SOUTH AFRICA MORNING SHEET

SA liquidations rise in May, but household pressures continue to abate. The total number of company liquidations in South Africa rose strongly in May, increasing 35.7% y/y following April's modest 2.6% rise. In the first five months of 2010, the total company liquidations are 2.8% higher than in the corresponding period in 2009. Although the headline figure for May looks poor, we note that in recent months, company liquidations have been undergoing a general moderating trend, as reflected in the q/q seasonally adjusted rate of change, and continues to indicate to us that, along with the improving economic climate, pressures on companies are moderating.

Financial pressures on households' continue to fall nicely, however, no matter how the data is split. The total number of household insolvencies in April fell 34.5% y/y following the prior month's 25.3% contraction. Last week's release of expenditure-side data in the SARB's Quarterly Bulletin showed just how far the average consumer has come, with real incomes increasing 5.1% q/q, household debt service costs as a percentage of disposable income moderating further and household spending rising an impressive 5.7% q/q in Q1. Our expectation for SA monetary policy to follow much the same path as that of many developed nations, where interest rates are kept lower for longer, along with the slowly improving financial position of consumers, suggests that insolvencies should continue to fall in the coming months.

Healthy US personal income growth in May. The May personal income and outlays report revealed a 0.4% rise in personal income and a 0.2% increase in consumer spending, both in line with our forecast. The detail of the income report struck a strong tone; wages and salaries rose 0.5% (April's growth was also revised up to 0.5%, from 0.4%). This supports our view that a rebound in labour income growth will help boost consumer spending as income from government transfer payments fades. Taking account of tax payments and PCE price inflation, real disposable income was up 0.5%, following a 0.6% gain in April.

Key data and events. There are no significant data releases or events scheduled in South Africa today. In international markets, the US S&P/Case-Shiller home prices index and consumer confidence figures are released. Our US economists expect house prices to have fallen 0.1% m/m in April after a similar decline in March, while consumer confidence is forecast to edge lower to 62.5 from 63.3 the prior month. In Europe, the focus will also be on euro area consumer confidence where our economists look for no change in June from its preliminary reading of -17.

	Close		Change
USD/ZAR	7.57	↓	0.7%
EUR/USD	1.23	↓	0.7%
EUR/ZAR	9.30	↓	1.4%
3m Jibar	6.63%	↓	0 bp
R157	8.04%	↓	3 bp
R186	9.08%	↓	3 bp
All Share	27,290	↑	0.1%
Gold $/oz	1,239	↓	1.3%
Brent $/bbl	76.9	↓	0.4%

Source: Reuters, Bloomberg

Technical Analysis

USD/ZAR: Long lower shadow	
Support	7.50 / 7.43 / 7.40
Resistance	7.71 / 7.78 / 7.84
Daily range	7.56 –7.66
Fixed income: R186 Inside Day pattern	
R157: Support	8.10 / 8.17 / 8.23
R157: Resistance	8.00 / 7.95 / 7.90
R157: Range	8.04 –8.10%
R186: Range	9.08 –9.14%

Source: Absa Capital

Soccer World Cup 2010 Action

Today's matches

Paraguay vs Japan

Spain vs Portugal

Yesterday's results

Netherlands - 2 Slovakia - 1

Brazil - 3 Chile - 0

TECHNICAL STRATEGY

USD/ZAR: Bullish seasonal bias

USD/ZAR is consolidating above 7.50 within the larger uptrend. A look at seasonal norms in July shows a bullish bias, with a mean advance of 0.5% and the chances of an advance a respectable at 60%. The larger uptrend is supported at 7.18, and given the bullish divergence, we are keeping our sights on 7.90 in the short term. For ZAR/JPY, we are looking for a breach of the range low at 11.55, opening up the 11.30-11.25 zone in the short term. However, EUR/ZAR is expected to stick to its well-defined consolidation between 9.15 and 9.50 this week. The short-term move to 9.00 we were advocating has not materialised, and should the pair close above 9.50, then a bottom has been completed.

