

# South Africa Morning Sheet

South Africa Strategy

4 March 2010

	Close		Change
USD/ZAR	7.50	↓	1.4%
EUR/USD	1.37	↑	0.6%
EUR/ZAR	10.27	↓	0.7%
3m Jibar	7.17%	→	0 bp
R157	8.17%	↑	3 bp
R186	8.95%	↑	4 bp
All Share	27,684	↑	1.1%
Gold \$/oz	1,140	↑	0.5%
Brent \$/bb	79.0	↑	2.0%

Source: Bloomberg

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**SA business environment improves in February.** Business confidence as recorded by the South African Chamber of Commerce and Industry (SACCI) ticked up 1.8 index points to 83.0 following the prior month's deterioration to 81.2. The improvement in the business environment is in line with a number of other high-frequency data releases of late, which have generally surprised to the upside and reflect that economic conditions in SA are slowly improving. That said, of the 13 sub-indices that make up the headline index, an improvement in only 6 of these (liquidations, manufacturing, retail sales, construction, inflation and the rand exchange rate) drove the improvement in business confidence in February. According to SACCI, continued relatively depressed trade conditions, a mild deterioration in vehicle sales, poor growth in credit extension, a weaker equity market, higher real financing costs and lower precious metals prices had a negative impact on the February index.

While we expect macroeconomic data coming out of the domestic economy to continue to show that the recovery is gaining traction, we note that SA's business environment remains challenging, particularly if one looks at the demand-side of the economy, where private sector credit extension remains largely stagnant, consumers continue to grapple with still high levels of indebtedness and the fallout from last year's near 900k job losses. This suggests to us that the improvement in the demand-side of the economy should lag that of the supply-side, where momentum in indicators such as manufacturing and mining production is showing robust growth. These weak demand-side dynamics should translate into a slow (and sometimes patchy) recovery in SA's business environment, in our view.

**BoE and ECB rate decisions.** Today's key focus in markets will be on the BoE and ECB rate decisions. As far as the BoE decision is concerned, there are three main reasons why our UK economists expect no change in policy. First, the February Inflation Report projections showed that the MPC was broadly content that the current policy setting was consistent with the inflation target. Second, the economic news since February has been mixed to positive, and third even if the medium-term inflation outlook warranted some policy loosening, it is questionable whether now would be a wise time to extend QE. Inflation is substantially above target, and the MPC is concerned that inflation expectations might rise. Also, there is a risk that a QE extension could put further downward pressure on sterling, resulting in an effective monetary loosening far greater than the MPC intended. We think the MPC is highly unlikely to change policy, or even to hint at a change, before the general election. The ECB is very unlikely to make any change to official interest rates in our view, so once more the attention will focus on the press conference, particularly on the Governing Council's plans for its monetary operations during Q2. It seems likely that the ECB will signal its intention to continue with full allotment in its Main Refinancing Operations (the weekly tenders), quite possibly into the start of Q3.

**Greece announces further austerity measures to curb deficit this year; suggests willingness to approach IMF.** Consistent with recent media reports, the Greek cabinet announced a series of further fiscal consolidation measures yesterday, estimated to amount to €4.8bn (2.0% of GDP). In particular, the new round of measures includes an increase in various sales taxes, an increase in standard rate VAT by 2pp, to 21% from 19%. As well, there are to be further cuts in civil servants' compensation, with cuts in benefit payments set to be 12% rather than 10%. On the basis of previous estimates, this ought now to be equivalent to about a 5% cut in public sector compensation. Since there does not seem to have been any revision to the target of achieving an 8.7% deficit/GDP ratio for 2010, after 12.7% in 2009, we assume that the deficit target remains on track but that the additional measures were deemed necessary to generate greater confidence that the existing deficit targets will be met. This is particularly important in order for Greece to mobilise sufficient parliamentary support in Germany for there to be some form of guarantee by German government-sponsored institutions to support Greek debt issuance, ahead of the need to borrow later this month and especially ahead of the crucial very heavy refinancing due in April (€8.2bn) and May (€8.4bn). Furthermore, Greek PM Papandreou plans to travel to Berlin on Friday, to Paris on Sunday and then to Washington DC. According to Market News, if he is unable to secure a concrete aid package from Europe, he will then request aid from the IMF.

