

South Africa Morning Sheet

South Africa Strategy

5 March 2010

	Close		Change
USD/ZAR	7.48	↓	0.3%
EUR/USD	1.36	↓	0.8%
EUR/ZAR	10.14	↓	1.3%
3m Jibar	7.15%	↓	2 bp
R157	8.16%	↓	2 bp
R186	8.94%	↓	1 bp
All Share	27,774	↑	0.3%
Gold \$/oz	1,132	↓	0.7%
Brent \$/bb	78.4	↓	0.7%

Source: Bloomberg

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Valuation adjustments to steer net reserves lower. This morning (08:00am SA time) sees the release of net reserves from the Reserve Bank, where we look for a decline of around USD200mn in February to USD38.4bn. A weaker EUR/USD in February is likely to have more than offset the small gain in the USD gold price during the month and underpins our forecast for reserves to have fallen in February. We continue to believe that the SARB is unlikely to have been aggressively active in the market during the month, where the bank has been explicit in its communication of late, saying that it would only “lean against the wind” to purchase foreign exchange reserves when the opportunity arises. The costs of sterilisation associated with buying foreign exchange reserves, in our view, remains too high in an environment where the fiscus is already under pressure. Furthermore, acquiring reserves with the intention of weakening the currency also brings into question what the “correct” value for the ZAR is. SARB Governor Marcus in a recent parliamentary speech said that the bank had no clear view of what the ideal value for the currency was and warned that a central bank had to have “deep pockets” when intervening in foreign currency markets with the intention of weakening the currency, saying “you will be taken on”.

Patel unveils Economic Development Ministry’s plan. Minister of Economic Development Ebrahim Patel gave more clarity on his and his department’s role yesterday when he tabled the ministry’s medium-term strategic vision in Parliament. The document states that the ministry will have a “cross-cutting” mandate, which will work in collaboration with around 15 governmental departments. Patel also said that his ministry would work in strong partnership with National Planning Commission (which Minister Trevor Manuel heads up), as well as other ministries in the economic cluster. The Economic Development Ministry’s key responsibility is “economic development policy”, where the aim of the department will be to “coordinate the economic development contributions of government departments, state entities and civil society”, as well as to ensure coherence between economic policies and plans of government and state entities. As we stated in our Morning Sheet earlier this week, Patel will also have oversight of regulatory bodies such as the Competition Commission and Development Finance Institutions such as the Industrial Development Corporation. While on the face of it, the role of Patel and his ministry yielded very little new in terms of what we would have expected to come out of the ministry’s strategic plan, more details are likely to emerge today when Patel goes before Parliament’s portfolio committee to answer questions on the ministry’s strategic plan.

