

Date: 19 October 2010

USD-ZAR 6.8497/9583
 GBP-USD 1.5791/895
 GOLD \$1365.70

EUR-ZAR 9.5445/6541
 USD-JPY 81.314/744
 ALLSHARE 30 177.05

GBP-ZAR 10.8820/9991
 AUD-USD 0.9808/90
 DJI 11 143.69

EUR-USD 1.3858/940
 R157 7.0600%
 3M JIBAR 6.005%

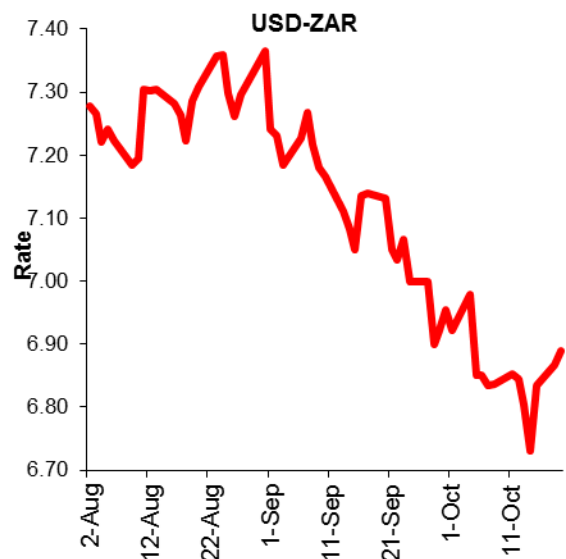
Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	Bond Auction (R1.0bn of R203 and R1.1bn of R208)			
09:00	DE	ZEW economic sentiment index	Oct	-8	-4.3
10:00	GB	CBI orders	Oct	-19.0bn	-17.0bn
	EZ	EU Economic & Financial Affairs Council Meeting			
	EZ	ECB Pres Trichet speaks at 5th ECB Conference on Statistics			
12:30	US	House starts	Sep	0.58mn	0.598mn
12:30	US	Permits units	Sep	0.58mn	0.57mn
13:00	CA	BOC rate decision		1.00%	1.00%
	US	Various Fed members speak on state of US economy			

Today's Talking Point

OECD fund reallocation to EMs could fund entire annual SA budget deficit: According to the OECD Private Pension Outlook 2008, pension funds and insurance companies have roughly \$40 trillion of assets under management. According to a major global investment bank, these funds have zero exposure to EMs at present. Under a conservative scenario of a 1% reallocation of this capital to EMs over the coming year, of which SA receives 5% of the allocation, SA bonds could see another net inflow of roughly R140bn as this reallocation takes place. This will be more than enough capital to finance a 4% of GDP budget deficit in 2011.

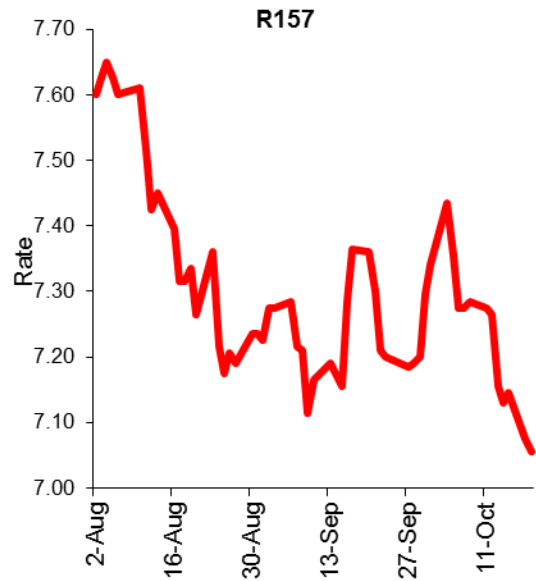
Rand Update

Front page of the Business Report's lead article is titled "Volatile rand has analysts guessing". This view is driven in large part by many default forecasts which more often than not reflect the expectation of a weaker ZAR no matter the prevailing environment. In Dec 2008 the view was taken that policies such as quantitative easing are by their very nature a very currency depreciative tool that would necessarily translate into the debasement of whichever currency undertook such policies on a trade weighted basis. SA did not need to embark on such wealth destructive policies and as such the ZAR stood a good chance of recovering vs. the major currencies. In-house thematic analysis just concluded reveals that even a lowered forecast of 6.5000/dlr might prove too pessimistic as the authorities are forced to conduct even more in the way of quantitative easing and persist with ultra-low interest rates as they continue to try and force asset prices higher. According to Reuters data (bid chart), the ZAR weakened vs. the USD on Monday, closing at R6.8673 from R6.835 on Friday. Meanwhile the ZAR gained vs. the EUR and GBP, ending at R9.4897 vs. the EUR from R9.5526 on Friday, while finishing at R10.8483 vs. the GBP from R10.9292 at the end of last week.



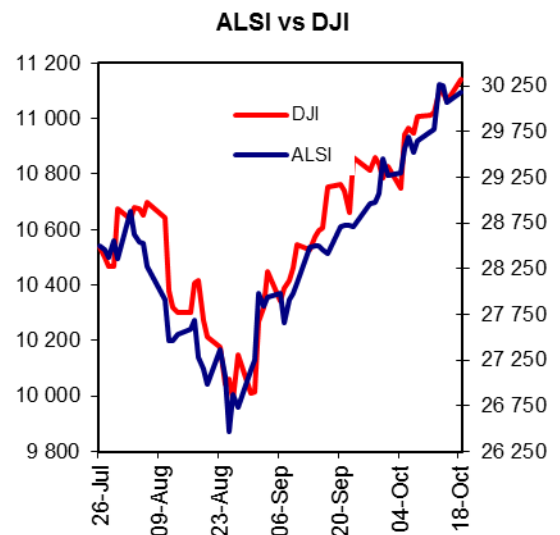
Bond Update

Expectations for a correction in the bond market at the start of the week appear to have been somewhat incorrect. Instead of yields marching higher, the benchmark R157 has moved stronger (yields have fallen) towards the 7.00% handle. It appears the uptick on the USD-ZAR pair yesterday may have given players an attractive near term opportunity to enter the domestic bond market. Moreover, it could also be more of the same structural drivers that continue to help yields grind lower. The indication from Fed Chairman Bernanke on Friday that the Fed will keep the money printing presses going will keep intact the psychology that has permeated the market for some months. Expectations of extremely accommodative monetary policy and a subsequent depressed term structure of interest rates in the US and other developed economies will keep the search for yield. This bodes well for the domestic bond market. Overall, the R157 closed stronger with the yield higher at 7.075% compared to Friday's close of 7.145%, while the R186 similarly closed stronger at yield of 7.985% from 8.025% the day before.



JSE Update

The JSE ALSI reversed into positive territory in the afternoon session of trade yesterday, boosted by a strong start on Wall St and higher commodity prices as the USD weakened further. At the close of trade the ALSI had risen 0.4%, with resources gaining 0.1% and financials adding 0.2%. Much of the focus rests on international developments at present, with the US now well into Q3 earnings season. Yesterday Citigroup reported better than expected results, while the NAHB housing market index improved in Oct, the first improvement in five months. The banking sector led the way higher on the day on Wall St, with the likes of Bank of America and Wells Fargo gaining ahead of their own results due later this week. At the close the Dow Jones and S&P had risen 0.7%. Furthermore, while Wall St futures are in the red overnight, all the major Asian markets are in the green. The Nikkei has ended 0.4% higher on the back of a slightly weaker JPY vs. the USD and the rise on Wall St yesterday, while Aussie stocks climbed 0.1%. These gains bode well for today's trading on the local market.



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