

Date: 24<sup>th</sup> February 2010

USD-ZAR 7.7123/8307  
 GBP-USD 1.5408/512  
 GOLD \$1105.60

EUR-ZAR 10.4625/5875  
 USD-JPY 90.01/42  
 ALLSHARE 27 055.50

GBP-ZAR 11.9482/2.0818  
 AUD-USD 0.8889/972  
 DJI 10 282.41

EUR-USD 1.3502/84  
 R157 8.345%  
 3M JIBAR 7.185%

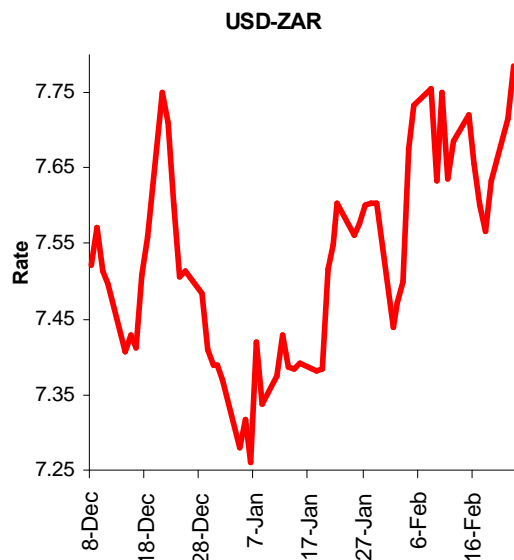
Time (GMT)	Country	Event	Month	Exp	Prior
09:30	SA	CPI	Jan	6.40%	6.30%
10:00	SA	NERSA to announce tariff application			
07:00	DE	GfK consumer confidence index	Mar	3	3.2
10:00	EZ	Industrial New orders m/m	Dec	-1.00%	2.70%
15:00	US	New home sales	Jan	0.36mn	0.342mn
15:00	US	US Fed Chairman Bernanke semiannual testimony on monetary policy			

## Today's Talking Point

**CPI (Jan) and NERSA tariff announcement in focus today:** In focus domestically today is CPI and the NERSA announcement. Jan CPI could surprise to the downside against the market consensus of 6.4% y/y although with big base effects at play the number has something of a wildcard element today. The NERSA announcement (due at 12h00 GMT) could see tariffs raised by 25% per annum for the next three years as opposed to the 35% annual tariff hike requested by Eskom. There is a misconception that a 25% annual tariff hike would see inflation shoot upwards over the next few years. However, considering electricity inflation has been growing at some +20% y/y, as seen in PPI, a 25% increase should technically leave the headline CPI inflation rate in a neutral position notwithstanding the secondary inflation implications.

## Rand Update

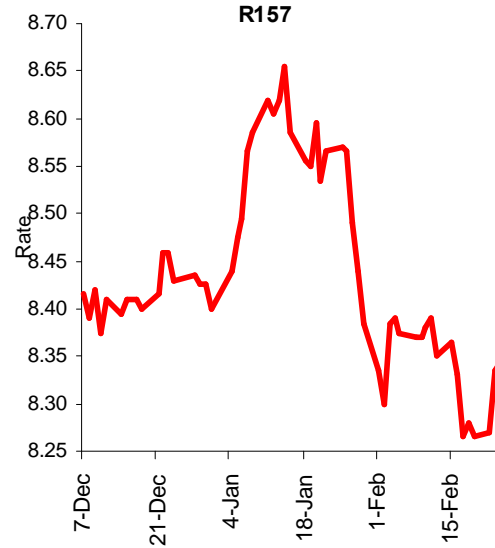
A sharp drop in US consumer confidence data to a 10-month low has brought the US growth outlook back into question. Whereas investors had hoped that the economic recovery might be gaining traction, it is clear that the average household is far from comfortable with their financial position. With US house prices battling to consolidate their recent levels and with nothing more in the way of tax breaks being announced, households are now being left to fend for themselves. Those that have lost their jobs will be struggling to find new jobs with the economy hardly creating any job opportunities at present and so it follows that households will be sceptical of future prospects. The question now is whether or not global stock markets have run ahead of themselves and priced in a growth outlook which is too robust for the underlying fundamentals being reflected in the data. This is of course of paramount importance as the trade weighted ZAR correlates very strongly with the performance of global equity markets and the movement in risk appetite. According to Reuters data (bid chart), the ZAR weakened against the USD yesterday, closing at R7.7851 from R7.7148 on Monday. The ZAR also weakened against the EUR and GBP, closing at R10.5339 against the EUR on Tuesday from R10.4885 on Monday, while ending at R12.0098 against the GBP from R11.942 on Monday.



## Bond Update

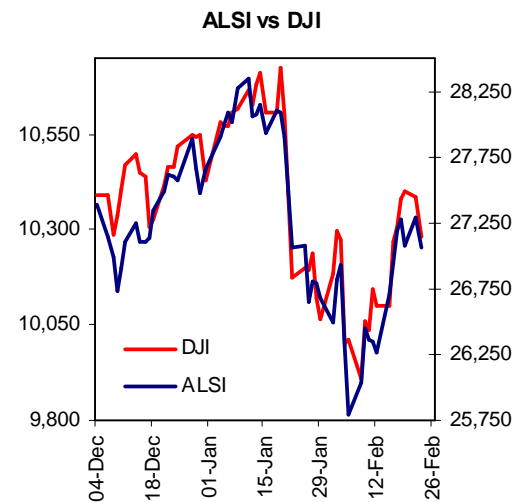
With the latest GDP data beating consensus and given the latest round of commentary from the SARB Governor Marcus that would suggest rates could in fact be left on hold going forward., the bond market has come under pressure.

The comment that South Africa is coming out of recession reasonably rapidly+ could suggest that the SARB feel they have done enough to alleviate the strain on household balance sheets through monetary policy easing. This coupled with the better than expected GDP reading has seen investors starting to price in the risk that the SARB lifts rates sooner than most expect, which was reflected in the FRA curve (a proxy for interest rate expectations). This is likely to have coincided with some hefty profit taking following last weeks rally and seen the bond market come under pressure and yields drift higher. Overall, in light of the above the R157 closed weaker on Tuesday with the yield last bid higher at 8.335% vs. the previous close of 8.270%, while the R186 similarly was last bid higher with the yield higher at 9.165% vs. Monday's close of 9.135%.



## JSE Update

Local stocks fell yesterday, in line with a slump in global equity markets due to disappointing US data and a decline in Germany's business confidence index. Mining stocks, in particular, took a knock as commodity prices retreated. At the close of trade the JSE ALSI had lost 0.8%. Resources slipped 1.5% as gold and platinum stocks fell 2.0% and 3.1% respectively. Financials ended 0.2% lower as banks weakened 0.6%, while industrials dropped 0.5%. US stocks fell into the red from the opening bell on the back of the weak German data combined with a report on US house prices, which showed that the housing market is still under pressure. Shortly afterwards, the release of US consumer confidence disappointed the market again and kept sentiment weak throughout the trading day. At the close the Dow Jones had fallen 1.0%, while the S&P was down 1.2%. Asian markets were mostly weaker overnight with the exception to stocks on the Shanghai. The Nikkei closed 1.5% in the red, while Aussie stocks fell by the same margin. At the time of writing the Hang Seng had dropped 0.9%.



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