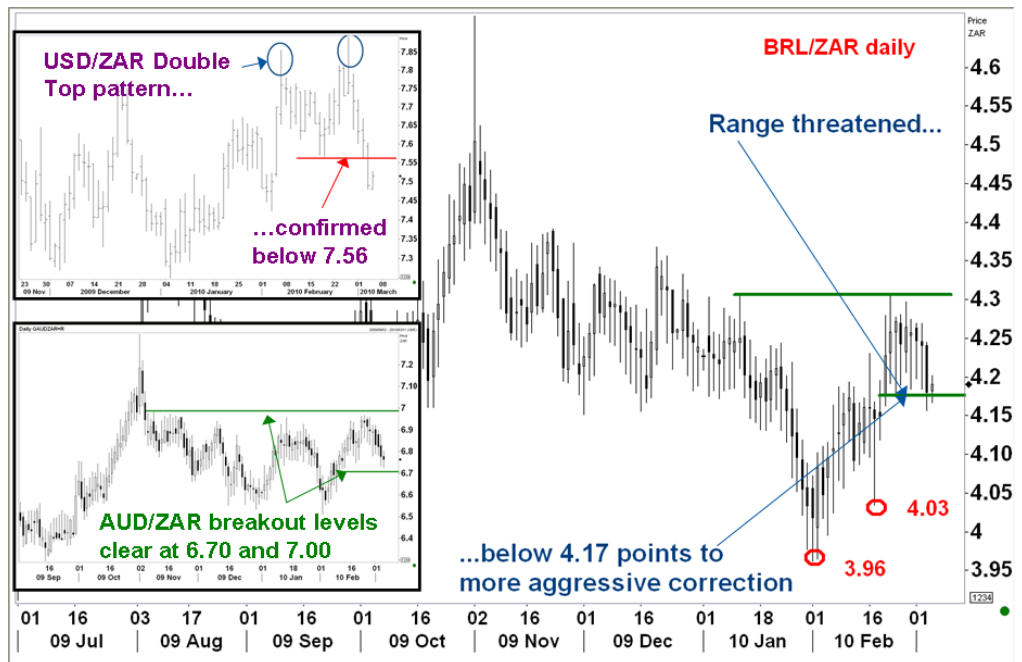
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# Technical Strategy

## Rand Technical Comment: - (USD/ZAR)

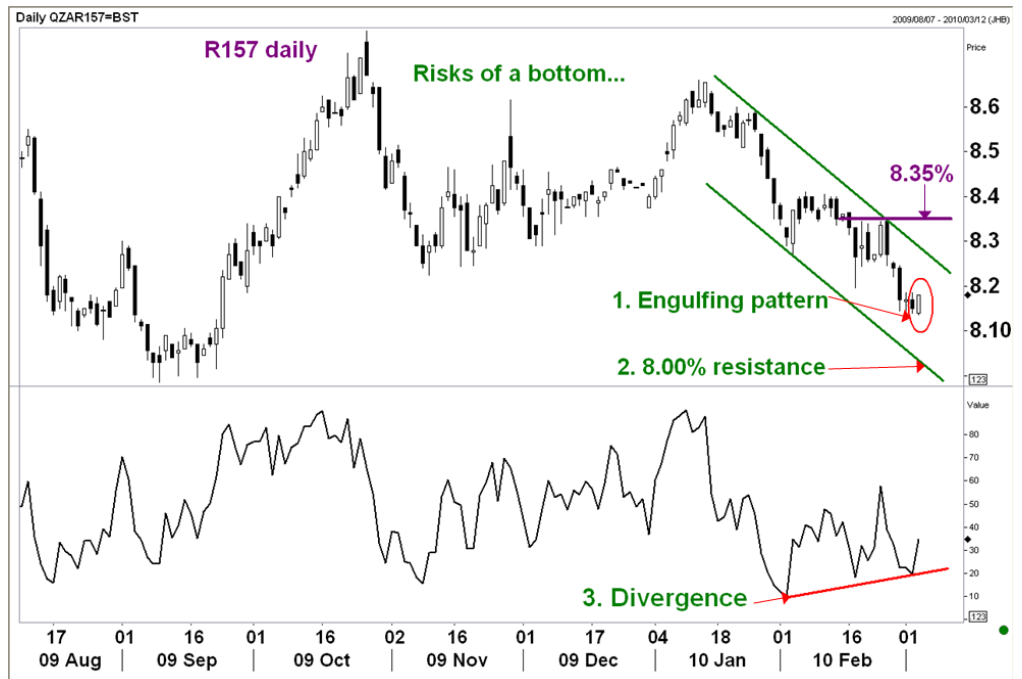
The close below 7.56 by USD/ZAR has confirmed the Double Top pattern we were advocating. The measured objective is 7.33 but that is likely to be reached only in the new week. On an intraday basis, BRL/ZAR has reached and exceeded our 4.17 target, which appears too conservative. A close below 4.17 today would signal an end to our preferred consolidation bias, allowing for a temporary extension towards the 4.03-3.96 zone. AUD/ZAR is approaching our near-term target of 6.70. However, unless we get a close below this level, a consolidation pattern prevails with the key breakout levels at 7.00 and 6.70.



