

Date: 03 September 2010

USD-ZAR 7.1853/3009  
 GBP-USD 1.5356/460  
 GOLD \$1250.70

EUR-ZAR 9.2255/3472  
 USD-JPY 84.011/441  
 ALLSHARE 27 840.98

GBP-ZAR 11.0957/2258  
 AUD-USD 0.9036/117  
 DJI 10 320.10

EUR-USD 1.2781/863  
 R157 7.305%  
 3M JIBAR 6.375%

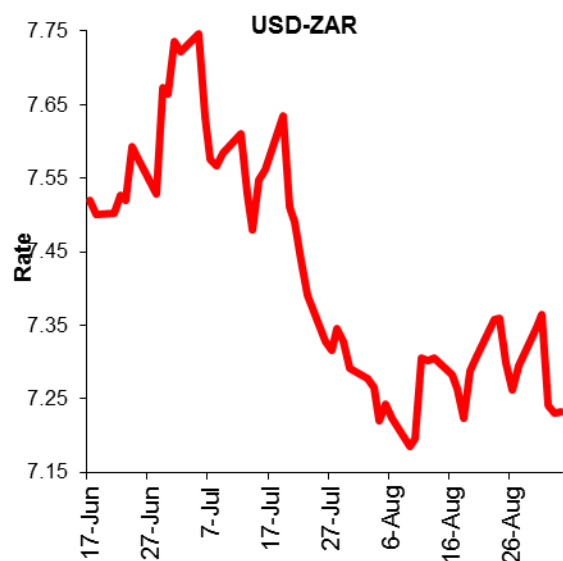
| Time (GMT) | Country | Event                                 | Month | Exp    | Prior   |
|------------|---------|---------------------------------------|-------|--------|---------|
| 09:00      | SA      | ILB Auction (R600mn)                  |       |        |         |
| 08:00      | EZ      | Services PMI                          | Aug   | 55.6   | 55.6    |
| 09:00      | EZ      | Retail sales m/m                      | Jul   | 0.20%  | 0.00%   |
| 12:30      | US      | Non-farm payrolls                     | Aug   | -99.0k | -131.0k |
| 12:30      | US      | Private sector payrolls               | Aug   | 42.0k  | 71.0k   |
| 14:00      | US      | Fed member Lockhart speaks on economy |       |        |         |
| 14:00      | US      | ISM Non-manufacturing PMI             | Aug   | 53.5   | 54.3    |

## Today's Talking Point

**SARB Governor Marcus comments ahead of Sept MPC:** SARB Governor may have dampened rate cut expectations with her comments last night. Although Governor Marcus acknowledged that the 3.7% increase in inflation during July was certainly lower than the bottom of 4.2% the bank had expected, as well as being at the lower end of the 3-6% target range, Marcus took the time to highlight that the SARB MPC is forward looking in its approach: *"it's about how do we see it going forward ... it's not about the last number"*. To this end the SARB's updated inflation forecasts will hold value at the up and coming MPC. Given that the SARB has consistently over-estimated inflation through the course of the past year, a downward revision to its forecast could be perceived as somewhat dovish.

