

Date: 27 August 2010

USD-ZAR 7.2614/3699  
 GBP-USD 1.5461/565  
 GOLD \$1236.60

EUR-ZAR 9.2555/3661  
 USD-JPY 84.456/886  
 ALLSHARE 26 873.08

GBP-ZAR 11.2903/4107  
 AUD-USD 0.8829/911  
 DJI 9 985.81

EUR-USD 1.2685/767  
 R157 7.175%  
 3M JIBAR 6.500%

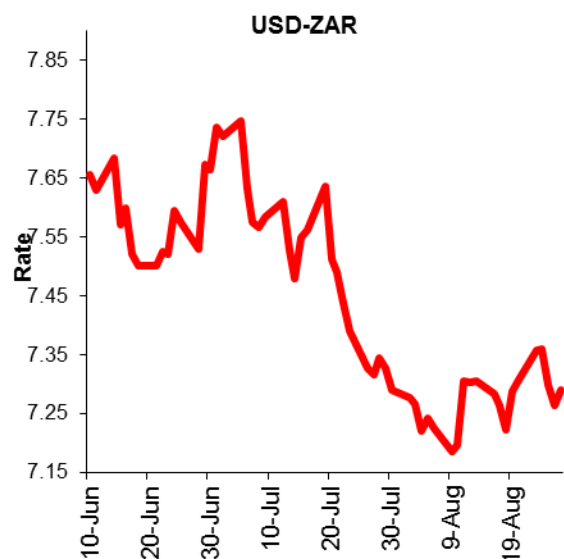
Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	ILB Auction (R600mn)			
	DE	CPI preliminary m/m	Aug	0.00%	0.30%
08:30	GB	GDP q/q second release	Q2	1.10%	1.10%
12:30	US	Core PCE Q2 second release	Q2	1.10%	1.10%
12:30	US	GDP q/q ann second release	Q2	1.40%	2.40%
13:55	US	Michigan final	Aug	69.6	69.6
	US	Jackson Hole conference of central bankers (Aug 26-28) - Fed Chief Bernanke speaks on economy			

## Today's Talking Point

**Moderation in y/y CPI and PPI in Jul adds calls for rate cut:** July CPI and PPI both surprised to the downside coming in at 3.7% y/y and 7.7% y/y respectively. These numbers followed shortly after the soft GDP reading that was seen and against this backdrop the market is becoming more confident that the SARB will reduce rates by a further 50bps in the months ahead. Inflation is likely to continue to surprise to the downside with very little feed-through from the underlying monetary aggregates. This opens the potential for one or even two 50bps cuts in the near future. The forward rate agreement market is currently priced for a 70% chance of a 50bps cut in the coming month.

## Rand Update

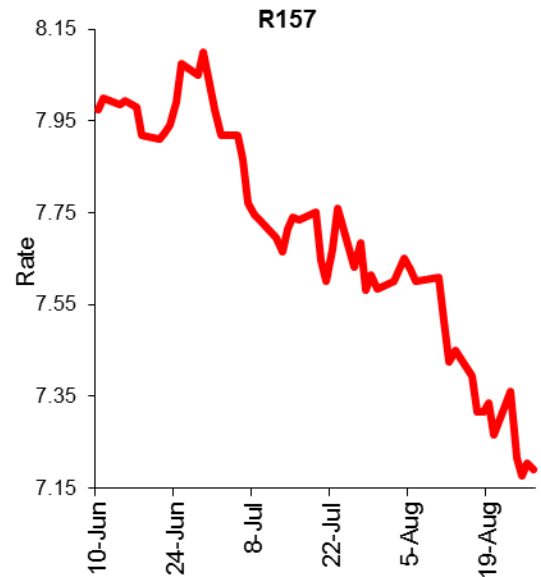
One of the major risks that many ZAR bears have put forward as a reason to establish long USD positions was that another dip in global economic activity and the level of risk aversion would be too much to stomach. A rotation away from riskier emerging markets would unfold and the ZAR weakness would materialise. This popular logic which has held most times in the past does not however appear to be playing out at the moment. Bond yields in the Club Med countries have risen considerably vs. the likes of GBP, EUR and USD bonds, the 2yr-10yr US Treasury spread has narrowed as a sign of slowing growth and the VIX index has risen to the highest levels seen since the start of July. However, this has not prompted a sell-off in the ZAR. In the past, such a confluence of forces would be ZAR negative. Perhaps the answer lies in the fact that it is becoming increasingly difficult to find yield. SA offers a reasonable yield for a palatable amount of risk given its very conservative monetary and fiscal policies. According to Reuters data (bid chart), the ZAR strengthened against the USD on Thursday, closing at R7.2625 from R7.298 on Wednesday. Meanwhile the ZAR weakened vs. the EUR and GBP, ending at R9.2722 vs. the EUR from R9.2371 on Wednesday, while finishing at R11.3214 vs. the GBP from R11.2827 the previous day.



