

Date: 20 August 2010

USD-ZAR 7.2507/3593
 GBP-USD 1.5513/617
 GOLD \$1231.90

EUR-ZAR 9.2972/4098
 USD-JPY 85.047/477
 ALLSHARE 27 148.75

GBP-ZAR 11.3107/4312
 AUD-USD 0.8977/9059
 DJI 10 271.21

EUR-USD 1.2763/845
 R157 7.255%
 3M JIBAR 6.545%

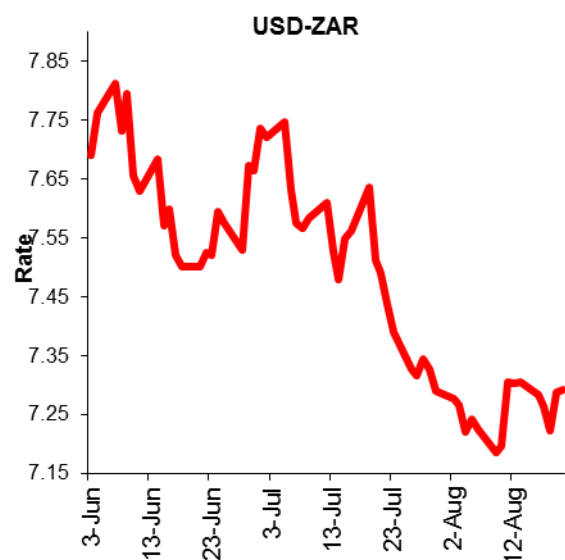
Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	ILB Auction (R600mn)			
14:30	US	ECRI Weekly	w/e		122.4

Today's Talking Point

Finance Minister Gordhan comments on domestic economy: No surprise to see the comments from Fin Min Gordhan that the South African economy is likely to expand by at least 3.0% in Q2/2010 following the 4.6% expansion in the first quarter. Given the growth trajectory one could expect a growth rate closer to 3.0% for the full year, which bodes well for the budget deficit (% of GDP). In months gone by market participants had slowly come to the realisation that a domestic growth rate of over 3.0% or even as high as 3.5% for 2010 is likely to see government revenue collection be substantially higher vs. what was originally announced at the budget. Although Fin Min Gordhan yesterday indicated that the South African economy is well into modest recovery, he highlighted that the risks to the growth outlook had risen sharply as a result of considerable volatility in monthly economic data. Gordhan indicated an update on the growth outlook would only be provided at the MTBPS on 27th of October.