Source: Reuters  
 Support: 7.50 / 7.48 / 7.42  
 Resistance: 7.60 / 7.66 / 7.72  
 Today's range: 7.47-7.58

## FI Technical Comment (R186 and R157)

Yesterday, we highlighted the divergence concerns in the bond market. Indeed, the subsequent Engulfing pattern posted at the end of the day by the R157 does not bode well. Similarly, the bearish pattern in the R186 signals that the turnaround we have been looking for could be unfolding sooner rather than later. Instead of the R157 first dropping to 8.00% and the R186 slipping to 8.80%, we would not be surprised to see a consolidation near current levels over the next couple of days. These moves would be the precursor to a larger base. A bottom and a more aggressive upward leg in yields is signalled on a close above 8.35% by the R157 and 9.20% by the R186.

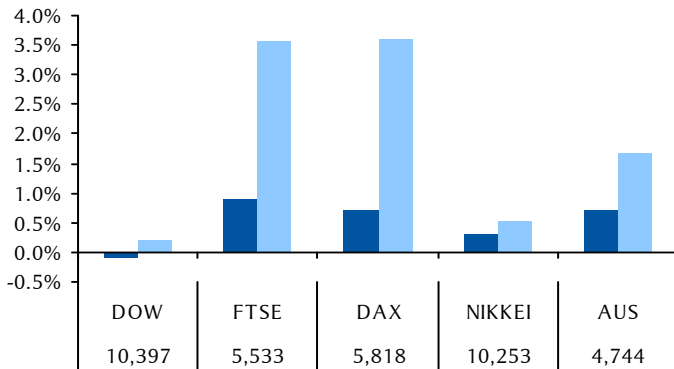


Source: Reuters  
 R157: Support: 8.22 / 8.26 / 8.33  
 R157: Resistance: 8.10 / 8.02 / 8.00  
 R157: Today's range: 8.14-8.20  
 R186: Today's range: 8.94-8.98