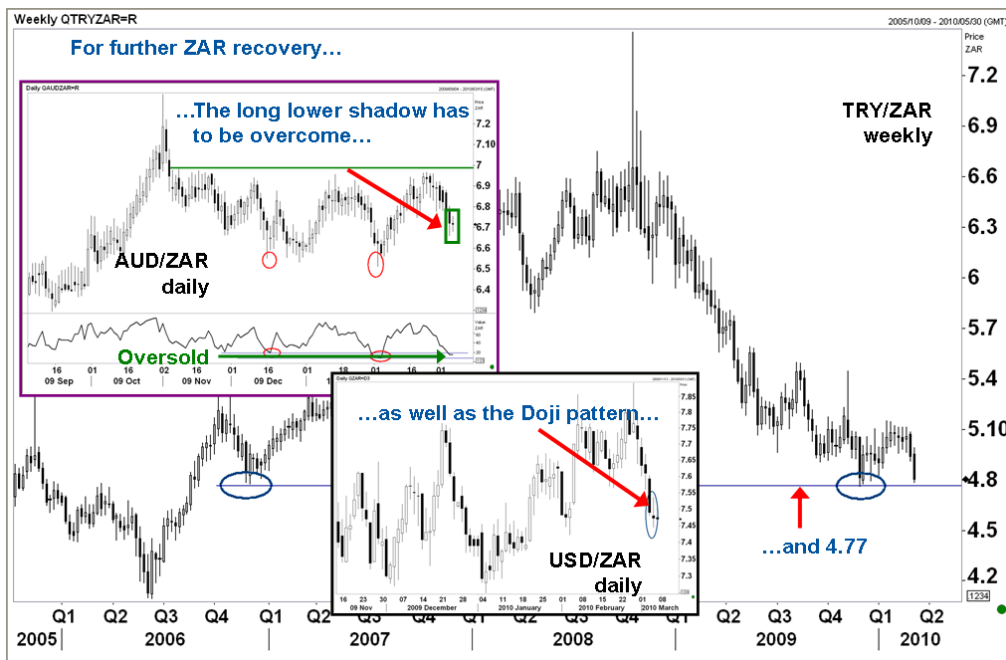
Gordhan “disappointed” at response to Eskom loan; suggests further Eskom guarantees. Speaking in an interview with Bloomberg television yesterday in London, Finance Minister Pravin Gordhan said that he was “disappointed” by the response of developed countries to Eskom’s plan to seek around USD4bn in loans from the World Bank to finance its infrastructure programme. Gordhan said that while there are some “moral voices” being raised as to why the World Bank should finance a coal-fired power station, he said that he “hoped that they understood that developing countries need a period of time during which they will still use coal”, noting that SA had already made a commitment to using renewable energy sources in the future. On Eskom’s funding requirement, Gordhan said that this had more or less been “sewn up”, with only a few billion more to look for. Whether Treasury will award Eskom additional guarantees in light of the increased funding shortfall following the NERSA ruling remains unclear. In previous comments, Gordhan has relayed that the fiscus had done pretty much all it could do with respect to Eskom’s finances. However, conflicting comments came out of the Q&A session after the interview, in which Gordhan stated that government “will increase its guarantees to Eskom”. These comments suggest that should the World Bank grant Eskom a materially lower loan than initially applied for (USD3.75bn), the Treasury could possibly plug the gap by awarding the utility additional guarantees, in our view.

Technical Strategy

Rand Technical Comment: - (USD/ZAR, AUD/ZAR and TRY/ZAR)

TRY/ZAR is poised near the multi-year low at 4.77. As the pair heads into oversold territory, the 4.77 level is likely to be a tough barrier to crack on a sustainable basis. The risks are for near-term bottom and return to 5.00. For USD/ZAR, we are anxious about yesterday's Doji pattern and its implications for our bullish call on the ZAR to 7.33. A push below 7.44 is needed to boost our bullish outlook.

Similarly, the long lower shadow posted by AUD/ZAR against oversold levels is a concern as it could signal a pause in the recent recovery leg by the ZAR into next week.



Source: Reuters
 Support: 7.42 / 7.35 / 7.29
 Resistance: 7.570 / 7.66 / 7.72
 Today's range: 7.42-7.52

FI Technical Comment (R186 and R157)

We have to allow for further sideways action in the near term before the bottom in yields we are envisaging materialises. The small real body by the R157 and the Doji pattern by the R186 warn that the two-way flow initiated at the beginning of the week has further to go. Bigger picture, we note the divergence patterns, and we are watching for confirmation in the form of a close above 8.35% by the R157 and 9.20% by the R186, for initial objectives of 8.66% and 9.40%, respectively.

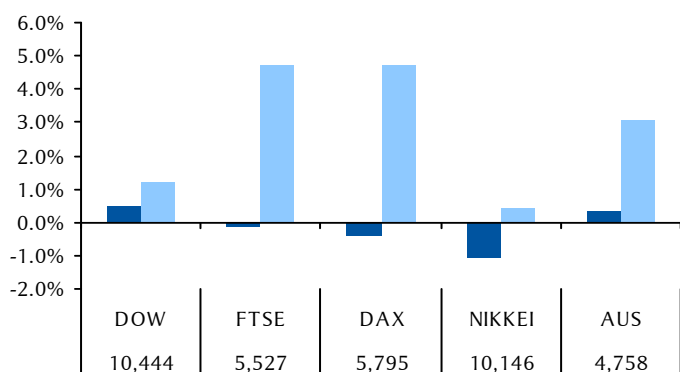


Source: Reuters
 R157: Support: 8.22 / 8.26 / 8.33
 R157: Resistance: 8.10 / 8.02 / 8.00
 R157: Today's range: 8.14-8.20
 R186: Today's range: 8.94-8.99

