Jun	0.50%	0.30%
12:30	US	Core PCE m/m	Jun	0.20%	0.20%
12:30	US	Personal income	Jun	0.30%	0.40%
14:00	US	Factory Orders m/m	Jun	0.50%	-1.40%
14:00	US	Pending Home sales m/m	Jun	1.80%	-30.00%
	US	Vehicle sales	Jul	11.4mn	11.05mn

Today's Talking Point

Kagiso PMI (Jul) provides little encouragement: In July, South Africa's manufacturing sector remained in contractionary territory as signalled by the PMI reading of 49.5. Conditions have however improved slightly when compared to June's reading of 48.4. The slight pick up in activity was underpinned by general business activity expanding again after two months of contraction. However, this positive development was countered by new sales orders contracting for the first time in eight months which raises some concern over the strength of demand going forward. This most likely prompted manufacturers to become less optimistic with regard to the outlook for operating conditions. Of concern is that the sector continued to shed jobs for the third consecutive month.

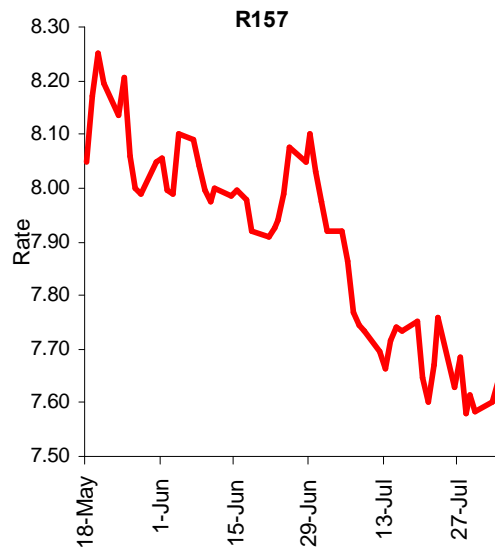
Rand Update

According to the Business Day, the SA government appears to be heading down the path of intervention, with discussions within the ANC to find ways to restrict the strength in the ZAR including the levying of a tax on foreign portfolio (hot money) inflows. Brazil was used as an example of a country that implemented such a tax no doubt as an indication that SA would not be alone in this course of action. In Brazil's case one could argue that the tax has had limited success with the BRL remaining strong and the overall performance of the BRL not dissimilar to the performance of the ZAR. Unlike Brazil which has a strong export base and a rapidly growing economy, SA runs a substantial current account deficit which at some point needs to be financed. Removing an incentive for foreigners to place money in SA also threatens a major source of the funding for the current account. ZAR weakness may be desirable to some sectors of the SA economy but will come at a cost of its own, namely inflation. According to Reuters data (bid chart), the ZAR strengthened against the USD on Monday, closing at R7.2775 from R7.2905 on Friday. The ZAR however weakened vs. EUR and GBP, ending at R9.5904 vs. the EUR from R9.5105 on Friday, while finishing at R11.5999 vs. the GBP from R11.433 at the end of last week.



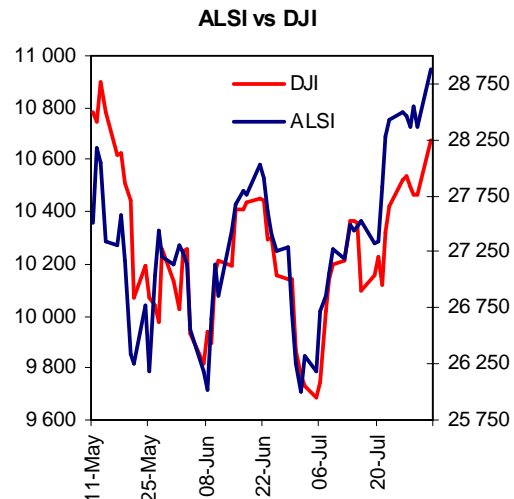
Bond Update

Yesterday's Kagiso PMI data showed the extent to which the prices component has moderated off its recent highs despite rising short term price pressures at a producer level seen in the PPI numbers. The PMI prices data confirmed our view that the PPI effect will not last too long. In a soft credit growth environment, due to soft consumer demand, price pressures at the producer level could translate into margin squeeze rather than higher final prices, which could in fact prove to be growth restrictive and add to disinflation pressures. Having traded on the frontfoot for most of the session with the benchmark reaching the lower 7.50¢ (7.53%) the stronger equity markets seemingly dampened some demand for yield at least for now. There appears to be some position squaring and profit taking ahead of the medium and longer dated bond auctions tomorrow. R1.2bn of the R186 is on offer as well as R900mn of the R207, this may offer some explanation as to why the longer end of the curve has underperformed the shorter end on the day and helped the R186/R157 spread widen to 88bps from 86bps. At the close the benchmark R157 closed weaker ending the session at 7.600% vs. 7.585% on Friday. Similarly, the R186 yield drifted higher to close weaker at 8.465% vs. the previous close of 8.445%.



JSE Update

Global equity markets rallied yesterday on the back of various upbeat data releases. Manufacturing PMI's in Europe and the UK impressed, while two large European banks posted better than expected results. Added to this was slightly better than expected US data. These results saw risk appetite and commodity prices improve, subsequently leading the JSE ALSI 1.9% higher by the close of trade. Resources ended 2.8% stronger as platinum stocks gained, while financials climbed 1.1%. US stocks posted an impressive day of gains yesterday with the Dow Jones rising 2.0% and the S&P adding 2.2% on the day. The ISM manufacturing PMI dipped in Jul but still came in better than expected, while positive corporate results in Europe and comments from Fed Chairman Bernanke that consumer spending would "pick up" also added to the upbeat mood. The Asian markets are benefitting from the same factors overnight, with most of the major markets in the green. The Nikkei has ended 1.3% higher and Aussie stocks added 0.7%, with the unchanged rate decision from the RBA providing little direction. At the time of writing the Hang Seng was up 0.6%, while the Shanghai composite had fallen 0.3%.



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