

Date: 19th February 2010

USD-ZAR 7.6088/7311
 GBP-USD 1.5366/470
 GOLD \$1104.00

EUR-ZAR 10.2740/4025
 USD-JPY 91.571/2.001
 ALLSHARE 27 280.58

GBP-ZAR 11.7572/8948
 AUD-USD 0.8863/946
 DJI 10 392.90

EUR-USD 1.3437/519
 R157 8.325%
 3M JIBAR 7.185%

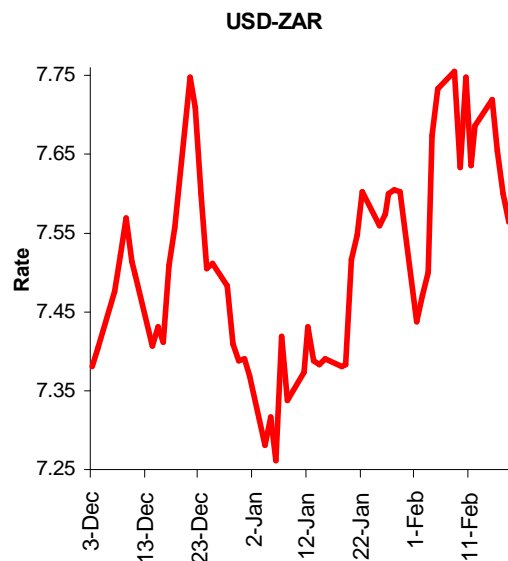
Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	ILB Bond Auction (R600mn)			
07:00	DE	PPI m/m	Jan	0.30%	-0.10%
08:30	DE	Manufacturing Flash PMI	Feb	53.8	53.4
09:00	EZ	Composite Flash PMI	Feb	53.5	53.7
09:30	GB	Retail sales m/m	Jan	-0.50%	0.30%
13:30	US	CPI m/m	Jan	0.30%	0.10%
13:30	US	CPI X m/m	Jan	0.10%	0.10%

Today's Talking Point

South African Reserve Bank clarifies mandate: It is interesting that the SARB has chosen to clarify its mandate through communication on its website. The SARB yesterday reiterated that its primary focus is on inflation and to promote growth through a stable price environment. There is absolutely nothing that has changed with the official-inflation mandate. What has changed potentially is that, while inflation targets are the same, it increasingly appears as though the mandate is more flexible than looking only at inflation at the expense of everything else. It appears there can be no doubt as to the stated commitment of the SARB to stable and prudent monetary policy which will certainly help in boosting SA credibility and help restore confidence in SA's credit rating, however there is increasingly language being inserted into monetary policy statements from government such as ensuring a competitive exchange rate and taking account of growth and employment dynamics.

Rand Update

As we shifted into the US trading session the ZAR found favour and began to recover. Judging from the graphs, this had less to do with developments in the USD and more to do with ongoing positive sentiment and relief that SA's economic policies would remain more or less unchanged. At the start of the US session, the move by the Fed to lift the discount rate had not been announced. Yesterday saw Minister of Trade and Industry Rob Davies present his Industrial Policy paper. To say that this was a disappointing presentation would be to give it too much credit. This was a document effectively full of protectionism driven by the desire to implement tariffs and subsidise loans for 12 key industries. The fact that some of these industries are barely viable due to poor levels of productivity suggests that all of these policies are treating the symptoms rather than the cause. In reality these sorts of policies only boost underlying inflationary pressures and can sometimes promote the inefficient use of capital, ultimately at a cost to the private sector. According to Reuters data (bid chart), the ZAR strengthened against the USD yesterday, closing at R7.565 from R7.601 on Wednesday. The ZAR also gained ground against the EUR and GBP, closing at R10.3222 vs. the EUR on Thursday from R10.3405 the previous day, while finishing at R11.8445 vs. the GBP from R11.91 on Wednesday.



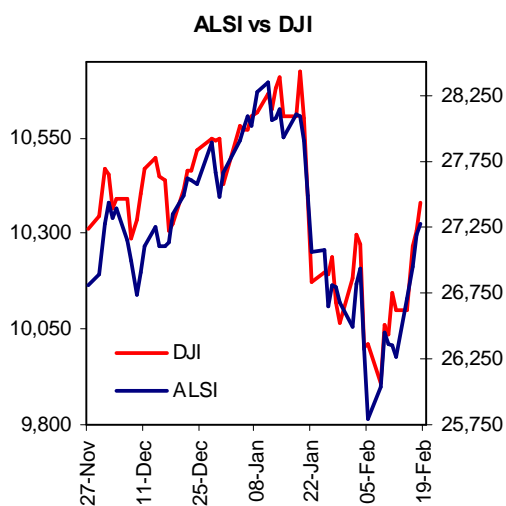
Bond Update

Following Wednesday's rally some profit taking crept in and pushed yields higher. The longer end, however, has continued to come under pressure on the back of the announcement of the two new issuances, namely 2030/31 and 2040/41. Nevertheless, given the current economic conditions and the sentiments expressed subtly but significantly in the budget statement, keep the risk strong that further rate cuts can materialise toward mid-year as CPI inflation falls further. While headline CPI has reversed from its low of 5.8% in Nov and is likely to remain out of the target band during Q1, retail inflation continues to decline and is likely to trend lower in the coming months. This highlights the extent to which inflation expectations at the consumer level are moderating as well as the continued pressure on retailers in being able to pass on increased costs to consumers, which will inhibit any pass through effect from producer price increase. CPI is likely to return to within the 3-6% target band in Q2 this year and is also likely to surprise to the downside in 2010 to levels near 3-4.0% in h2 2010. Overall, the R157 closed weaker at the close of trade on Thursday with the yield last bid higher at 8.280% vs. the previous close of 8.265%, while the R186 similarly was last bid weaker with the yield higher at 9.160% vs. Wednesday's close of 9.075%.



JSE Update

After a quick drop in the afternoon session, local stocks managed to recover by the close with Wall St getting off to a strong start despite disappointing US economic data. Stocks gained favour as some profit taking was seen in the bond market following the budget speech. At the close of trade the JSE ALSI was up 0.3%. Resources were flat as gains of 0.4% on platinum stocks were offset by a 2.0% loss on gold stocks. Financials ended just over 0.1% higher despite banks falling 0.3%, while industrials added 0.7%. US stocks seemingly brushed off another disappointing jobless claims report yesterday, while the leading indicators for Jan also came in lower than expected. Gains in commodities offset mixed financial results from large names such as Walmart and the economic data. At the close the Dow Jones had gained 0.8%, while the S&P had strengthened 0.7%. Asian stocks fell into the red overnight as news from the US of the Fed tightening bank lending rates created speculation that US rate hikes are on the way. At the time of writing the Hang Seng had fallen 2.4%, while the Nikkei closed 2.1% lower and Aussie stocks were 0.4% off their previous levels. Next week the Shanghai will be open for trade again.



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