RESEARCH

South Africa Morning Sheet

South Africa Strategy

1 March 2010

	Close		Change
USD/ZAR	7.72	↓	0.6%
EUR/USD	1.36	↑	0.6%
EUR/ZAR	10.52	↑	0.0%
3m Jibar	7.19%	→	0 bp
R157	8.17%	↓	6 bp
R186	8.98%	↓	9 bp
All Share	26,765	↑	0.1%
Gold $/oz	1,118	↑	1.0%
Brent $/bb	76.7	↑	1.5%

Source: Bloomberg

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Light data calendar, but more positive data on the cards. Following a slew of releases last week, this week will be much lighter on the South African data front, with the PMI (Monday), new vehicle sales (Tuesday), SACCI business confidence (Wednesday) and net reserves (Friday) the highlights. We expect the February survey of purchasing managers to continue to track higher given further evidence showing that SA's economic recovery could prove stronger than what we had originally envisaged. Furthermore, the notion that many companies could start to rebuild inventories in the first half of 2010 should also add some support to the manufacturing sector, where production has just jumped back into positive y/y territory. Vehicle sales in February are expected to follow suit, where we expect sales to continue to build on the positive print (+12% y/y) recorded in January. We do note, however, that much of the improvement we expect to see in the headline number in coming months stem largely from base effects, as sales contracted an average of 34% y/y in H1 09. The mild improvement in the business environment observed in a number of high-frequency indicators tracked in the SACCI business confidence index should also see the index tick up mildly in February.

Finally, according to our calculations, a weaker EUR/USD in February should have more than offset the gain in the USD gold price last month, where we project January net reserves to show a mild deterioration of around USD200mn to USD38.4bn. We continue to believe that there will be very little, if any, evidence of significant intervention by the SARB in FX markets during last month. This view was reiterated last week by SARB Governor Gill Marcus, who toned down any speculation in this regard after Finance Minister Gordhan's National Budget speech, where he said that the Bank would "lean against the wind" during periods of rapid capital flows. We maintain that last week's comments by the Governor, along with the high costs of sterilisation associated with significant FX intervention, are unlikely to see any significant changes to FX policy in the medium term.

Q4 09 GDP revised up. Real GDP growth was revised up to 5.9% in Q4 09 in the second release on Friday, up from 5.7% in the advance release and between our (6.0%) and consensus (5.7%) forecasts. The report showed less of an inventory decline in Q4 09, which suggests less of a bounce from this source in Q1 10. In addition, we think that extreme weather in Q1 10 may shift a bit of activity in sectors such as construction from Q1 into Q2, and the Toyota recalls may provide a modest temporary drag on auto sales and production in Q1. As a result, our US economists have lowered our Q1 10 GDP growth forecast to 3.5% from 4.5%, but raised our Q2 10 forecast to 4.0% from 3.0%.

Key international data and events. A relatively busy day in international markets – the US sees the release of personal income and spending, the ISM manufacturing index and construction spending. In Europe, German retail sales, euro area and UK final manufacturing PMIs and euro area unemployment figures are scheduled for release.