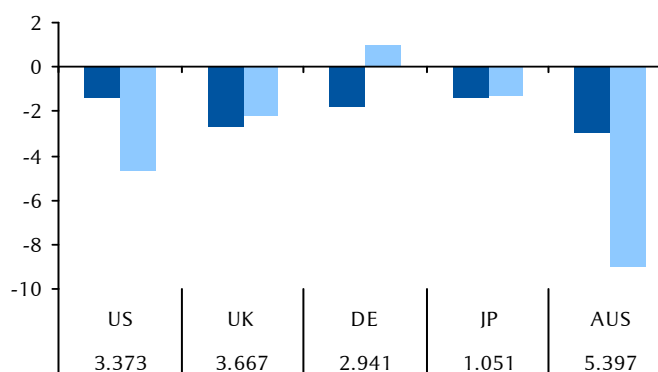
Global Overview

KEY: ■ Daily Change ■ 5 Day Change

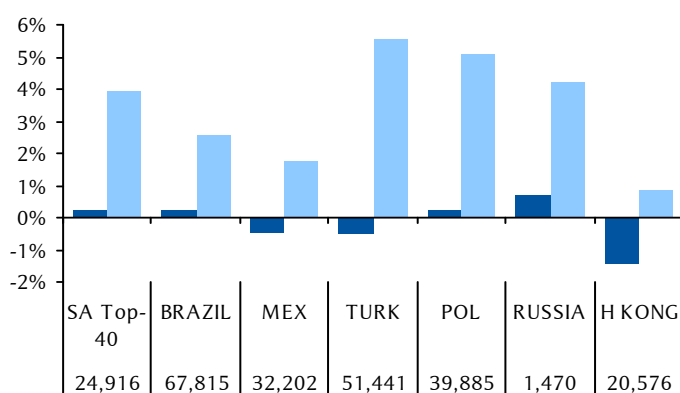
Developed Market Equities



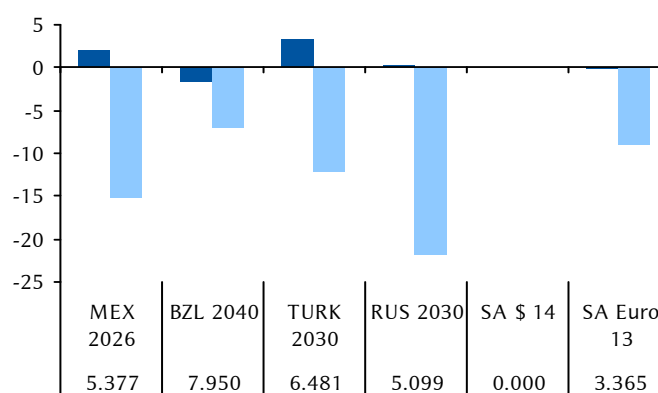
Developed Market 10yr Debt (bp)



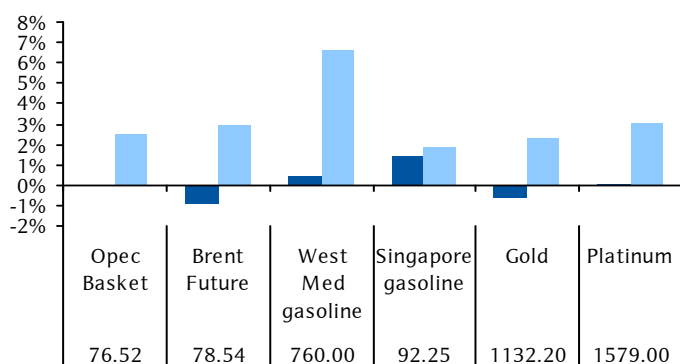
Emerging Market Equities



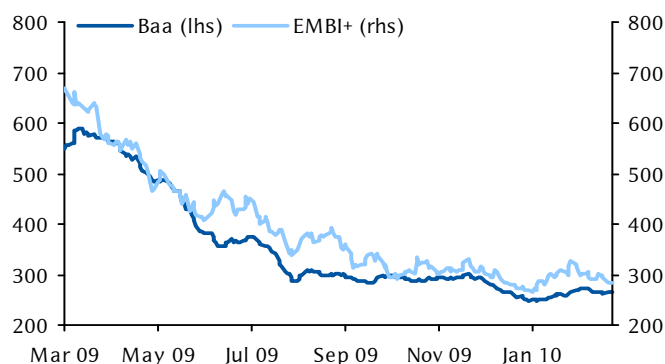
Emerging Market Debt (bp)