Within wide consolidation pattern

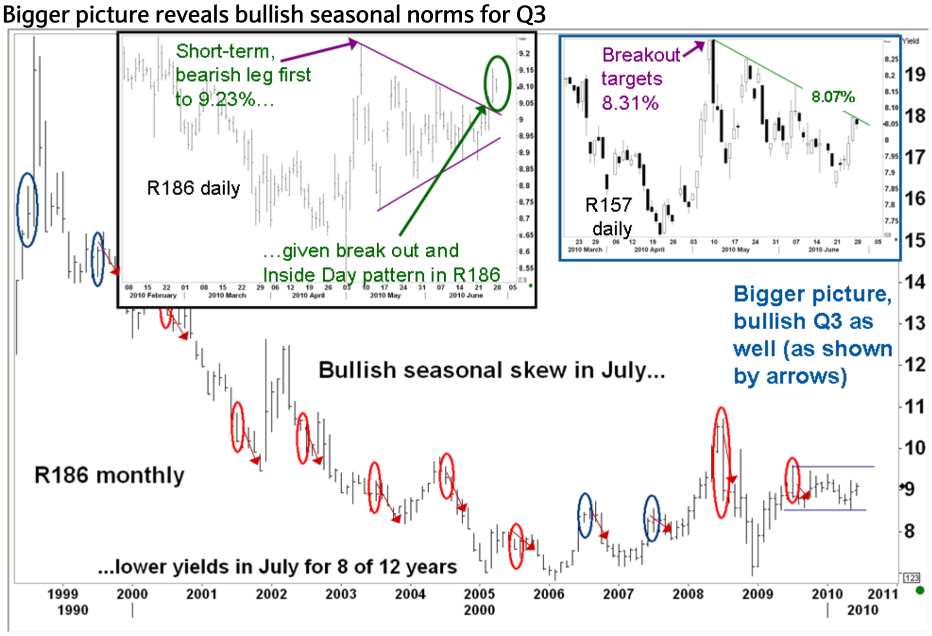
Source: Thomson Reuters

SA Bonds – (R157 and R186)

R186: Short-term bearish

Seasonal trends reveal that the R186 has a bullish skew in July. The R186 has posted lower yields in the month in 8 of the past 10 years. However, yesterday's Inside Day pattern signals that the bearish leg is not completed. Indeed, we are first allowing for a push to 9.23%, and potentially 9.31%, before the R186 starts its bullish leg. Given that the bond has been in a wide consolidation phase since mid-May, we are allowing for two-way flow between 9.00% and 9.31% for the month of July.