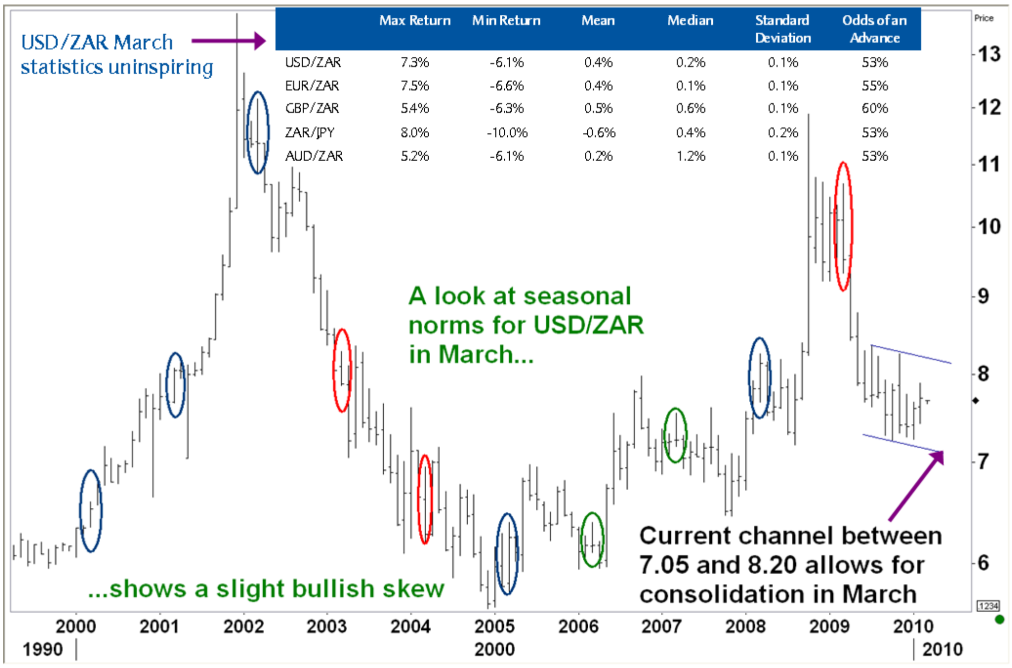
Technical Strategy

Rand Technical Comment: - (USD/ZAR)

USD/ZAR: Consolidation

The historic performance for USD/ZAR in March is uninspiring. The average mean is low at 0.4% and the odds of an advance are lacklustre at 53%. However, we note that the worst return for the month of March was posted in 2009 (-6.1%).

USD/ZAR remains entrenched in a wide channel between 7.05 and 8.20. Indeed, given the small real body posted in February, the risks are for further stalling and we expect sideways action for March. Our range for the month is 7.50-8.00.



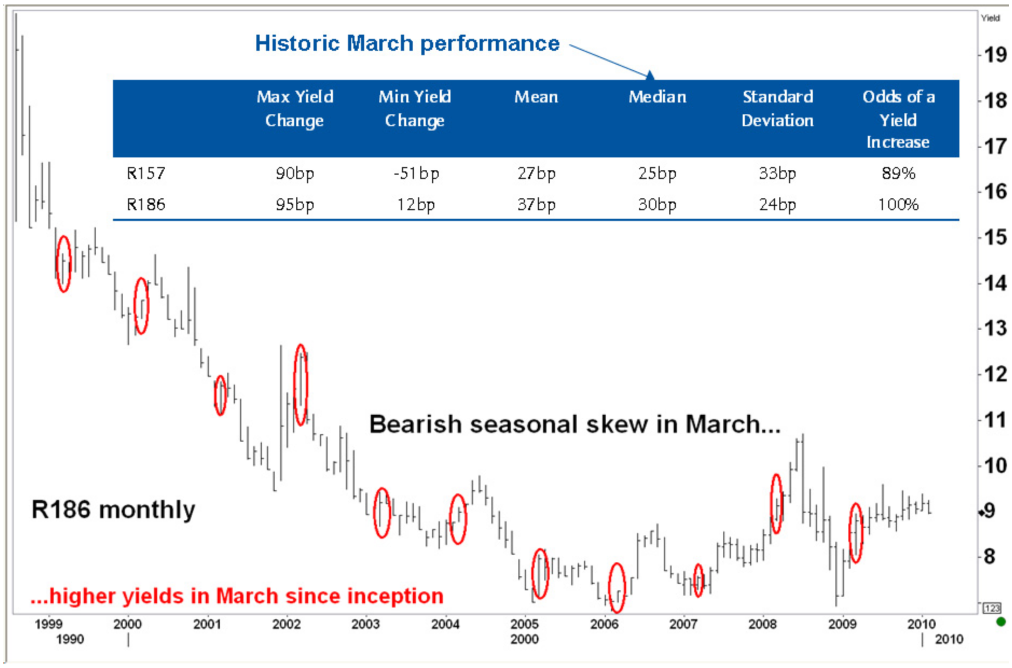
Source: Reuters, I-Net Bridge, Absa Capital
Support: 7.60 / 7.55 / 7.50
Resistance: 7.80 / 7.90 / 8.00
Today's range: 7.60-7.72

FI Technical Comment (R186 and R157)

Bonds: Bearish skew in March

The aggressive bullish close on Friday has helped propel the R157 andR186 out of its ranging activity and into positive territory in February, which is in line with the upbeat seasonal norms for the month. The R157 has reached our initial target of 8.15% and is on its way to our next target of 8.00% in the weeks ahead. Similarly, the R186 remains on course to reach our objective of 8.80% later in March. However, as we head into March, we note the overbought conditions. We are looking for basing action once the aforementioned levels are reached.