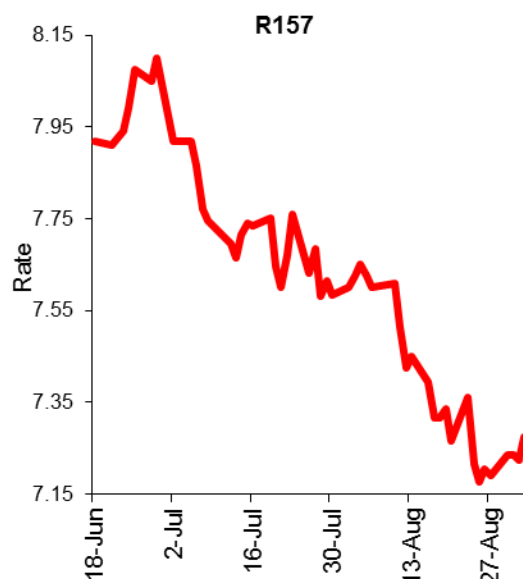
## Rand Update

Ahead of the SARB's MPC decision and statement next week, the market appears to be reasonably comfortable pricing in the strong probability of a rate cut. It is not a foregone conclusion, however with global growth set to slow through H2 2010 and with growth in the domestic M3 and PSCE aggregates still extremely weak, the environment for inflation to continue surprising to the downside remains intact. It is clear that there are some significant offsetting forces to higher electricity, municipal and administered prices at play which are unlikely to dissipate any time soon if the ZAR remains reasonably well supported, the trade account in surplus and the global disinflationary pressures intact. Furthermore, the SARB has openly indicated that it is grappling with the issue of the strong ZAR and that its mandate is flexible enough to consider the impact of policy on the likes of growth and unemployment. At this point, the risk in the market is that rates could be reduced further and so foreigners are happy to remain exposed to SA bonds. According to Reuters data (bid chart), the ZAR strengthened marginally against the USD on Thursday, closing at R7.2311 from R7.241 on Wednesday. The ZAR also gained on the EUR and GBP, ending at R9.2739 vs. the EUR from R9.2764 on Wednesday, while finishing at R11.1352 vs. the GBP from R11.1924 the previous day.



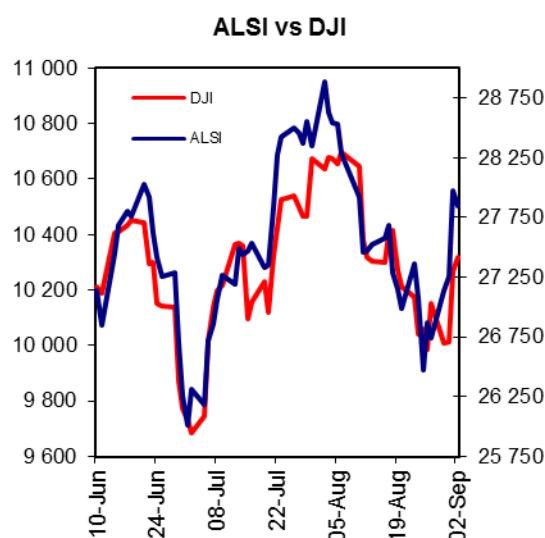
## Bond Update

Despite further ZAR strength, which traditionally bodes well for the domestic bond market given that it improves the inflation outlook, it appears that the sell-off on US Treasuries was all too much for the domestic bond market to handle. There remains a strong relationship between the domestic bond market and US Treasuries with the correlation (the degree of co-movement between the two assets) at around +0.7 (+70%). Added to this was the public sector strike action, which could see the SARB hold back on cutting rates in September. Last night at the address by the SARB Governor Marcus on the topic of the high wage increases being demanded by public service unions, Marcus declined to comment but did indicate that *"We have said very clearly if you have wage demands without productivity benefits you do have an impact (on inflation)"*. Overall at the close, the key benchmark R157 (2015) closed weaker at a yield of 7.275% higher than the previous close of 7.235%, while the R186 (2026) similarly closed weaker at 8.045%, vs. Wednesday's close of 8.035%.



## JSE Update

The JSE ALSI ended 0.5% lower yesterday after a volatile day of trading and the volatile start on Wall St not providing much clear direction into the close. Global economic data was mostly mixed and as such some profit-taking was seen in the local market ahead of the key US data due today. While resources ended lower, gold and platinum stocks gained 1.4% and 0.3% respectively on the back of higher commodity prices, while financials closed 0.3% weaker as banks dipped 0.6%. US stocks meanwhile managed to strengthen in late trade with mixed to slightly positive economic data offering the market some comfort ahead of today's non-farm payrolls report for Aug. The payrolls report is a detailed breakdown of employment in the economy and will likely impact risk sentiment. At the close yesterday the Dow Jones was up 0.5% and the S&P had added 0.9%. The Asian markets have also strengthened overnight with stocks on the Shanghai being the only exception. However gains have been somewhat limited as players adopt a cautious stance heading into the weekend. The Nikkei had gained 0.3% by the close, Aussie stocks were up 0.2% and at the time of writing the Hang Seng had risen 0.1%, while the Shanghai composite was down 0.7%.



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