

## SOUTH AFRICA MORNING SHEET

**SA PSCE growth posts a modest gain.** Private sector credit extension in South Africa rose 0.8% y/y in May, the first increase in eight months. Growth in credit extended to households was unchanged from the prior month at 3.8% in May, while corporate credit contracted 1.5% compared with the prior month's decline of 5.1%. The small rise in overall credit extension may to some extent be due to base effects, but the underlying 3m/3m growth momentum remained in positive territory in May. Although we expect credit growth to continue ticking higher during the course of the year, these increases are likely to remain muted as SA's economic recovery remains income-driven rather than credit-driven. From a monetary policy perspective, the credit data remain supportive of our interest rate view. Signs of strengthening economic activity and a conservative approach to monetary policy emanating from uncertainty around the impact of global developments on South Africa are likely to see the policy interest rate remain at its current level of 6.5% until mid-2011, even as inflation trends marginally lower in the very near term.

**SA trade balance narrows in May, distorted by strike action.** South Africa's monthly trade deficit narrowed to ZAR0.3bn in May after April's ZAR1.9bn deficit. The narrowing stemmed from a 6.8% m/m (+13.9% y/y) increase in exports, which more than offset the 3.1% m/m (20.4% y/y) rise in imports. On a cumulative basis, South Africa's trade deficit stands at ZAR12.4bn, lower than the ZAR19.8bn deficit in the previous year. However, we treat the May trade statistics with caution given the Transnet strike, which heavily affected the country's road, rail and port linkages for most of the month and, in our view, could have distorted the underlying trend in the monthly trade figures. Notwithstanding these distortions, we still look for South Africa's trade deficit to remain relatively well contained in 2010, as the global economic recovery proceeds and domestic demand conditions improve but remain relatively moderate.

As far as the balance of payments is concerned, we still expect SA's current account deficit to remain well contained in 2010. Our view is based on our expectation of a relatively narrow trade deficit in 2010 and a moderate recovery in corporate profitability (filtering into modest foreign dividend payments). Some help from Soccer World Cup-related flows could also help the deficit in the coming quarters, in our view. We therefore believe that SA's current account deficit is unlikely to push much beyond Q1's 4.6% deficit for the remainder of the year.

**SA PMI likely to show manufacturing activity remained in expansionary territory in June.** This morning (11:00am SA time) sees the release of the SA purchasing managers survey for June where, although the headline PMI has moderated for three consecutive months, we continue to believe that SA's manufacturing sector recovery remains intact and look for the PMI to remain in mild expansionary territory in June after moderating to 51.1 in May.

**Economic data weighing on investor sentiment.** Risky assets continued to struggle overnight, with the S&P 500 closing below the 1040 technical support level for the first time since October 2009. This was despite a good result from the ECB's 3m LTRO auction, which saw demand for liquidity drop to EUR132bn, much lower than our and the market's expectation of EUR250-300bn. Investor sentiment continues to be weighed down by weak US data, however, and today's US ISM manufacturing and Friday's nonfarm payrolls data will be important determinants of whether the current sell-off in risky assets continues, in our view. Other data releases of importance to look out for in Europe today include German retail sales and euro area final manufacturing PMI numbers.

**PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES STARTING AFTER PAGE 5**

	Close	Change
USD/ZAR	7.67 ↓	0.1%
EUR/USD	1.22 ↑	0.4%
EUR/ZAR	9.39 ↑	0.3%
3m Jibar	6.62% ↓	1 bp
R157	8.03% ↓	6 bp
R186	9.04% ↓	8 bp
All Share	26,259 ↓	1.6%
Gold \$/oz	1,242 ↑	0.1%
Brent \$/bbl	73.9 ↓	0.5%

Source: Reuters, Bloomberg

### Technical Analysis

#### USD/ZAR: Doji

Support	7.59 / 7.50 / 7.43
Resistance	7.78 / 7.84 / 7.89
Daily range	7.64 – 7.73

#### Fixed income: Stalling

R157: Support	8.16 / 8.23 / 8.31
R157: Resistance	8.00 / 7.95 / 7.90
R157: Range	8.00 – 8.05%
R186: Range	9.02 – 9.07%