Bigger picture reveals bullish seasonal norms for Q3

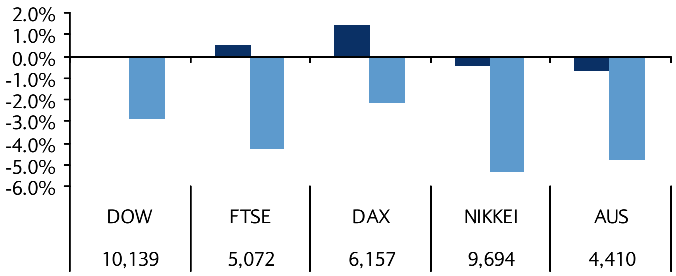


Source: Thomson Reuters

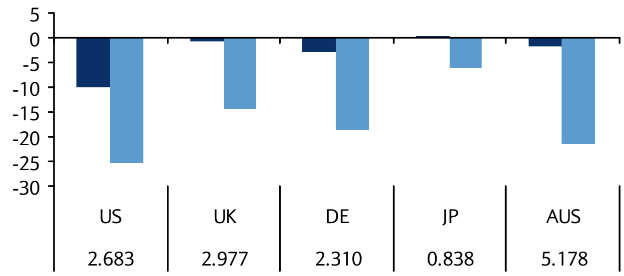
GLOBAL OVERVIEW

KEY: Daily Change 5 Day Change

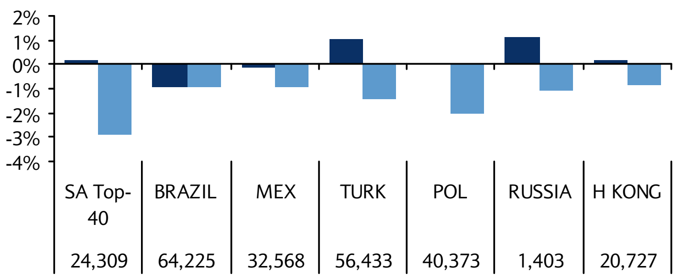
Developed Market Equities



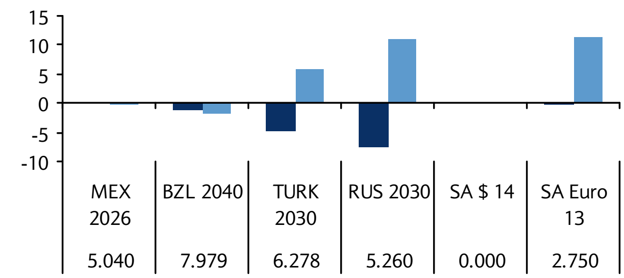
Developed Market 10yr Debt (bp)



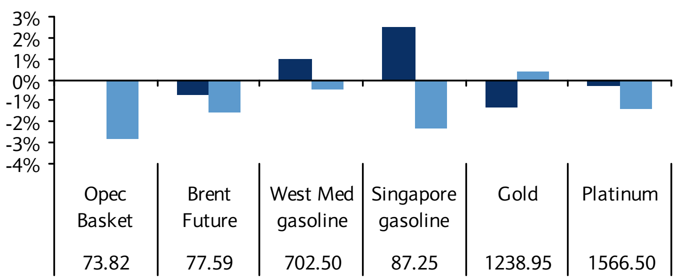
Emerging Market Equities



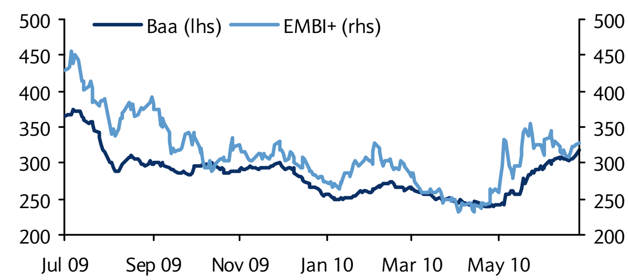
Emerging Market Debt (bp)



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
Events							
Global	**4:00 PM**	**6:00 PM**	**Global: IMF Chief Strauss-Kahn speaks**				
Data releases							
UK	08:30	08:30	UK: BoE mortgage approvals, k	May	49.9	52.0	51.5
UK	08:30	08:30	UK: BoE net mortgage lending, £ bn	May	0.5	1.0	0.8
E16	9:00 AM	11:00 AM	E16: Consumer confidence, index	Jun	-17 P	-17.0	-17
E16	9:00 AM	11:00 AM	E16: Industrial confidence, index	Jun	-6	-7	-7
US	1:00 PM	3:00 PM	US: S&P/Case-ShillerHPI, % m/m (y/y)	Apr	-0.1 (2.4)	-0.1 (3.6)	(3.4)
US	2:00 PM	4:00 PM	US: Consumer confidence index	Jun	63.3	62.5	62.5

FOREIGN EXCHANGE

Forex Spots

Unit	$	Change	R	Change
USD	1.000	-	7.573	0.69%
GBP	1.511	0.28%	11.438	0.39%
EUR	1.228	-0.74%	9.297	1.44%
JPY	89.370	-0.16%	11.802	0.86%
CHF	1.087	0.56%	6.968	0.14%
AUD	0.872	-0.22%	6.604	0.91%
CAD	1.036	-0.03%	7.311	0.74%
HKD	7.782	-0.05%	0.973	0.75%
THB	32.330	0.19%		
IDR	9029.000	0.34%		
MXN	12.733	-0.66%		
BRL	1.780	-0.01%		
TRY	1.574	-0.04%		
PLN	3.386	-1.68%		
CZK	20.973	-0.76%		