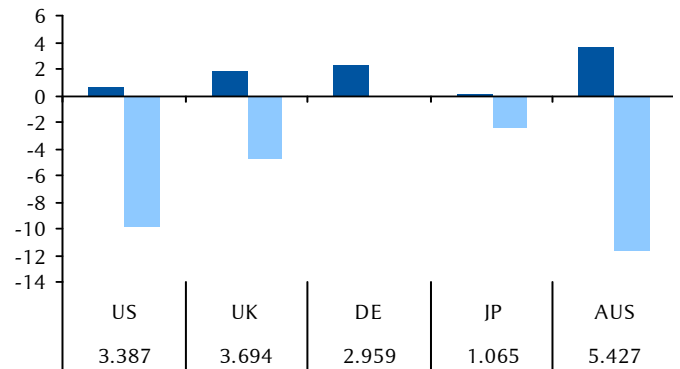
# Global Overview

KEY: ■ Daily Change ■ 5 Day Change

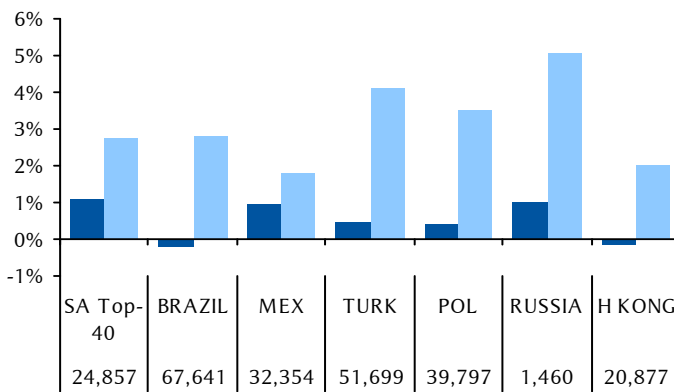
## Developed Market Equities



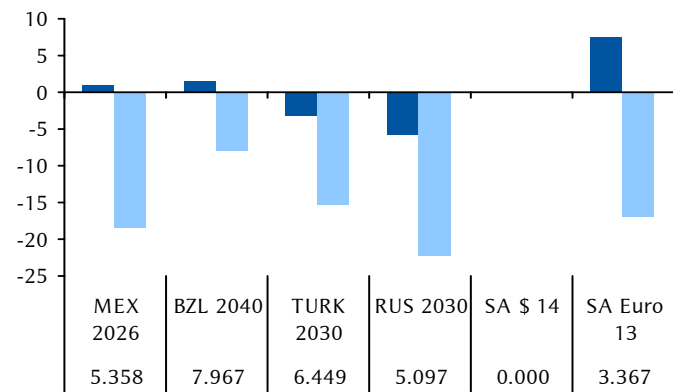
## Developed Market 10yr Debt (bp)



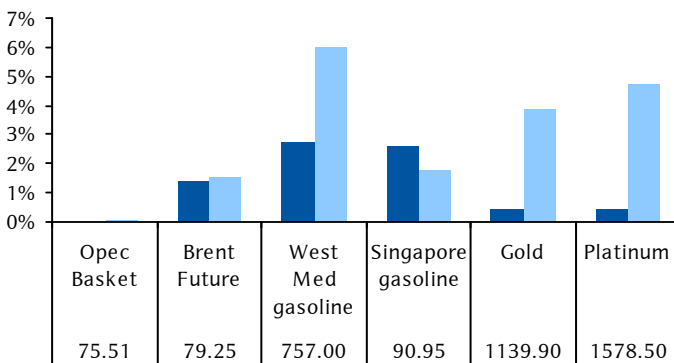
## Emerging Market Equities



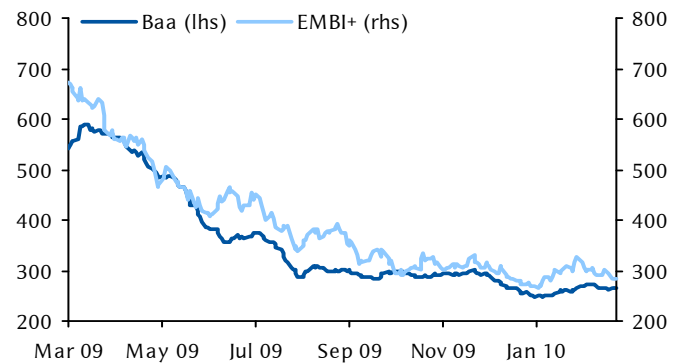
## Emerging Market Debt (bp)



## 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
<b>Events</b>							
UK	12:00 PM	2:00 PM	UK: BoE MPC Bank Rate decision, %				
UK	12:00 PM	2:00 PM	UK: BoE MPC asset purchase target, £ bn				
E16	12:45	2:45 PM	E16 : ECB rate announcement, %				
<b>Data releases</b>							
UK	9:00 AM	11:00 AM	UK: SMMT new car registrations, % y/y	Feb	29.8	-	-
E16	10:00 AM	12:00 PM	E16: Preliminary GDP, % q/q	Q4	"flash" 0.1	0.1	0.1
SA	11:00 AM	1:00 PM	SA: Electricity production (% y/y)	Jan	7.6	-	-
US	1:30 PM	3:30 PM	US: Nonfarm productivity, % q/q	Q4 f	6.2	6.0	6.2
US	1:30 PM	3:30 PM	US: Unit labour costs, % q/q	Q4 f	-4	-4.6	-4
US	1:30 PM	3:30 PM	US: Initial jobless claims, thous (4wk	Feb - 27	496 (474)	475 (472)	-