Source: Absa Capital

### Soccer World Cup 2010 Action

#### Today's matches

No matches scheduled

#### Yesterday's results

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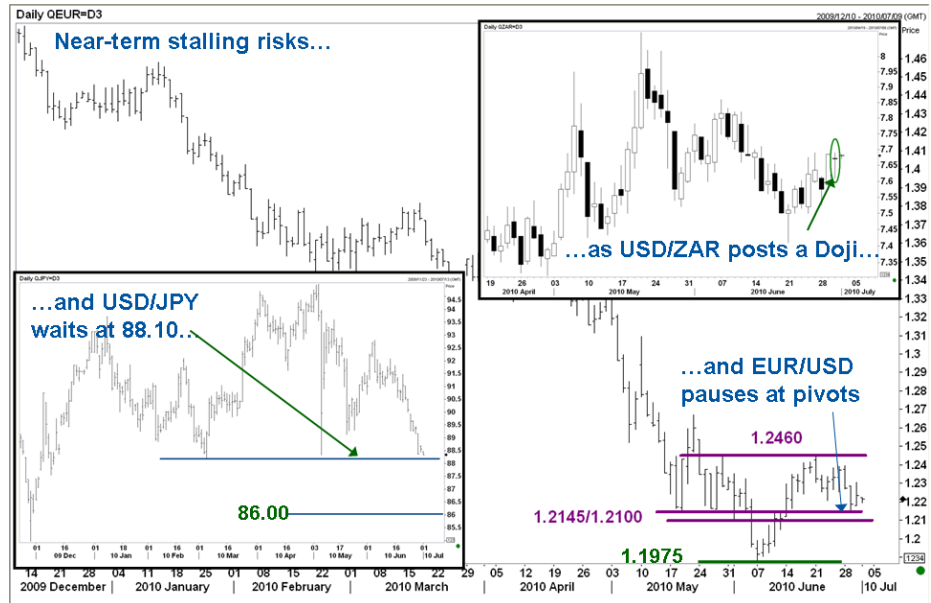
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## TECHNICAL STRATEGY

### USD/ZAR: Doji pattern

Despite the prospects of a lacklustre end to the week, given the long weekend looming in the US, we note that EUR/USD and USD/JPY are waiting at their pivots. We would not be surprised to see some consolidation over the next day or two, as USD/ZAR posts a Doji pattern, EUR/USD is poised near its 1.2100 pivot and USD/JPY holds within striking distance of 88.10 support (2010 low). Indeed, these levels might prove tough initially, and we cannot rule out some two-way flow first. Bigger picture, given the bearish tone set by equities, we look for USD/ZAR to move higher and resume its uptrend into the new week. Our initial target is 7.90.

### Waiting



Source: Thomson Reuters

## SA Bonds – (R157 and R186)

### R207: Unwinding

Although yesterday's recovery in the bond market caught us off guard, we are looking at the bigger picture. For the R157, we need to be patient, as the unwinding signals suggest we could see some consolidation first before the test of the channel high at 8.16% we favour materialises. We continue to favour a breakout of the channel to target 8.23% initially. The R207 posted a bullish pattern ahead of 9.05% support, stalling the larger bear trend. The risks are for a return to 8.77% before we see a bottom in yields. Similarly, in the R186, we cannot rule out a return to 9.00% first before yields push up again.