Source: Bloomberg, all rates are mid rates

Rand Forwards

Term	Forward Points Last	Forward Points Previous	Forward Points Change	Outright Forward rate	Forward cover cost (ann.)
1 month	0.040	0.040	0.000	7.612	6.3%
3 months	0.118	0.118	-0.001	7.690	6.2%
6 months	0.229	0.229	0.000	7.802	6.0%
9 months	0.337	0.337	0.000	7.910	6.0%
1 year	0.447	0.450	-0.002	8.020	5.9%

Source: Bloomberg

Rand Options

Term	Option Implied Volatilty Last	Option Implied Volatilty Previous	Option Implied Volatilty Change	Price as a % of $ nominal	Change
1 month	16.6%	17.0%	-0.4%	1.9%	0.0%
3 months	16.8%	17.3%	-0.5%	3.4%	-0.1%
6 months	17.2%	17.4%	-0.2%	4.8%	-0.1%
9 months	17.2%	17.5%	-0.3%	5.9%	-0.1%
1 year	17.2%	17.4%	-0.2%	6.8%	-0.1%

Source: Reuters

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

Date	Value	% YTD	Date	Value
29 Jun 10	75.56	9.44%	**1 month ago**	
28 Jun 10	75.56	9.44%	31 May 10	75.47
25 Jun 10	74.94	8.55%	**12 months ago**	
24 Jun 10	75.58	9.47%	29 Jun 09	69.04
23 Jun 10	75.58	9.47%	**End of last year**	
22 Jun 10	76.19	10.36%	30 Dec 09	72.62
21 Jun 10	76.68	11.07%		

Source: SA Reserve Bank

SA Fuel prices

Rands per Litre	Gauteng 95 Octane	Diesel 0.005%
This month	8.45	7.66
Last Month	8.72	7.81
Change	-0.27	-0.15
*Average Unit over/(under) recovery	18.61	15.00

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

MONEY MARKET

General

	Last 28 Jun 10	Previous 25 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 28 Jun 10	Previous 25 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	6.63	6.64	-0.5
6-month Jibar	6.79	6.79	0.0
1-year Jibar	7.26	7.26	

Negotiable Certificates of Deposit (NCDs)

	Last 28 Jun 10	Previous 25 Jun 10	Change (bps)
3-month NCD	6.75	6.50	25.0
6-month NCD	7.13	6.93	20.3
9-month NCD	7.21	7.08	13.1
12-month NCD	7.25	7.33	-7.5

Sources: Reuters, Bloomberg

International Money market rates: US dollar libor

	Last 28 Jun 10	Previous 25 Jun 10	Change (bps)
USD Overnight	0.29	0.30	-0.3
USD 1-month	0.35	0.35	0.0
USD 3-months	0.53	0.53	-0.1
USD 6-months	0.75	0.75	-0.6
USD 9-months	0.95	0.96	-0.8
USD 1-year	1.18	1.18	-0.7
Fed Funds target Rate	0.25	0.25	0.0

Source: Reuters

Chart: SARB Repo rate and 3-month Jibar

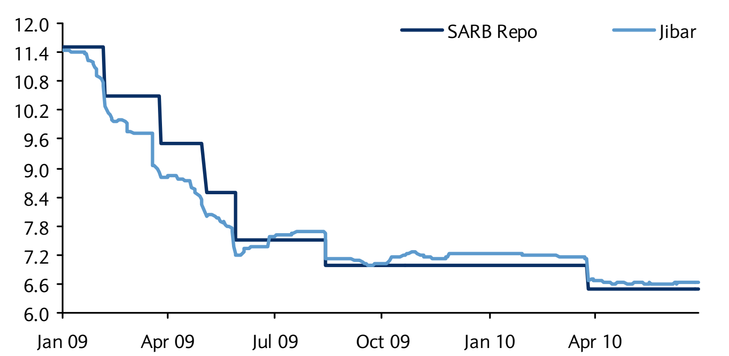
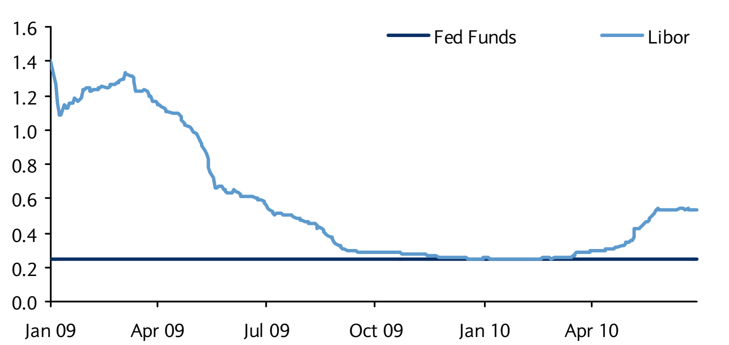