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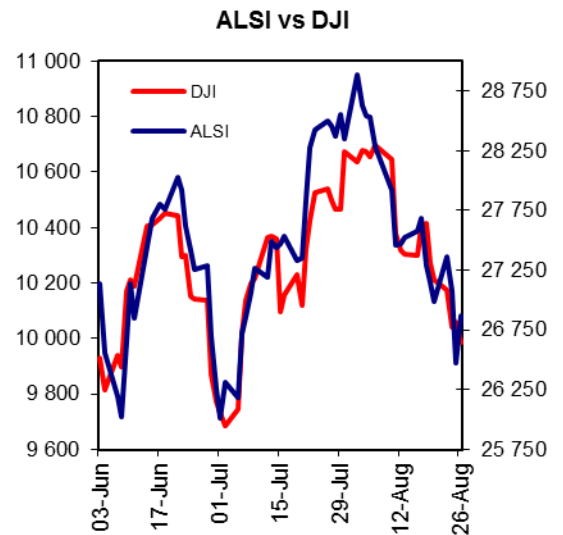
## Bond Update

It appears an element of profit taking has crept into the local bond market with the view is that players cautious to push the bond market stronger following the strong run of late. There is also talk that some players could be looking to short sell (sell bonds without physically owning the securities) in the near term to capitalise on the profit taking. The profit taking is evident with the longer dated bonds underperforming the shorter dates, which is the converse of the recent trend of late. Granted the intensification of interest rate cut expectations has boded well for the short end, however, in general it appears to be profit taking driving yields higher driving yields higher, particularly on the longer end. Yesterday the bond market also had to contend with the firmer equity markets, which dampened the safe haven demand for bonds. At the close, the key benchmark R157 (2015) closed weaker at a yield of 7.205% higher than the previous close of 7.175%, while the R186 (2026) closed sharply weaker at 7.970%, vs. Wednesday's close of 7.865%.



## JSE Update

With softening domestic GDP and inflation data pointing to a strong chance of another 50bps rate cut by the SARB, this may well have sparked further inflows to the domestic equity market given its positive implications for growth. Furthermore with global equity markets posting a moderate recovery yesterday, stocks on the JSE were able to find additional support. At the close of trade the JSE ALSI was up 1.5%, with resources adding 2.2% and financials rising 1.1%. US stocks climbed higher in the early hours of trade on the back of an upbeat weekly jobless claims report, which showed a decline of 31k on the week to 473k. Volatility remained high, however, and the markets are likely to have opted for a cautious approach into today's revised Q2 GDP data and Fed Chief Bernanke's speech at the Jackson Hole conference. At the close the Dow Jones was down 0.7%, while the S&P had lost 0.8%. Despite this, Asian stocks have mostly risen overnight. The Nikkei has ended 1.0% higher as the JPY lost some ground vs. the USD and on news that the Japanese Prime Minister would be holding a conference to address JPY strength. Aussie stocks gained 0.3%, while at the time of writing the Hang Seng was down 0.1% and the Shanghai composite had risen 0.3%.



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