### Stalling near term

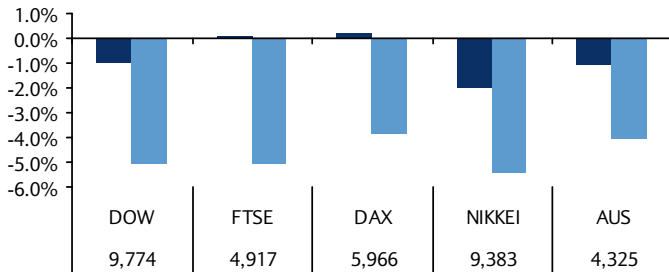


Source: Thomson Reuters

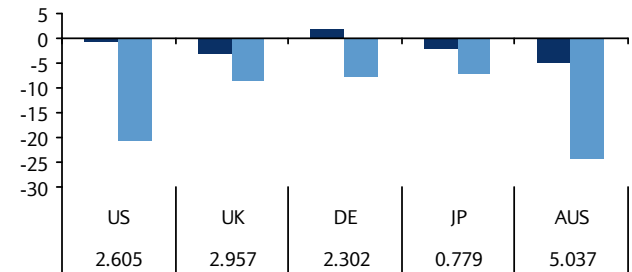
## GLOBAL OVERVIEW

KEY: ■ Daily Change ■ 5 Day Change

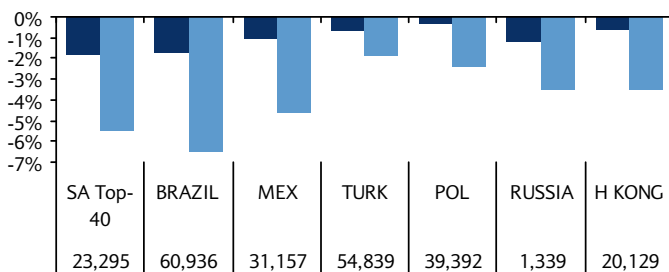
### Developed Market Equities



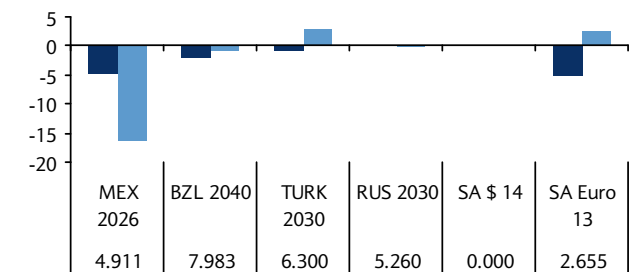
### Developed Market 10yr Debt (bp)



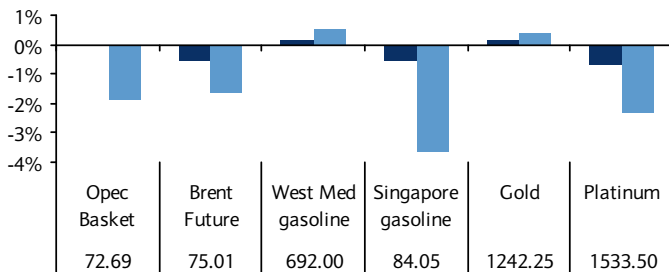
### Emerging Market Equities



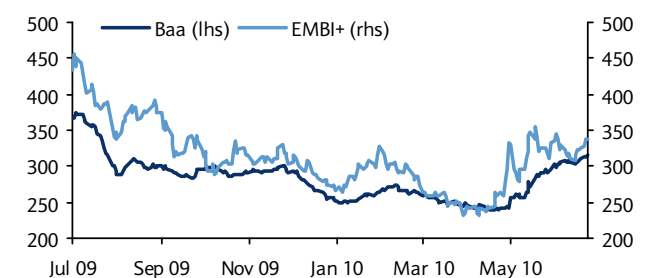
### Emerging Market Debt (bp)



### Commodity Prices



### Baa and EMBI+ Spread



Source: Bloomberg

### Data Releases and Events Highlights (See weekly calendar for details)

Country	GMT	SA time	Data	Period	Latest	Forecast	Consensus
<b>Events</b>							
Global	-	-	Global: European Business Summit 2010 in Brussels (final day)				
UK	8:30 AM	10:30 AM	UK: BoE publishes Credit Conditions Survey	0			
E16	15:00	5:00 PM	E16: ECB Executive Board member Stark speaks				
<b>Data releases</b>							
Germany	6:00 AM	8:00 AM	Germany: Retail sales, ex-cars/petrol	May	-0.5 (-1.6)	-0.1 (-1.1)	-
E16	7:58 AM	9:58 AM	E16: Final Manufacturing PMI, index	Jun	55.6 P	55.6	55.8
UK	8:28 AM	10:28 AM	UK: PMI manufacturing, index	Jun	58	58.0	57.5
SA	9:00 AM	11:00 AM	SA: PMI index (SA)	Jun	51.1	-	-
US	12:30 PM	2:30 PM	US: Initial jobless claims, thous (4wk ma)	Jun	457 (463)	445 (459)	460 (463)

## FOREIGN EXCHANGE

### Forex Spots

Unit	\$	Change	R	Change
USD	1.000	-	7.671	0.10%
GBP	1.495	-0.81%	11.464	0.92%
EUR	1.224	0.41%	9.387	-0.31%
JPY	88.430	0.19%	11.528	-0.10%
CHF	1.077	0.44%	7.120	-0.33%
AUD	0.841	-0.93%	6.449	1.05%
CAD	1.064	-0.74%	7.210	0.87%
HKD	7.789	-0.04%	0.986	0.09%
THB	32.450	-0.15%		
IDR	9074.000	-0.11%		
MXN	12.941	-0.44%		
BRL	1.805	0.48%		
TRY	1.585	0.46%		
PLN	3.389	0.59%		
CZK	21.017	0.63%		