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							

Data releases

SA	6:00 AM	8:00 AM	SA: Net reserves (USDbn)	Feb	38.6	38.4	38.4
UK	9:30 AM	11:30 AM	UK: PPI input prices, % m/m (y/y)	Feb	2.0 (8.4)	0.4 (7.9)	0.0 (7.5)
UK	9:30 AM	11:30 AM	UK: PPI core output prices, % m/m (y/y)	Feb	0.3 (2.5)	0.1 (2.7)	0.2 (2.8)
UK	9:30 AM	11:30 AM	UK: PPI output prices, % m/m (y/y)	Feb	0.4 (3.8)	0.3 (4.1)	0.2 (4.0)
US	13:30	13:30	US: Change in nonfarm payrolls, thous	Feb	-20	-75	-40
US	13:30	13:30	US: Unemployment rate, %	Feb	9.7	9.8	9.8

Source: Bloomberg, Reuters

Foreign Exchange

Forex Spots

Unit	\$	Change	R	Change
USD	1.000	-	7.475	0.33%
GBP	1.503	-0.45%	11.236	0.79%
EUR	1.358	-0.85%	10.144	1.26%
JPY	89.020	-0.62%	11.913	1.01%
CHF	1.077	-0.87%	6.939	1.20%
AUD	0.900	-0.64%	6.729	0.97%
CAD	1.032	0.02%	7.246	0.31%
HKD	7.763	-0.01%	0.963	0.34%
THB	32.640	0.15%		
IDR	9275.000	0.05%		
MXN	12.712	-0.13%		
BRL	1.788	0.17%		
TRY	1.551	-0.81%		
PLN	2.869	-0.59%		
CZK	18.991	-0.96%		

Source: Bloomberg, all rates are mid rates

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

Date	Value	% YTD	Date	Value
05 Mar 10	72.80	27.79%	1 month ago	
04 Mar 10	72.80	27.79%	5 Feb 10	70.97
03 Mar 10	72.29	26.89%	12 months ago	
02 Mar 10	71.93	26.26%	5 Mar 09	56.97
01 Mar 10	71.36	25.26%	End of last year	
26 Feb 10	70.50	23.75%	30 Dec 09	72.62
25 Feb 10	70.52	23.78%		

Source: SA Reserve Bank

Rand Forwards

Term	Forward Points			Outright Forward rate	Forward cover cost (ann.)
	Last	Previous	Change		
1 month	0.044	0.046	-0.002	7.519	6.9%
3 months	0.130	0.134	-0.004	7.605	6.9%
6 months	0.261	0.267	-0.006	7.736	6.9%
9 months	0.389	0.396	-0.007	7.864	6.9%
1 year	0.519	0.527	-0.009	7.994	6.9%

Source: Bloomberg

Rand Options

Term	Option Implied Volatility			Price as a % of \$ nominal	Change
	Last	Previous	Change		
1 month	15.0%	15.3%	-0.3%	1.7%	0.0%
3 months	16.2%	16.7%	-0.5%	3.2%	-0.1%
6 months	17.5%	17.4%	0.1%	4.9%	0.0%
9 months	17.9%	17.9%	0.0%	6.2%	0.0%
1 year	18.2%	18.2%	0.0%	7.2%	0.0%

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	-27.25	-28.67

*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	Previous	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	Previous	Change
	4 Mar 10	3 Mar 10	(bps)
SAFEX Overnight Rate	6.78	6.78	0.0
1-month Jibar	6.95	6.95	0.0
3-month jibar	7.15	7.17	-2.0
6-month Jibar	7.60	7.60	0.0
1-year Jibar	8.05	8.05	

Negotiable Certificates of Deposit (NCDs)

	Last	Previous	Change
	4 Mar 10	3 Mar 10	(bps)
3-month NCD	7.20	7.25	-4.8
6-month NCD	7.69	7.69	0.0
9-month NCD	7.64	7.87	-23.8
12-month NCD	7.75	7.74	0.7