The seasonal trends for March reveal a bearish skew for the month.

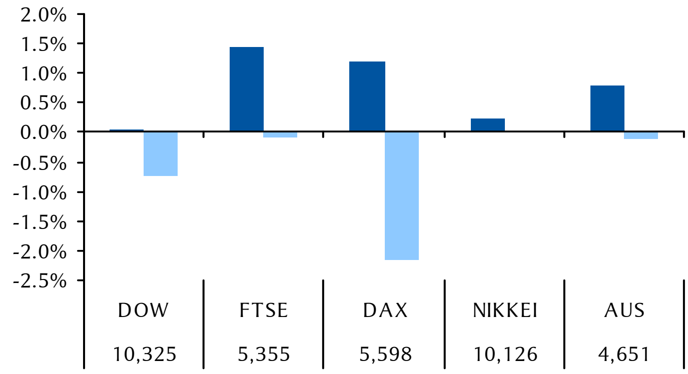


Source: Reuters, I-Net Bridge, Absa Capital
R157: Support: 8.22 / 8.26 / 8.33
R157: Resistance: 8.15 / 8.10 / 8.02
R157: Today's range: 8.12-8.18
R186: Today's range: 8.95-9.00

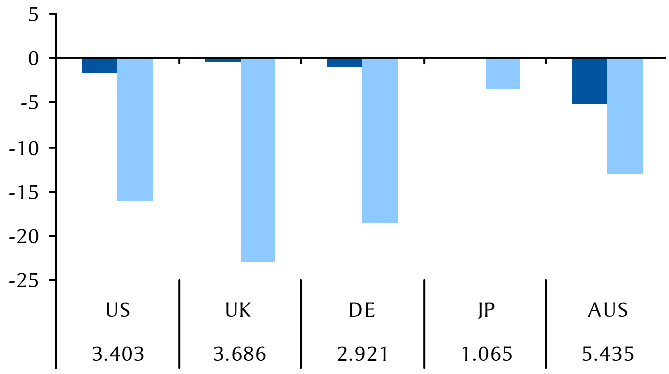
Global Overview

KEY: Daily Change   5 Day Change

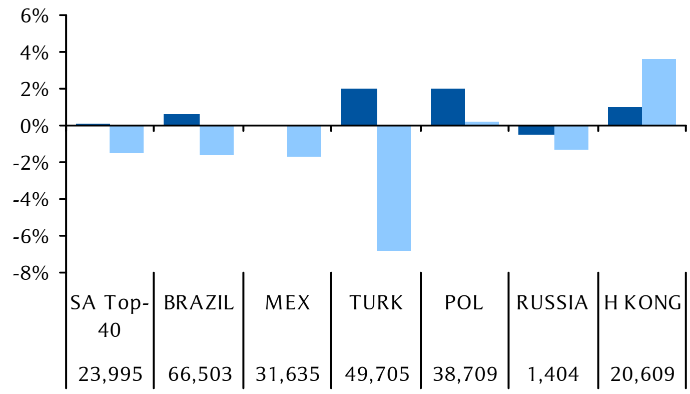
Developed Market Equities



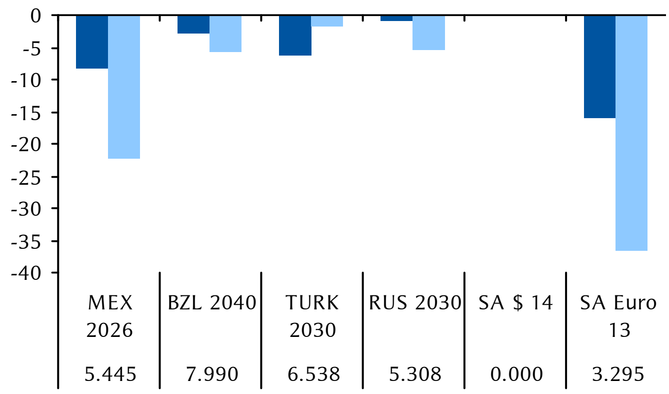
Developed Market 10yr Debt (bp)