Source: Bloomberg, all rates are mid rates

### Rand Forwards

Term	Last	Forward Points		Outright Forward rate	Forward cover cost (ann.)
		Previous	Change		
1 month	0.042	0.043	-0.001	7.713	6.4%
3 months	0.121	0.119	0.003	7.792	6.3%
6 months	0.234	0.235	-0.001	7.905	6.0%
9 months	0.346	0.342	0.004	8.017	6.0%
1 year	0.461	0.457	0.003	8.132	6.0%

Source: Bloomberg

### Rand Options

Term	Last	Option Implied Volatility		Price as a % of \$ nominal	Change
		Previous	Change		
1 month	17.3%	17.3%	0.0%	2.0%	0.0%
3 months	17.7%	17.5%	0.2%	3.5%	0.0%
6 months	17.7%	17.7%	0.0%	5.0%	0.0%
9 months	17.7%	17.6%	0.1%	6.0%	0.0%
1 year	17.9%	17.7%	0.2%	7.0%	0.1%

Source: Reuters

### Nominal Effective Exchange Rate of the Rand (Trade weighted Rand)

Date	Value	% YTD	Date	Value
01 Jul 10	74.92	5.77%	1 month ago	
30 Jun 10	74.92	5.77%	1 Jun 10	74.68
29 Jun 10	74.92	5.77%	12 months ago	
28 Jun 10	75.56	6.68%	1 Jul 09	70.83
25 Jun 10	74.94	5.80%	End of last year	
24 Jun 10	75.58	6.71%	30 Dec 09	72.62
23 Jun 10	75.58	6.71%		

Source: SA Reserve Bank

### SA Fuel prices

Rands per Litre	Gauteng 95	Diesel
	Octane	0.005%
This month	8.45	7.66
Last Month	8.72	7.81
Change	-0.27	-0.15
*Average Unit over/(under) recovery	17.90	14.67

Note: \*A fuel price over recovery indicates that the next price change is likely to be down and vice versa for an under-recovery

## MONEY MARKET

### General

	Last 30 Jun 10	Previous 29 Jun 10	Date of last change
SARB Repo Rate	6.50	6.50	25 Mar 10
Prime Interest Rate	10.00	10.00	25 Mar 10

### Johannesburg Interbank Agreed Rates (Jibar)

	Last 30 Jun 10	Previous 29 Jun 10	Change (bps)
SAFEX Overnight Rate	6.22	6.22	0.0
1-month Jibar	6.44	6.44	0.0
3-month jibar	6.62	6.63	-1.5
6-month Jibar	6.79	6.79	0.0
1-year Jibar	7.26	7.26	0.4

### Negotiable Certificates of Deposit (NCDs)

	Last 30 Jun 10	Previous 29 Jun 10	Change (bps)
3-month NCD	6.75	6.70	5.0
6-month NCD	7.15	7.17	-2.6
9-month NCD	7.03	7.03	-0.7
12-month NCD	7.28	7.27	0.2

Sources: Reuters, Bloomberg

### International Money market rates: US dollar libor

	Last 30 Jun 10	Previous 29 Jun 10	Change (bps)
USD Overnight	0.31	0.29	1.2
USD 1-month	0.35	0.35	0.3
USD 3-months	0.53	0.53	0.1
USD 6-months	0.75	0.75	0.2
USD 9-months	0.95	0.95	-0.1
USD 1-year	1.17	1.17	-0.1
Fed Funds target Rate	0.25	0.25	0.0

Source: Reuters

Chart: SARB Repo rate and 3-month Jibar

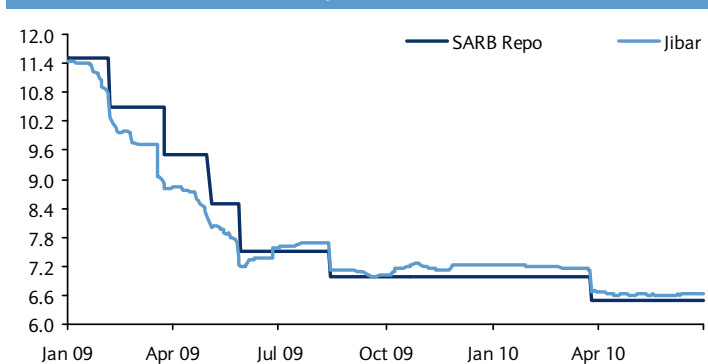
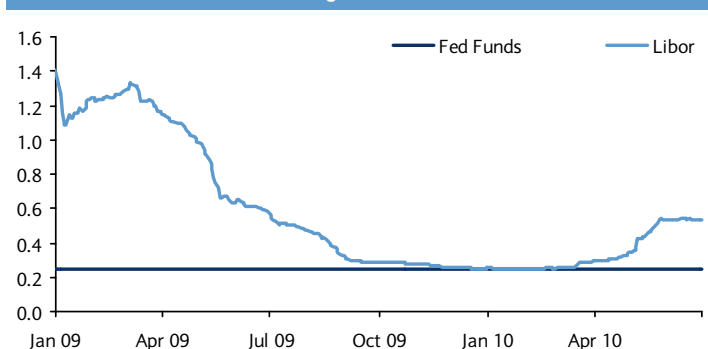