Sources: Reuters, Bloomberg

International Money market rates: US dollar libor

	Last	Previous	Change
	4 Mar 10	3 Mar 10	(bps)
USD Overnight	0.18	0.18	0.3
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	0.83	0.0
Fed Funds target Rate	0.25	0.25	0.0

Source: Reuters

Chart: SARB Repo rate and 3-month Jibar

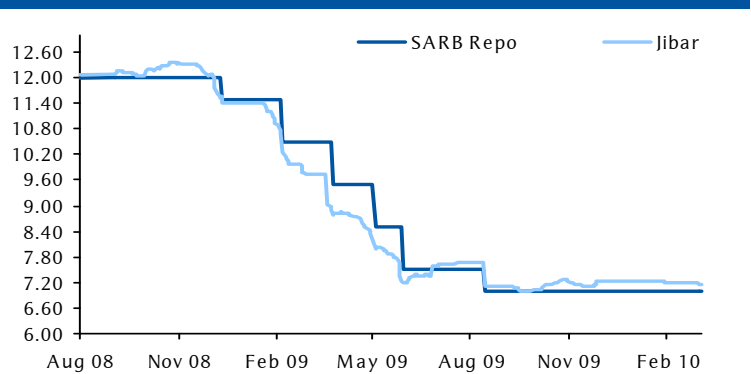
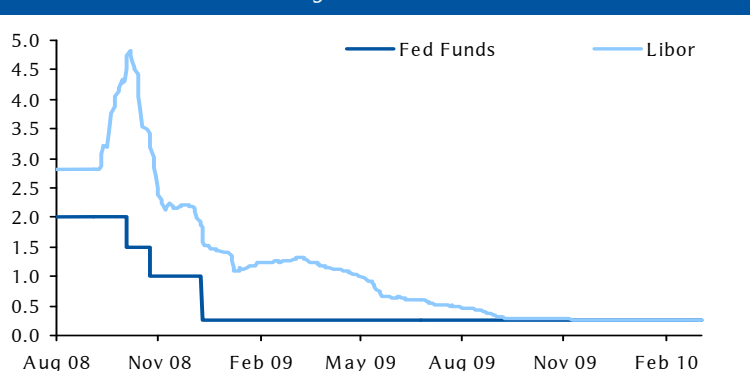


Chart: Fed Funds Target rate and 3-month USD Libor



Interest Rates

All Bond Index

Bond Code	Bond Details Issuer / coupon rate / maturity	Albi weightings	Last BESA m-t-4-Mar-10	Change (bps)
IN03	IFC 14.00% Jun 2011	0.54%	9.790	-1.0
R155	RSA 13.00% Aug 2011	2.73%	7.345	-0.5
R206	RSA 7.50% Jan 2014	5.56%	8.200	-2.0
R201	RSA 8.75% Dec 2014	8.44%	8.170	1.0
R157	RSA 13.50% Sep 2015	13.07%	8.155	-1.5
WS04	TCTA 12.50% May 2016	1.82%	8.825	1.5
R203	RSA 8.25% Sep 2017	8.55%	8.700	1.0
TN17	Transnet 9.25% Nov 2017	1.51%	9.920	-1.5
ES18	Eskom 9.25% Apr 2018	1.26%	9.920	-1.5
R204	RSA 8.00% Dec 2018	7.97%	8.725	-2.0
R207	RSA 7.25% Jan 2020	9.65%	8.910	2.5
DV22	DBSA 9.45% Feb 2020	0.99%	10.260	2.5
E170	Eskom 13.50% Aug 2020	2.63%	9.285	1.0
R208	RSA 6.75% Mar 2021	6.96%	8.930	1.0
COJ05	City of Johannesburg 12.21% Jun 2023	0.49%	11.230	
ES26	Eskom 7.85% Apr 2026	2.64%	9.540	-0.5
R186	RSA 10.50% Dec 2026	15.28%	8.940	-0.5
TN27	Transnet 8.90% Nov 2027	1.09%	10.390	-0.5
ES33	Eskom 7.50% Sep 2033	2.84%	9.575	0.0
R209	RSA 6.25% Mar 2036	5.97%	8.885	5.0

Albi yield Weighted average MTM yield	100.00%	8.756	
Albi Total Return Index	-	306.87	0.09%
Govi Total Return Index	-	308.33	0.10%