Chart: Fed Funds Target rate and 3-month USD Libor



INTEREST RATES

All Bond Index

Bond Code	Bond Details Issuer/coupon rate/maturity	Albi weighings	Last BESA m-t-m 28-Jun-10	Change (bp)
R155	RSA 13.00% Aug 2011	2.49%	7.000	1.0
R206	RSA 7.50% Jan 2014	5.93%	7.835	-4.5
R201	RSA 8.75% Dec 2014	7.72%	7.910	-4.5
R157	RSA 13.50% Sep 2015	12.18%	8.035	-2.5
WS04	TCTA 12.50% May 2016	1.77%	8.631	-1.9
R203	RSA 8.25% Sep 2017	8.69%	8.715	-1.5
TN17	Transnet 9.25% Nov 2017	1.38%	9.950	0.0
ES18	Eskom 9.25% Apr 2018	1.46%	9.350	0.5
R204	RSA 8.00% Dec 2018	8.90%	8.801	-1.9
R207	RSA 7.25% Jan 2020	10.65%	8.871	-1.9
DV22	DBSA 9.45% Feb 2020	1.43%	10.090	0.0
HWAY20	SANRAL 9.75% Jul 2020	0.74%	9.390	0.0
R208	RSA 6.75% Mar 2021	7.41%	8.910	-2.5
ES23	Eskom 10.00% Jan 2023	0.89%	9.530	-1.5
ES26	Eskom 7.85% Apr 2026	2.70%	9.665	0.5
R186	RSA 10.50% Dec 2026	14.75%	9.080	-2.5
TN27	Transnet 8.90% Nov 2027	1.19%	10.300	-0.5
ES33	Eskom 7.50% Sep 2033	2.68%	9.655	-1.5
R209	RSA 6.25% Mar 2036	6.24%	9.035	-2.5
DV23	DBSA 10.00% Feb 2023	0.78%	10.300	-0.5
Albi yield	Weighted average MTM yield	100.00%	8.727	-2.2
Albi Total Return Index		-	315.06	0.20%
Govi Total Return Index		-	316.42	0.20%

Source: BESA, Bloomberg

Government Primary Dealer Bonds

Bond Code	Trading stats for 28-Jun-10 Open	High	Low	Last
R206	7.870	7.880	7.835	7.835
R201	7.930	7.955	7.900	7.910
R157	8.040	8.060	7.910	8.045
R203	8.690	8.730	8.570	8.715
R204	8.800	8.810	8.660	8.800
R207	8.880	8.880	8.730	8.870
R186	9.095	9.115	8.960	9.080

Source: BESA

Government Inflation Linked Bonds

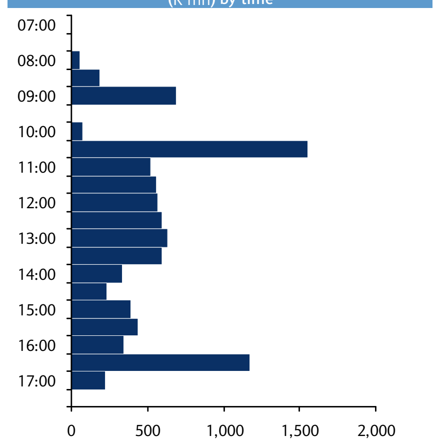
Bond Code	Trading stats for 28-Jun-10 Open	High	Low	Last	Last BESA m-t-m
R189	1.850	1.850	1.850	1.850	1.850
R197	2.930	3.010	2.930	2.980	2.980
R210	3.050	3.050	3.050	3.050	3.050
R202	No	Spot	Trade		2.990
BarCap/Absa SA Govt. Inflation Linked bond index				9.95	