Source: Bloomberg, Reuters

# Foreign Exchange

## Forex Spots

Unit	\$	Change	R	Change
USD	1.000	-	7.500	1.35%
GBP	1.510	0.86%	11.324	0.49%
EUR	1.370	0.60%	10.272	0.75%
JPY	88.470	0.43%	11.794	0.90%
CHF	1.068	0.65%	7.023	0.70%
AUD	0.906	0.27%	6.794	1.09%
CAD	1.032	0.36%	7.268	0.99%
HKD	7.763	0.00%	0.966	1.35%
THB	32.690	0.09%		
IDR	9280.000	0.14%		
MXN	12.695	0.29%		
BRL	1.792	0.07%		
TRY	1.539	-0.31%		
PLN	2.852	0.83%		
CZK	18.809	0.60%		

Source: Bloomberg, all rates are mid rates

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

Date	Value	% YTD	Date	Value
04 Mar 10	72.29	28.04%	1 month ago	
03 Mar 10	72.29	28.04%	4 Feb 10	72.16
02 Mar 10	71.93	27.40%	12 months ago	
01 Mar 10	71.36	26.39%	4 Mar 09	56.46
26 Feb 10	70.50	24.87%	End of last year	
25 Feb 10	70.52	24.90%	30 Dec 09	72.62
24 Feb 10	70.66	25.15%		

Source: SA Reserve Bank

## Rand Forwards

Term	Forward Points			Outright Forward rate	Forward cover cost (ann.)
	Last	Previous	Change		
1 month	0.046	0.048	-0.002	7.546	7.2%
3 months	0.134	0.133	0.001	7.634	7.1%
6 months	0.267	0.272	-0.005	7.767	7.1%
9 months	0.396	0.403	-0.006	7.896	7.0%
1 year	0.527	0.531	-0.004	8.027	7.0%

Source: Bloomberg

## Rand Options

Term	Option Implied Volatility			Price as a % of \$ nominal	Change
	Last	Previous	Change		
1 month	15.3%	15.6%	-0.3%	1.8%	0.0%
3 months	16.7%	16.5%	0.1%	3.3%	0.0%
6 months	17.4%	17.8%	-0.4%	4.9%	-0.1%
9 months	17.9%	18.1%	-0.1%	6.2%	-0.1%
1 year	18.2%	18.3%	-0.1%	7.2%	-0.1%

Source: Reuters

## SA Fuel prices

Rands per Litre	Gauteng 95 Octane	Diesel
This month	8.10	7.03
Last Month	8.04	6.99
Change	0.06	0.04
*Average Unit over/ (under) recovery	-27.90	-28.02

\*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 3 Mar 10	Previous 2 Mar 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 3 Mar 10	Previous 2 Mar 10	Change (bps)
SAFEX Overnight Rate	6.78	6.78	0.0
1-month Jibar	6.95	6.94	1.0
3-month jibar	7.17	7.17	0.0
6-month Jibar	7.60	7.60	0.0
1-year Jibar	8.05	8.05	0.0

### Negotiable Certificates of Deposit (NCDs)

	Last 3 Mar 10	Previous 2 Mar 10	Change (bps)
3-month NCD	7.25	7.25	-0.3
6-month NCD	7.69	7.41	28.1
9-month NCD	7.87	7.60	27.8
12-month NCD	7.74	7.74	0.1

Sources: Reuters, Bloomberg

### International Money market rates: US dollar libor

	Last 3 Mar 10	Previous 2 Mar 10	Change (bps)
USD Overnight	0.18	0.18	0.0
USD 1-month	0.23	0.23	0.0
USD 3-months	0.25	0.25	0.0
USD 6-months	0.38	0.38	0.0
USD 9-months	0.60	0.60	-0.1
USD 1-year	0.83	0.84	-0.2
Fed Funds target Rate	0.25	0.25	0.0