Source: BESA, Bloomberg

Government Primary Dealer Bonds

Bond Code	Open	High	Low	Last	This Morning
R206	8.215	8.240	8.200	8.200	8.200
R201	8.170	8.170	8.170	8.170	8.170
R157	8.170	8.187	8.138	8.160	8.157
R203	8.740	8.740	8.690	8.690	8.700
R204	8.775	8.775	8.720	8.720	8.728
R207	8.934	8.935	8.900	8.900	8.910
R186	8.970	8.971	8.940	8.950	8.940

Source: BESA

Government Inflation Linked Bonds

Bond Code	Open	High	Low	Last	Last BESA m-t-m
R189	2.070	2.130	2.070	2.130	2.070
R197	3.320	3.330	3.280	3.320	3.320
R210	No	Spot	Trade		3.350
R202	3.330	3.350	3.330	3.350	3.350

BarCap/Absa SA Govt. Inflation Linked bond index 9.92 -0.15%

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)			
	4-Mar-10	week-to-date	month-to-date	year-to-date
R154	5.00	32	32	1,451
R155	77.09	125	125	4,335
R206	56.73	189	189	16,617
R201	31.56	306	306	6,991
R157	3,051.63	27,703	27,703	246,557
R203	151.72	1,605	1,605	20,093
R204	135.81	2,169	2,169	21,625
R207	617.46	2,974	2,974	32,328
R208	447.09	5,835	5,835	40,758
R186	507.17	4,000	4,000	50,726
R209	125.34	2,203	2,203	19,432

Bond Code	Total client trades on BESA (ZAR mn)	
	Local Clients	Foreign Clients
R154	0.00	-5
R155	0.00	73
R206	-32.28	-2
R201	0.00	29
R157	332.34	108
R203	-47.02	-1
R204	26.76	4
R207	-3.80	181
R208	33.64	46
R186	43.00	123
R209	26.86	-6

Bond Exchange Total Volumes			
Nominal amount traded (ZAR bn) latest & previous			
Daily	4-Mar	23	41
Week to date	5-Mar	235	229
Month to date	Mar-10	235	1,067
Year to date	2010	2,218	13,422

Net Foreign purchases / sales of SA bonds (ZAR mn) latest & Previous			
Daily	4-Mar	737.4	3,021
Week to date	5-Mar	4,461.1	2,149
Month to date	Mar-10	4,461.1	6,119
Year to date	2010	10,540.4	

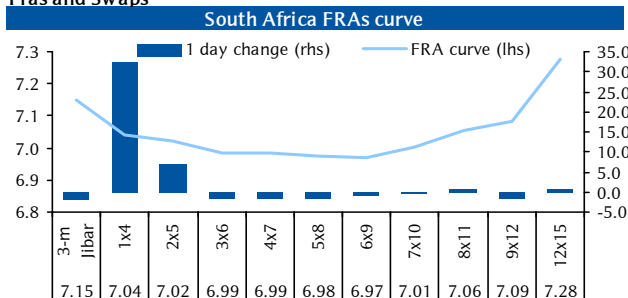
Source: BESA

Bond Exchange Cash Flows

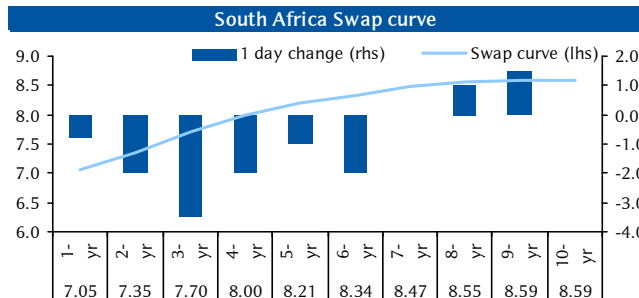
Monthly Coupons and Maturities for the next twelve months (ZAR mn)		
Month	Coupons	Redemptions
February	5,403.40	6,412
March	14,383.06	4,483
April	1,967.08	4,935
May	2,392.68	6,066
June	9,923.95	5,547
July	5,069.47	11,819
August	5,217.22	21,098
September	14,223.05	5,544
October	1,806.01	3,807
November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

Source: BESA

Fras and Swaps



Source: BESA



Source: BESA

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