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) 28-Jun-10	week-to-date	month-to-date	year-to-date
R154	0.00	0	1,709	5,271
R155	196.98	197	3,650	11,233
R206	842.23	842	21,876	92,109
R201	117.22	117	20,685	59,506
R157	3,303.45	3,303	118,508	821,853
R203	1,718.79	1,719	15,916	81,609
R204	341.80	342	16,161	82,085
R207	255.70	256	9,336	131,788
R208	508.17	508	23,835	136,991
R186	519.86	520	39,707	240,387
R209	579.56	580	4,512	62,628

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



Bond Code	Total client trades on BESA (ZAR mn) Local Clients	Foreign Clients
R154	0.00	0
R155	0.23	-187
R206	31.71	-72
R201	-5.02	7
R157	130.62	-201
R203	-66.79	199
R204	19.55	-1
R207	18.29	90
R208	-157.50	-3
R186	69.05	21
R209	97.82	53

Bond Exchange Total Volumes

Nominal amount traded (ZAR bn)			
Daily	28-Jun	44	58
Week to date	2-Jul	44	359
Month to date	Jun-10	1,294	1,400
Year to date	2010	7,158	13,422

Net Foreign purchases / sales of SA bonds

(ZAR mn)		latest	& Previous
Daily	28-Jun	-168.9	-2,982
Week to date	2-Jul	-168.9	-975
Month to date	Jun-10	8,894.9	-2,691
Year to date	2010	38,530.6	

Source: BESA

Bond Exchange Cash Flows

Monthly Coupons and Maturities for the next twelve months (ZAR mn) Month	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

Five Largest Coupon Payments for June 2010 (ZAR mn)

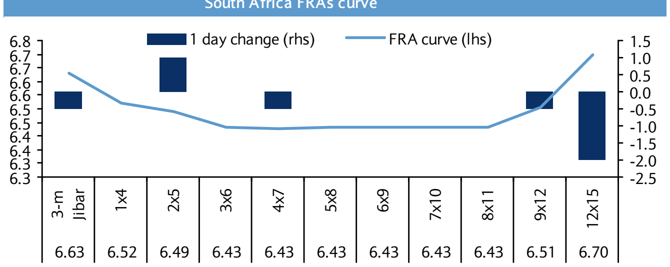
Bond Code	Date	Issuer	Amount
R186	21 Jun 10	Republic Of South Africa	3,978
R204	21 Jun 10	Republic Of South Africa	1,964
R201	21 Jun 10	Republic Of South Africa	1,707
R197	7 Jun 10	Republic Of South Africa	1,521
R202	7 Jun 10	Republic Of South Africa	388

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

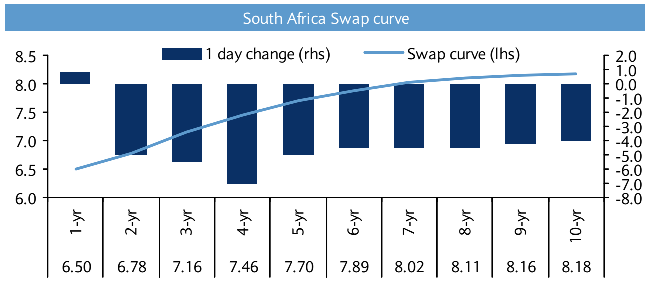
Fras and Swaps

South Africa FRAs curve



Source: BESA

South Africa Swap curve



Source: BESA

Analyst Certification(s)

We, Jeff Gable, Ian Marsberg, Jeffrey Schultz and Judy Padayachee, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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