

Date: 19 August 2010

USD-ZAR 7.2370/3455
 GBP-USD 1.5510/614
 GOLD \$1229.60

EUR-ZAR 9.2835/3930
 USD-JPY 85.614/6.044
 ALLSHARE 27 287.09

GBP-ZAR 11.2839/4010
 AUD-USD 0.8940/9022
 DJI 10 415.54

EUR-USD 1.2768/850
 R157 7.325%
 3M JIBAR 6.545%

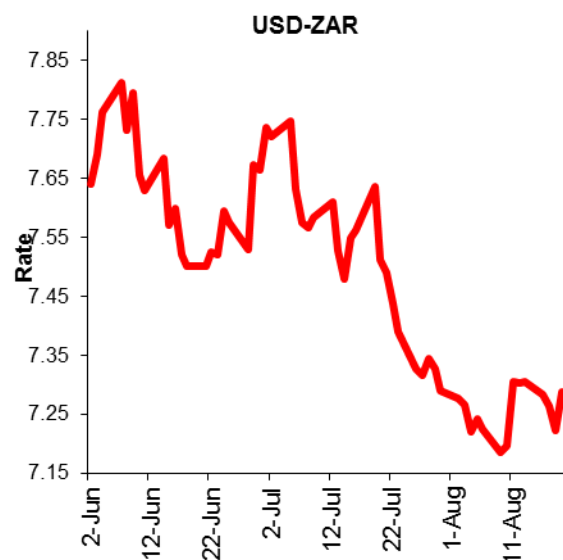
Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	TCTA Bond Auction (WS04 - R150mn)			
06:00	DE	PPI m/m	Jul	0.10%	0.60%
08:30	GB	Money Supply	Jul	0.30%	0.00%
08:30	GB	Retail sales m/m	Jul	0.40%	0.70%
	EZ	European Forum Alpbach 2010			
12:30	US	Jobless claims	w/e	476.0k	484.0k
14:00	US	Leading indicators	Jul	0.60%	-0.20%
14:00	US	Phil Fed manufacturing index	Aug	7.0	5.1
16:30	US	Fed member Bullard speaks on economy & monetary policy			

Today's Talking Point

Domestic market pricing in 50bps rate cut in months ahead: SA forward rate agreements are pricing in a high chance of 50bps rate cut by the SARB from the September MPC out until March 2010. In particular, the market is pricing in a 60% chance of a 50bps cut at the next MPC in September. The risk however is that CPI climbs on a y/y basis in July, which will likely prompt the SARB to keep rates on hold as it looks to a bottoming out of inflation. SA CPI holds a close correlation with that of Namibian CPI and inflation in Namibia was shown to accelerate in July. Furthermore, the impact of high wage demands from unions also pose an upward threat to inflation.