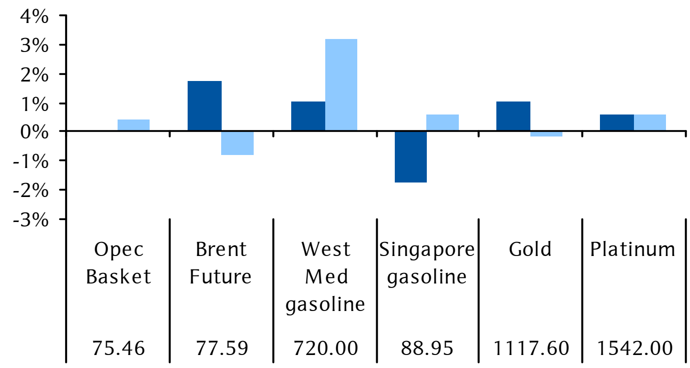
Emerging Market Equities



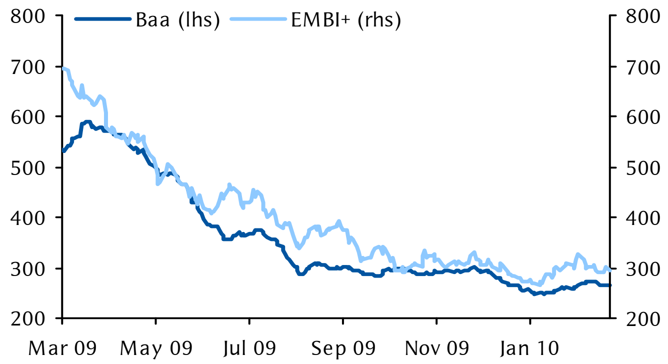
Emerging Market Debt (bp)



Commodity Prices



Baa and EMBI+ Spread



Data releases and events highlights (see weekly calendar for details)

Country	GMT	SA time	Data	Period	Latest	Forecast	Consensus
Events							
US	**2:45 PM**	**4:45 PM**	**US: Richmond Fed President Lacker (FOMC non-voter) speaks**				
Data releases							
E16	8:58 AM	10:58 AM	E16 : Final Manufacturing PMI, index	Feb	54.1 P	54.1	54.1
SA	**9:00 AM**	**11:00 AM**	**SA: PMI index**	**Feb**	**53.6**	**-**	**53.8**
UK	09:28	09:28	UK: PMI manufacturing, index	Feb	56.7	55.5	56.3
E16	10:00 AM	12:00 PM	E16: Unemployment rate, % (000s, sa)	Jan	10.0 (87)	10.0 (81)	10.1
US	12:30 PM	2:30 PM	US: Personal income, % m/m (y/y)	Jan	0.4 (0.5)	0.3 (2.1)	0.4 (2.2)
US	1:30 PM	3:30 PM	US: Personal spending, % m/m (y/y)	Jan	0.2 (4.0)	0.4 (3.6)	0.4 (3.6)

Source: Bloomberg, Reuters

Foreign Exchange

Forex Spots

Unit	$	Change	R	Change
USD	1.000	-	7.715	0.58%
GBP	1.524	-0.18%	11.756	0.76%
EUR	1.363	0.61%	10.517	-0.04%
JPY	88.970	0.11%	11.528	0.41%
CHF	1.074	0.61%	7.187	-0.03%
AUD	0.895	0.80%	6.908	-0.22%
CAD	1.052	0.87%	7.336	-0.30%
HKD	7.763	0.02%	0.994	0.55%
THB	33.060	0.09%		
IDR	9343.000	0.02%		
MXN	12.772	0.26%		
BRL	1.808	0.90%		
TRY	1.550	-0.17%		
PLN	2.893	1.37%		
CZK	19.018	0.72%		

Source: Bloomberg, all rates are mid rates

Rand Forwards

Term	Forward Points			Outright	Forward cover
	Last	Previous	Change	Forward rate	cost (ann.)
1 month	0.052	0.047	0.005	7.768	8.0%
3 months	0.136	0.139	-0.003	7.851	7.0%
6 months	0.272	0.279	-0.006	7.988	7.0%
9 months	0.408	0.417	-0.009	8.123	7.0%
1 year	0.541	0.554	-0.013	8.256	7.0%