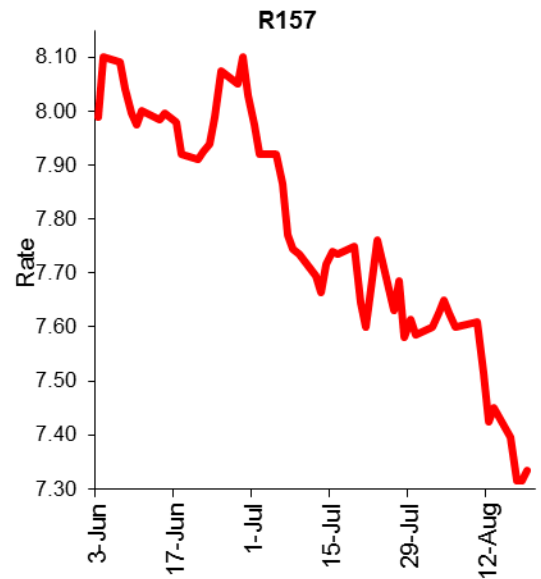
Rand Update

SA's public sector strike has turned ugly and has been marred by intimidation, unrest and violence. Police have frequently been called on to disperse militant crowds and it therefore comes as no surprise to see these unfortunate incidents making headlines around the world. Investors will be seriously questioning their exposure to SA should this strike continue to exert a damaging influence on SA's political and economic stability. Against this backdrop, the headline on the front page of the Business Day this morning is laughable as it talks of the state wrestling with a 7% growth vision amid all the strike action activity. Labour reforms would be an absolute prerequisite for this. The strike action is likely to see sentiment towards SA as an investment destination sour. The ZAR will therefore remain vulnerable to international portfolio (hot money) flows which will generate the bulk of the volatility just as it is doing at present. According to Reuters data (bid chart), the ZAR weakened against the USD on Thursday, closing at R7.287 from R7.2225 on Wednesday. The ZAR also lost ground vs. the EUR and GBP, ending at R9.3419 vs. the EUR from R9.2852 on Wednesday, while finishing at R11.3618 vs. the GBP from R11.2671 the previous day.



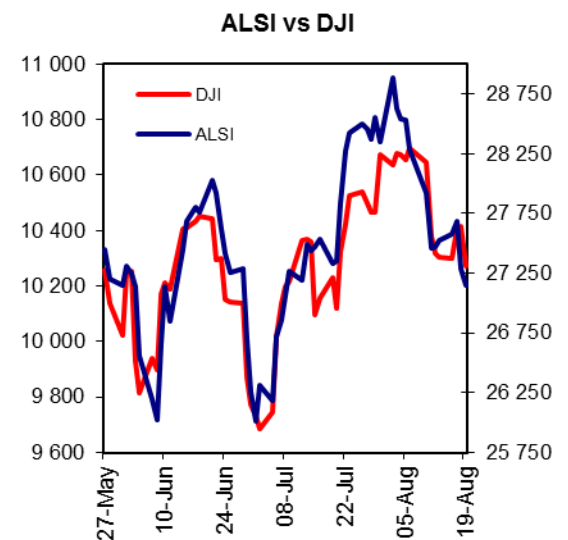
Bond Update

Yesterday the bond market was somewhat consolidative with patchy demand reported across the curve. Not much to report on, which saw the focus rest largely with offshore events, the local ZAR and some profit taking following the strong gains of late. The view is that the R157 could potentially be a little overbought, which helps explain why the R157 failed to sustain the gains below the 7.30% mark. Overall at the close the key benchmark R157 closed weaker with the yield at 7.335% vs. a previous close of 7.315%, while the longer dated R186 outperformed the benchmark once again ending the session stronger at 8.015% vs. Wednesday's close of 8.040%. For today, the focus will rest with the domestic strike action govt does appear to be looking to bed down the wage expectations of workers in the public sector. An increase of 7.0% is well above current inflation of 4.2% and given the extent to which the wage bargaining season has seen higher than expected wage increases, the SARB is likely to remain vigilant to these increases and could use it as justification not to cut rates in Sep and push a cut out to the Nov MPC.



JSE Update

The local equity market gained in line with global markets in the morning session but failed to retain these gains in the late session as US data came in worse than expected, pressuring growth sentiment. Another rise in the price of gold and resilience in the price of platinum was unable to keep market sentiment afloat. At the close of trade the JSE ALSI was down 0.5%. Resources fell 1.4% with gold stock gains of 1.1% offset by platinum stock losses of 2.2%, while financials added 0.4%. US stocks fell sharply on yesterday, with market participants having to deal with two sets of disappointing data in the early hours of trade. Weekly jobless claims rose more than expected, reaffirming concerns surrounding the job market recovery, while the Phil Fed manufacturing index dipped below zero and added to the negative trajectory on stocks. At the close the Dow Jones had lost 1.4%, while the S&P was down 1.7%. The Asian markets are also heavily in the red overnight. Japanese stocks are the worst off, taking direction from yesterday's move on Wall St and a stronger JPY. As such, we find the Nikkei having closed 2.0% lower and Aussie stocks falling 1.1%. At the time of writing the Hang Seng was down 0.7%, while the Shanghai composite had slipped 1.0% on the back of losses in the tech sector.



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