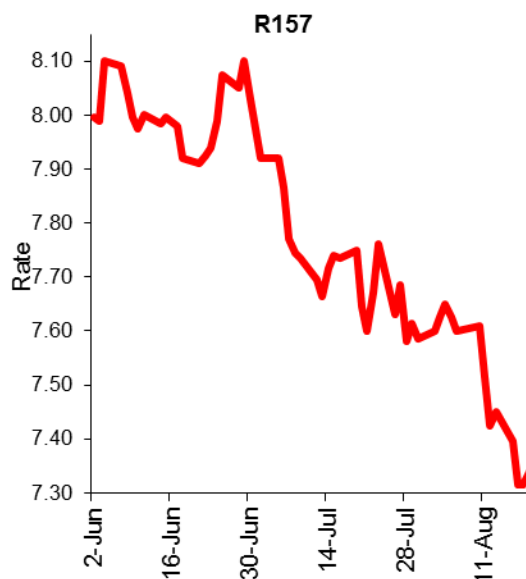
Rand Update

For the past three trading sessions the USD-ZAR has been stuck in a relatively tight range, with foreign demand for local bonds being offset with some ample import demand. That has not however prevented the trade weighted ZAR from strengthening still further as it reached a fresh record high for the year through yesterday's trade. Appreciation for the year-to-date rose to 6.8% confirming that ZAR resilience remains firmly intact. That this appreciation in the trade weighted ZAR comes at a time when foreign investors are rotating away from local stocks highlights just how strong the inflows into the bond market have remained. Ultimately, the focus has shifted towards the fiscal health of countries and it therefore follows that those countries that have managed their fiscal position prudently are the very same countries that are attracting significant flows. These short term flows continue to support the financing of the current account and the in turn the ZAR. According to Reuters data (bid chart), the ZAR strengthened against the USD on Wednesday, closing at R7.2225 from R7.2642 on Tuesday. The ZAR also gained on the EUR and GBP, ending at R9.2852 against the EUR from R9.3556 on Tuesday, while finishing at R11.2671 vs. the GBP from R11.3191 the previous day.



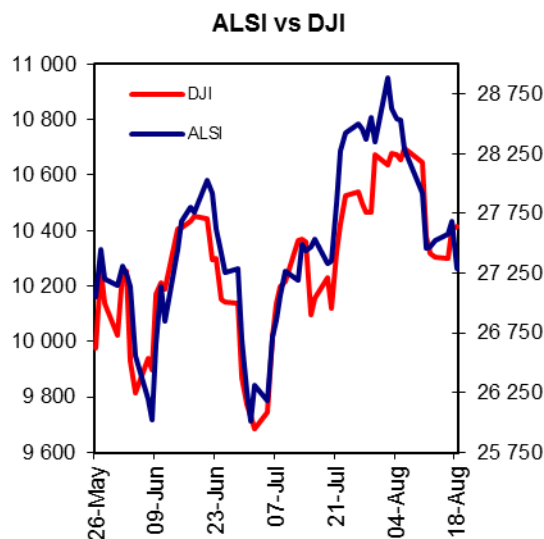
Bond Update

The bond market posted another stellar performance with the longer end of the curve once again outperforming the shorter end of the curve. A combination of offshore inflows, demand from domestic funds, the resilient ZAR and signs of deflationary pressures moving through the economy at the consumer level, all counting in favour of the bond bulls. Given the attractive yield on offer on the longer end of the curve as well as the prudent debt metrics of the South African economy, foreign investors continue to take up yield on the medium to longer end of the curve. The strong demand for yield has resulted in the R208 right through the R213 converge around the 8.00% mark. The R208 (2021) ended at 7.970%, R186 (2026) at 7.995%, and the R209 (2036) at 8.00%, while the R214 (2041) at 7.945%. Overall at the close the key benchmark R157 was unchanged at 7.315% vs. a previous close of 7.315%, while the longer dated R186 outperformed the benchmark ending the session sharply stronger at 8.040% vs. Tuesday's close of 8.085%.



JSE Update

The JSE ALSI ended sharply lower yesterday owing to weak global growth sentiment and a host of domestic factors. BHP Billiton announced it would be going hostile in its bid for international firm PotashCorp, RMB announced the appointment of a new CEO and Massmart fell heavily as it downwardly revised its full-year profit forecast. At the close of trade the ALSI had dipped 1.4%, with resources down 1.6% and financials losing 1.7%. US stocks ended flat to marginally higher on the day with a lack of key global data to provide any substantial direction. Volatility in the market remained fairly subdued, while earnings results from retailers such as Deere and Target offered a mixed overall view. At the close the Dow Jones had gained just under 0.1%, while the S&P was up 0.2%. The Asian markets have mostly posted solid gains overnight. The Nikkei ended 1.3% higher as Japanese exporters gained on the back of moderate easing in JPY strength vs. the USD and Aussie stocks finished 0.1% higher. At the time of writing the Hang Seng was up 1.0%, with bank and property stocks on the up, while the Shanghai composite had risen 0.5%.



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