

Date: 04 August 2010

USD-ZAR 7.2443/3529
 GBP-USD 1.5868/972
 GOLD \$1192.10

EUR-ZAR 9.5825/6921
 USD-JPY 85.188/618
 ALLSHARE 28 627.17

GBP-ZAR 11.5648/6819
 AUD-USD 0.9061/153
 DJI 10 636.38

EUR-USD 1.3161/243
 R157 7.620%
 3M JIBAR 6.585%

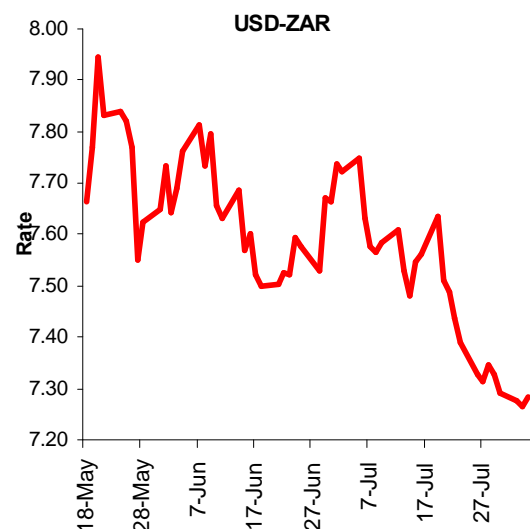
Time (GMT)	Country	Event	Month	Exp	Prior
08:00	EZ	Services PMI	Jul	56	56
09:00	EZ	Retail sales m/m	Jun	0.10%	0.20%
12:15	US	ADP Employment	Jul	40.0k	13.0k
14:00	US	ISM Non-manufacturing PMI	Jul	53	53.8

Today's Talking Point

Vehicle market resilient but strength of recovery could dissipate: According to the latest NAAMSA vehicle sales figures, the recovery in passenger car sales continued unabated into July. Passenger car sales were up nearly 30% on July 2009. In monthly terms, passenger car sales rose by 10% vs. June 2010. However, the figures need to be interpreted with some caution as the re-fleeting of business and rental vehicles ahead of and into the World Cup may have been responsible for boosting the sales performance. Households appear to still be holding back from big-ticket purchases as evidenced in the latest private sector credit extension figures which show little appetite for credit.

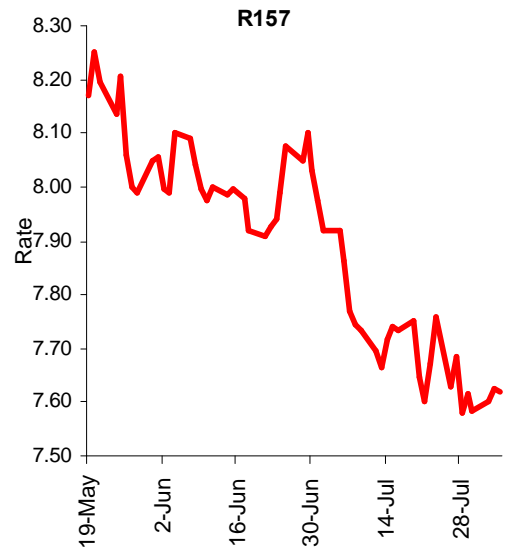
Rand Update

Yesterday's article in the Business Day certainly got the markets debating the prospect of a portfolio tax. For the most part, investors, economists and strategists believed that the risks of doing so were high and that the authorities might do better by just sticking to the active intervention in building up FX reserves. Introducing a new tax can complicate trading matters and would be a far less flexible method of trying to reduce volatility in the market than simply stepping in to mop up excess USDs from time to time. A tax would be complicated to unwind and could prove extremely damaging to the SA economy if it fuelled a sustained bout of ZAR weakness. It is also common belief that this is not the preferred method of currency management of either the National Treasury or the SARB and that these institutions are themselves likely to rigorously debate the topic with the ANC. For today, focus is likely to shift back towards the usual directional variables such as global levels of risk appetite. According to Reuters data (bid chart), the ZAR strengthened against the USD on Tuesday, closing at R7.265 from R7.2775 on Monday. The ZAR however weakened slightly vs. EUR, ending at R9.6087 from R9.5904 on Monday, while finishing marginally stronger vs. the GBP at R11.5848 from R11.5999 the previous day.



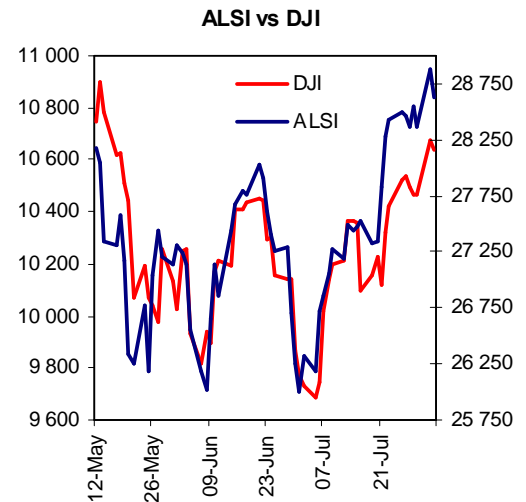
Bond Update

There appears to be some consolidation in the bond market over recent sessions with the market largely fully priced given the current set of economic information. Players may be waiting new information to trade on. Even the inflows into the bond market appear to have slowed for now with foreign investors recorded net buyers of local debt to the value of R366mn. Following the R9.0bn worth of inflows last month and R17.6bn in Q2 it stands to reason that inflows should start to slow at the margin. The potential for another rate cut remains on the cards with the case mounting as inflation continues to surprise to the downside. Recent economic data sets, although pointing to the recovery taking hold, raise some concern over the strength/momentum of the recovery. Yesterday's vehicle sales were a case in point with the passenger car sales segment suggesting households still continue to hold back from big-ticket purchases. This is further evidence of soft appetite for credit. At the close the benchmark R157 closed weaker ending the session at 7.625% vs. 7.600% on Monday. Similarly, the R186 yield drifted higher to close weaker at 8.475% vs. the previous close of 8.465%.



JSE Update

After rising 1.9% on Monday, the JSE ALSI lost 0.9% yesterday. Some profit-taking initially took place in the domestic market, following which the mood across global markets became more subdued as US data and earnings reports disappointed later in the day. Resources lost just 0.1%, however, with losses offset by a 3.2% rise in gold stocks. Financials slipped 2.1% as banks fell 3.2%, while industrials shed 1.1%. US stocks retreated on the day as consumer goods giant Procter & Gamble posted worse than expected results, while Jun data in the form of factory orders, personal income and pending home sales all offered some disappointment to the market. This saw the VIX index, a gauge of fear in the market, tick slightly higher on the day. At the close the Dow Jones had weakened 0.4%, while the S&P was down 0.5%. This subdued sentiment has filtered through to the Asian markets overnight. The Nikkei, under additional strain as the JPY reached a 15-year high vs. the USD, closed 2.0% lower, while Aussie stocks fell 0.7%. At the time of writing the Hang Seng was flat and the Shanghai composite was down 0.6%.



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