Source: Reuters

Chart: SARB Repo rate and 3-month Jibar

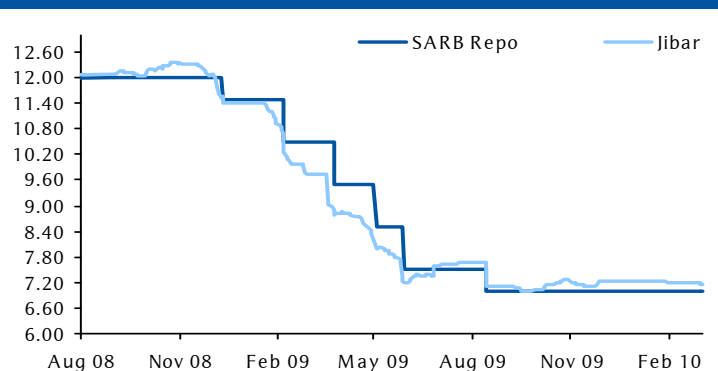
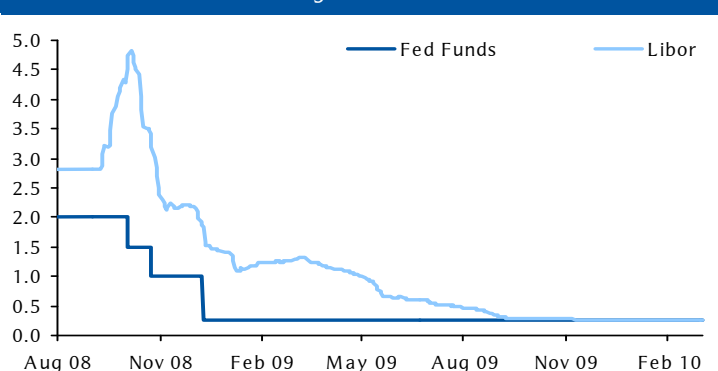


Chart: Fed Funds Target rate and 3-month USD Libor



# Interest Rates

## All Bond Index

Bond Code	Bond Details Issuer / coupon rate / maturity	Albi weightings	Last BESA m-t-3-Mar-10	Change (bps)
IN03	IFC 14.00% Jun 2011	0.54%	9.800	3.5
R155	RSA 13.00% Aug 2011	2.73%	7.350	3.0
R206	RSA 7.50% Jan 2014	5.56%	8.220	3.0
R201	RSA 8.75% Dec 2014	8.44%	8.185	2.5
R157	RSA 13.50% Sep 2015	13.07%	8.170	3.0
WS04	TCTA 12.50% May 2016	1.82%	8.840	3.0
R203	RSA 8.25% Sep 2017	8.55%	8.715	2.5
TN17	Transnet 9.25% Nov 2017	1.51%	9.935	2.5
ES18	Eskom 9.25% Apr 2018	1.26%	9.935	2.5
R204	RSA 8.00% Dec 2018	7.97%	8.745	3.0
R207	RSA 7.25% Jan 2020	9.65%	8.930	4.5
DV22	DBSA 9.45% Feb 2020	0.99%	10.280	4.5
E170	Eskom 13.50% Aug 2020	2.63%	9.300	2.5
R208	RSA 6.75% Mar 2021	6.96%	8.950	3.0
COJ05	City of Johannesburg 12.21% Jun 2023	0.49%	11.250	3.0
ES26	Eskom 7.85% Apr 2026	2.64%	9.545	4.0
R186	RSA 10.50% Dec 2026	15.28%	8.945	4.0
TN27	Transnet 8.90% Nov 2027	1.09%	10.395	4.0
ES33	Eskom 7.50% Sep 2033	2.84%	9.575	5.0
R209	RSA 6.25% Mar 2036	5.97%	8.885	5.0

Albi yield Weighted average MTM yield	100.00%	8.769	3.4
Albi Total Return Index	-	306.58	-0.19%
Govi Total Return Index	-	308.03	-0.19%

Source: BESA, Bloomberg

## Government Primary Dealer Bonds

Bond Code	Trading stats for 3-Mar-10				This Morning
	Open	High	Low	Last	
R206	8.220	8.220	8.220	8.220	8.222
R201	8.182	8.182	8.175	8.180	8.188
R157	8.110	8.319	8.099	8.170	8.177
R203	8.680	8.735	8.680	8.715	8.718
R204	8.755	8.760	8.755	8.760	8.750
R207	8.885	8.950	8.880	8.910	8.935
R186	8.920	8.960	8.920	8.945	8.950