Chart: Fed Funds Target rate and 3-month USD Libor



## INTEREST RATES

### All Bond Index

Bond Code	Bond Details	Albi weightings	Last BESA m-t-m 30-Jun-10	Change (bp)
R155	RSA 13.00% Aug 2011	2.49%	6.970	-6.0
R206	RSA 7.50% Jan 2014	5.93%	7.800	-6.0
R201	RSA 8.75% Dec 2014	7.72%	7.890	-6.0
R157	RSA 13.50% Sep 2015	12.18%	8.030	-6.0
WS04	TCTA 12.50% May 2016	1.77%	8.640	-6.0
R203	RSA 8.25% Sep 2017	8.69%	8.670	-7.0
TN17	Transnet 9.25% Nov 2017	1.38%	9.900	-7.0
ES18	Eskom 9.25% Apr 2018	1.46%	9.305	-6.0
R204	RSA 8.00% Dec 2018	8.90%	8.780	-6.0
R207	RSA 7.25% Jan 2020	10.65%	8.860	-6.0
DV22	DBSA 9.45% Feb 2020	1.43%	9.960	-6.0
HWAY20	SANRAL 9.75% Jul 2020	0.74%	9.360	-6.0
R208	RSA 6.75% Mar 2021	7.41%	8.900	-6.0
ES23	Eskom 10.00% Jan 2023	0.89%	9.515	-6.0
ES26	Eskom 7.85% Apr 2026	2.70%	9.595	-7.5
R186	RSA 10.50% Dec 2026	14.75%	9.040	-7.5
TN27	Transnet 8.90% Nov 2027	1.19%	10.240	-7.5
ES33	Eskom 7.50% Sep 2033	2.68%	9.600	-6.5
R209	RSA 6.25% Mar 2036	6.24%	8.990	-6.5
DV23	DBSA 10.00% Feb 2023	0.78%	10.140	-7.5
<b>Albi yield</b>	<b>Weighted average MTM yield</b>	<b>100.00%</b>	<b>8.696</b>	<b>-6.4</b>
<b>Albi Total Return Index</b>			<b>315.79</b>	<b>0.41%</b>
<b>Govi Total Return Index</b>			<b>317.07</b>	<b>0.40%</b>

Source: BESA, Bloomberg

### Bond Trading Data

Bond Code	Total Non Repo Trades for the main government funding stocks (ZAR mn)			
	30-Jun-10	week-to-date	month-to-date	year-to-date
R154	0.00	0	1,709	5,271
R155	0.83	216	3,669	11,252
R206	235.94	1,545	22,579	92,812
R201	350.28	698	21,266	60,087
R157	7,700.62	14,901	130,106	833,451
R203	760.29	5,168	19,366	85,059
R204	489.44	1,266	17,085	83,009
R207	291.01	1,197	10,278	132,730
R208	705.79	3,990	27,317	140,473
R186	1,019.04	2,766	41,953	242,633
R209	175.94	1,771	5,703	63,819

Bond Code	Total Client trades on BESA (ZAR mn)		Bond Exchange Total Volumes			
	Local Clients	Foreign Clients	Nominal amount traded (ZAR bn)			
R154	0.00	0	Daily	30-Jun	44	140
R155	-0.22	0	Week to date	2-Jul	227	359
R206	-56.39	0	Month to date	Jul-10	0	1,478
R201	-75.35	145	Year to date	2010	7,342	13,422
R157	1,270.61	-1,083	Net Foreign purchases / sales of SA bonds (ZAR mn)			
R203	-8.10	-186		latest	&	Previous
R204	7.83	95	Daily	30-Jun	-1,558.8	116
R207	-55.11	63	Week to date	2-Jul	-1,611.8	-975
R208	230.08	-81	Month to date	Jul-10	0.0	7,452
R186	112.59	-37	Year to date	2010	37,087.6	
R209	28.74	-12				