Source: Bloomberg

Rand Options

Term	Option Implied Volatilty			Price as a %	Change
	Last	Previous	Change	of $ nominal	
1 month	15.9%	17.0%	-1.1%	1.8%	-0.1%
3 months	17.8%	17.8%	-0.1%	3.5%	0.0%
6 months	17.9%	18.5%	-0.6%	5.0%	-0.2%
9 months	18.2%	18.6%	-0.5%	6.2%	-0.2%
1 year	18.4%	18.8%	-0.3%	7.3%	-0.1%

Source: Reuters

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

Date	Value	% YTD	Date	Value
01 Mar 10	70.50	24.19%	**1 month ago**	
26 Feb 10	70.50	24.19%	1 Feb 10	71.59
25 Feb 10	70.52	24.22%	**12 months ago**	
24 Feb 10	70.66	24.47%	2 Mar 09	56.77
23 Feb 10	71.19	25.40%	**End of last year**	
22 Feb 10	71.67	26.25%	30 Dec 09	72.62
19 Feb 10	71.74	26.37%		

Source: SA Reserve Bank

SA Fuel prices

Rands per Litre	Gauteng 95 Octane	Diesel 0.005%
This month	8.04	6.99
Last Month	7.86	6.89
Change	0.18	0.10
*Average Unit over/(under) recovery	-6.58	-4.51

**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 26 Feb 10	Previous 25 Feb 10	Date of last change
SARB Repo Rate	7.00	7.00	13 Aug 09
Prime Interest Rate	10.50	10.50	13 Aug 09

Johannesburg Interbank Agreed Rates (Jibar)

	Last 26 Feb 10	Previous 25 Feb 10	Change (bps)
SAFEX Overnight Rate	6.78	6.78	0.0
1-month Jibar	6.95	6.95	0.0
3-month jibar	7.19	7.19	0.0
6-month Jibar	7.60	7.62	-1.5
1-year Jibar	8.10	8.11	-1.0

Negotiable Certificates of Deposit (NCDs)

	Last 26 Feb 10	Previous 25 Feb 10	Change (bps)
3-month NCD	7.20	7.35	-14.3
6-month NCD	7.39	7.84	-45.1
9-month NCD	7.59	7.69	-10.8
12-month NCD	7.78	7.89	-11.3

Sources: Reuters, Bloomberg

International Money market rates: US dollar libor

	Last 26 Feb 10	Previous 25 Feb 10	Change (bps)
USD Overnight	0.17	0.17	0.0
USD 1-month	0.23	0.23	0.0
USD 3-months	0.25	0.25	0.0
USD 6-months	0.39	0.39	0.0
USD 9-months	0.60	0.61	-0.2
USD 1-year	0.84	0.84	-0.1
Fed Funds target Rate	0.25	0.25	0.0

Source: Reuters

Chart: SARB Repo rate and 3-month Jibar

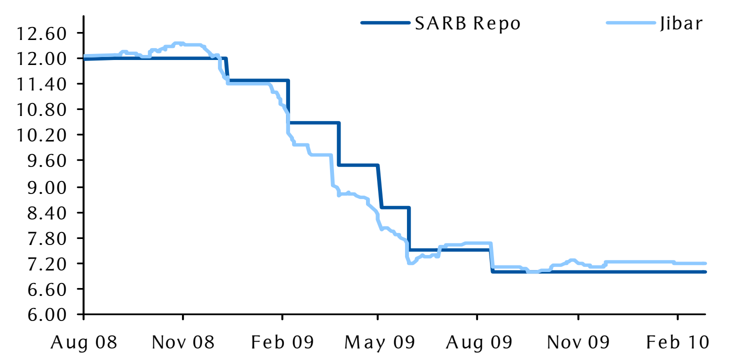
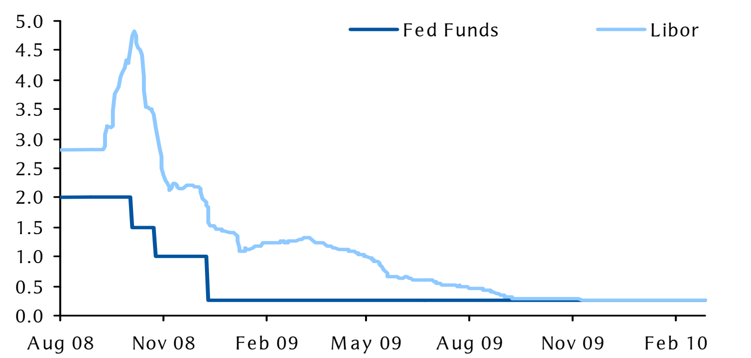