Source: BESA

## Government Inflation Linked Bonds

Bond Code	Trading stats for 3-Mar-10				Last BESA m-t-m
	Open	High	Low	Last	
R189	2.150	2.150	2.150	2.150	2.130
R197	3.310	3.341	3.270	3.325	3.325
R210	3.350	3.351	1.947	3.350	3.350
R202	3.350	3.350	3.330	3.345	3.350

BarCap/ Absa SA Govt. Inflation Linked bond index **9.94** **0.25%**

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)			
	3-Mar-10	week-to-date	month-to-date	year-to-date
R196	0.00	0	0	0
R153	0.00	0	0	0
R206	12.00	134	134	16,454
R201	89.05	276	276	6,694
R157	6,442.06	24,651	24,651	243,849
R203	348.26	1,458	1,458	19,725
R204	64.84	2,042	2,042	22,144
R207	1,582.76	2,361	2,361	34,562
R208	619.22	5,409	5,409	39,906
R186	930.58	3,530	3,530	72,351
R209	1,072.87	2,093	2,093	18,226

Bond Code	Total client trades on BESA (ZAR mn)	
	Local Clients	Foreign Clients
R196	0.00	0
R153	0.00	0
R206	0.00	0
R201	-0.57	40
R157	261.49	2,129
R203	-62.36	97
R204	-8.84	-25
R207	-316.76	182
R208	-41.94	-93
R186	-288.52	60
R209	-164.45	-41

Bond Exchange Total Volumes			
Nominal amount traded (ZAR bn) latest & previous			
Daily	3-Mar	41	120
Week to date	5-Mar	212	229
Month to date	Mar-10	212	1,067
Year to date	2010	2,195	13,422

Net Foreign purchases / sales of SA bonds (ZAR mn) latest & Previous			
Daily	3-Mar	3,021.5	1,155
Week to date	5-Mar	3,723.7	2,149
Month to date	Mar-10	3,723.7	6,119
Year to date	2010	9,803.0	

Source: BESA

## Bond Exchange Cash Flows

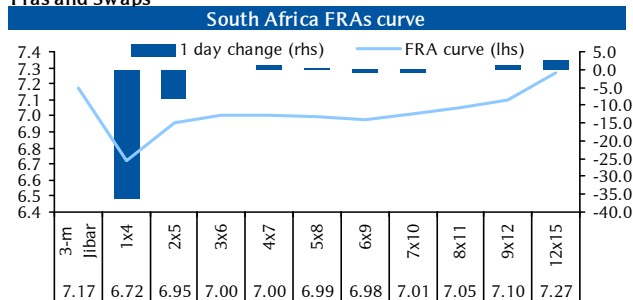
Monthly Coupons and Maturities for the next twelve months (ZAR mn)		
Month	Coupons	Redemptions
February	5,403.40	6,412
March	14,383.06	4,483
April	1,967.08	4,935
May	2,392.68	6,066
June	9,923.95	5,547
July	5,069.47	11,819
August	5,217.22	21,098
September	14,223.05	5,544
October	1,806.01	3,807
November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

Source: BESA

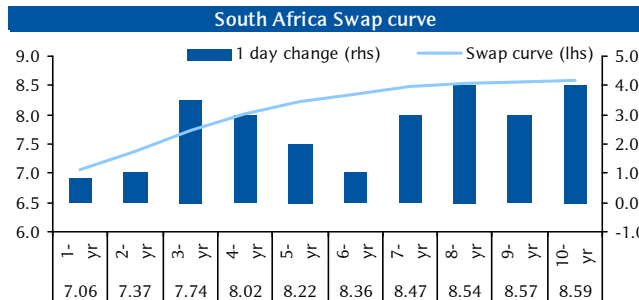
Five Largest Coupon Payments for March 2010 (ZAR mn)			
Bond Code	Date	Issuer	Amount
E170	1 Feb 10	Eskom Holdings Limited	821
R154	28 Feb 10	Republic Of South Africa	819
R155	28 Feb 10	Republic Of South Africa	819
DV22	7 Feb 10	Development Bank Of	315
DV23	27 Feb 10	Development Bank Of	186

Five Largest Maturities for March 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



Source: BESA



Source: BESA

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### Analyst Certification(s)

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