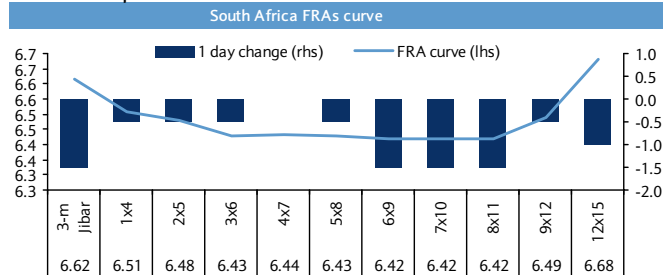
Source: BESA

### Bond Exchange Cash Flows

Month	Monthly Coupons and Maturities for the next twelve months (ZAR mn)	
	Coupons	Redemptions
June	10,698.86	6,566
July	6,077.22	12,744
August	5,181.62	22,746
September	14,898.97	6,185
October	1,862.57	3,970
November	1,933.13	7,309
December	10,599.31	1,882
January	5,490.79	407
February	3,695.33	147
March	14,573.29	2,334
April	1,862.67	4,918
May	1,871.78	3,480

Source: BESA

### Fras and Swaps



Source: BESA

### Government Primary Dealer Bonds

Bond Code	Trading stats for 30-Jun-10			
	Open	High	Low	Last
R206	7.855	7.860	7.799	7.800
R201	7.910	7.940	7.885	7.890
R157	8.090	8.090	8.014	8.070
R203	8.720	8.720	8.645	8.645
R204	8.830	8.830	8.769	8.769
R207	8.910	8.910	8.845	8.860
R186	9.110	9.110	9.015	9.074

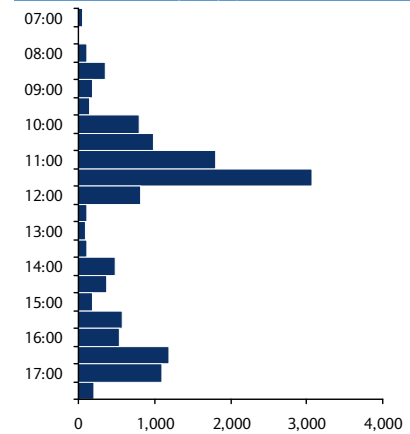
Source: BESA

### Government Inflation Linked Bonds

Bond Code	Trading stats for 30-Jun-10				Last BESA m-t-m
	Open	High	Low	Last	
R189	1.810	1.810	1.790	1.790	1.820
R197	2.985	2.985	2.970	2.970	2.980
R210	3.055	3.055	3.050	3.055	3.050
R202	2.995	3.005	2.980	3.005	3.010
<b>BarCap/Absa SA Govt. Inflation Linked bond index</b>				<b>9.90</b>	<b>-0.70%</b>

Source: BESA, latest yields-to-maturity from Reuters

BESA day's non-repo trade volumes (R mn) by time

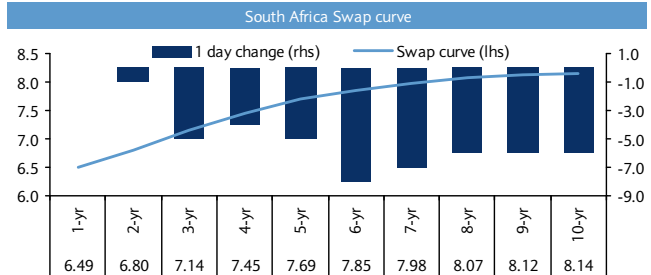


### Five Largest Coupon Payments for June 2010 (ZAR mn)

Bond Code	Date	Issuer	Amount
R186	21 Jun 10	Republic Of South Africa	3,978
R204	21 Jun 10	Republic Of South Africa	1,964
R201	21 Jun 10	Republic Of South Africa	1,707
R197	7 Jun 10	Republic Of South Africa	1,521
R202	7 Jun 10	Republic Of South Africa	388

### Five Largest Maturities for June 2010 (ZAR mn)

Bond Code	Date	Issuer	Amount
LB01	30 Jun 10	Land And Agricultural Bank	1,840
UG65	1 Jun 10	Umgeni Water	972
MBF12	11 Jun 10	Mercedes-Benz South Africa	695
GFIC26	3 Jun 10	Gold Fields Limited	430



Source: BESA

**Analyst Certification(s)**

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