Chart: Fed Funds Target rate and 3-month USD Libor



Interest Rates

All Bond Index

Bond Code	Bond Details Issuer/coupon rate/maturity	Albi weighings	Last BESA m-t-26-Feb-10	Change (bps)
IN03	IFC 14.00% Jun 2011	0.54%	9.770	-6.0
R155	RSA 13.00% Aug 2011	2.73%	7.320	-6.0
R206	RSA 7.50% Jan 2014	5.56%	8.220	-7.0
R201	RSA 8.75% Dec 2014	8.44%	8.190	-6.0
R157	RSA 13.50% Sep 2015	13.07%	8.170	-6.0
WS04	TCTA 12.50% May 2016	1.82%	8.825	-6.0
R203	RSA 8.25% Sep 2017	8.55%	8.730	-7.0
TN17	Transnet 9.25% Nov 2017	1.51%	9.950	-7.0
ES18	Eskom 9.25% Apr 2018	1.26%	9.950	-7.0
R204	RSA 8.00% Dec 2018	7.97%	8.770	-7.0
R207	RSA 7.25% Jan 2020	9.65%	8.945	-7.5
DV22	DBSA 9.45% Feb 2020	0.99%	10.295	-7.5
E170	Eskom 13.50% Aug 2020	2.63%	9.340	-7.0
R208	RSA 6.75% Mar 2021	6.96%	8.990	-7.0
COJ05	City of Johannesburg 12.21% Jun 2023	0.49%	11.290	-7.0
ES26	Eskom 7.85% Apr 2026	2.64%	9.580	-9.0
R186	RSA 10.50% Dec 2026	15.28%	8.980	-9.0
TN27	Transnet 8.90% Nov 2027	1.09%	10.480	-9.0
ES33	Eskom 7.50% Sep 2033	2.84%	9.645	-8.5
R209	RSA 6.25% Mar 2036	5.97%	8.955	-8.5
Albi yield Weighted average MTM yield		**100.00%**	**8.791**	**-7.3**
Albi Total Return Index		**-**	**305.72**	**0.48%**
Govi Total Return Index		**-**	**307.20**	**0.48%**

Source: BESA, Bloomberg

Government Primary Dealer Bonds

Bond Code	Trading stats for 26-Feb-10 Open	High	Low	Last	This Morning
R206	8.250	8.280	8.215	8.220	8.183
R201	8.185	8.215	8.180	8.190	8.153
R157	8.219	8.242	8.149	8.173	8.135
R203	8.796	8.800	8.715	8.715	8.692
R204	8.770	8.800	8.740	8.770	8.733
R207	9.010	9.060	8.920	8.930	8.905
R186	9.060	9.100	8.940	8.944	8.945

Source: BESA

Government Inflation Linked Bonds

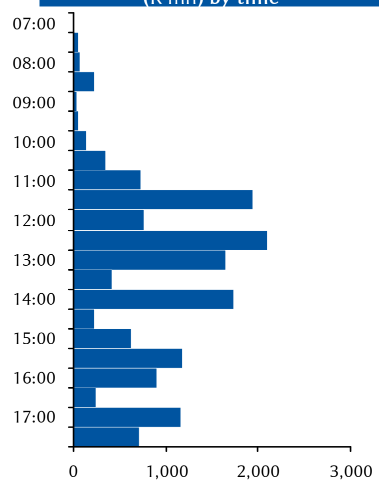
Bond Code	Trading stats for 26-Feb-10 Open	High	Low	Last	Last BESA m-t-m
R189	2.140	2.140	2.130	2.130	2.130
R197	3.250	3.275	3.250	3.250	3.260
R210	3.400	3.400	3.350	3.350	3.370
R202	3.325	3.380	3.325	3.330	3.350
BarCap/Absa SA Govt. Inflation Linked bond index				**9.95**	**-0.70%**

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

Bond Trading Data

Bond Code	Total Non Repo Trades for the main government funding stocks (ZAR mn) 26-Feb-10	week-to-date	month-to-date	year-to-date
R196	0.00	0	0	0
R153	0.00	0	0	0
R206	556.19	1,902	8,253	16,319
R201	113.77	826	3,302	6,419
R157	7,932.60	30,378	135,184	219,197
R203	551.22	2,247	9,780	18,267
R204	445.03	1,293	8,868	20,102
R207	158.82	5,128	20,462	32,200
R208	591.80	5,220	22,228	34,498
R186	2,332.43	5,141	29,778	68,821
R209	562.09	4,005	11,010	16,133

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



Bond Code	Total client trades on BESA (ZAR mn) Local Clients	Foreign Clients
R196	0.00	0
R153	0.00	0
R206	33.64	34
R201	4.49	0
R157	1,136.64	-1,073
R203	-16.67	400
R204	-49.87	87
R207	-69.83	1
R208	-195.34	-16
R186	-149.53	794
R209	-30.54	-14

Bond Exchange Total Volumes Nominal amount traded (ZAR bn)		latest	& previous
Daily	26-Feb	31	30
Week to date	5-Mar	0	229
Month to date	Mar-10	0	1,067
Year to date	2010	1,983	13,422

Net Foreign purchases / sales of SA bonds	(ZAR mn)	latest &	Previous
Daily	26-Feb	59.1	592
Week to date	5-Mar	0.0	2,149
Month to date	Mar-10	0.0	6,119
Year to date	2010	6,079.2	

Source: BESA

Bond Exchange Cash Flows

Monthly Coupons and Maturities for the next twelve months (ZAR mn) Month	Coupons	Redemptions
February	5,403.40	6,412
March	14,383.06	4,483
April	1,967.08	4,935
May	2,392.68	6,066
June	9,923.95	5,547
July	5,069.47	11,819
August	5,217.22	21,098
September	14,223.05	5,544
October	1,806.01	3,807
November	2,235.40	7,260
December	9,814.50	1,882
January	4,479.25	421

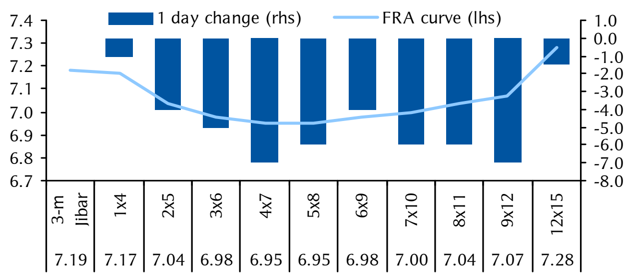
Source: BESA

Five Largest Coupon Payments for February 2010 (ZAR mn) Bond Code	Date	Issuer	Amount
E170	1 Feb 10	Eskom Holdings Limited	821
R154	28 Feb 10	Republic Of South Africa	819
R155	28 Feb 10	Republic Of South Africa	819
DV22	7 Feb 10	Development Bank Of	315
DV23	27 Feb 10	Development Bank Of	186

Five Largest Maturities for February 2010 (ZAR mn) Bond Code	Date	Issuer	Amount
THE5A2	21 Feb 10	Thekwini Fund 5 Limited	787
GFIC11	9 Feb 10	Gold Fields Limited	598
ACCP12	3 Feb 10	Airports Company South	506
ACCP15	15 Feb 10	Airports Company South	500

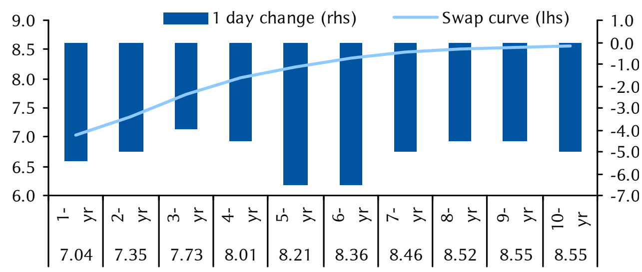
Fras and Swaps

South Africa FRAs curve



Source: BESA

South Africa Swap curve



Source: BESA

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