



financial services group

# MONTHLY MARKET REPORT MARCH 2010

# Asset Management

## MARCH 2010 COMMENTARY

### On Independence and Flexibility

In February' Budget Speech Minister of Finance Pravin Gordhan reconfirmed two critical aspects in relation to the workings of the Reserve Bank, quoting directly from the Speech (emphasis our own):

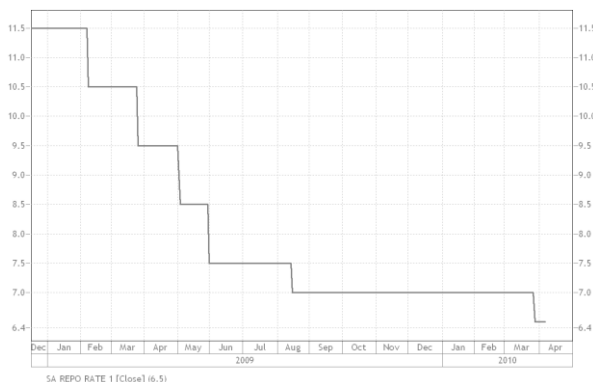
- “As required by the Constitution, the Bank should pursue its mandate *independently* and without fear, favour or prejudice.”
- “The global financial crisis has illustrated the need for central banks to take a broader view of the economy in managing inflation; including growth, employment trends, asset prices, financial sector stability and competitiveness of the exchange rate. Our inflation targeting framework incorporates such *flexibility* and allows inflation to deviate from the target in event of shocks.”

March's interest rate cut falls squarely in the application of the Reserve Bank's *independence* and in its interpretation of the meaning of *flexibility*. Particularly flexibility. Given the macro-economic data - covered extensively in the February edition of this Report - the Bank would have been well within the strict interpretation of its mandate to have not lowered interest rates.

Pushing the boundaries of the meaning of flexibility, which the Bank could do given its independence, allows the Bank to consider *further* interest rate relief, though this is not our central position.

Conspiracy Theorists will argue that the Bank is only independent to the extent of its mandate, handed to it by those in power. Change the mandate, change the Bank's independence.

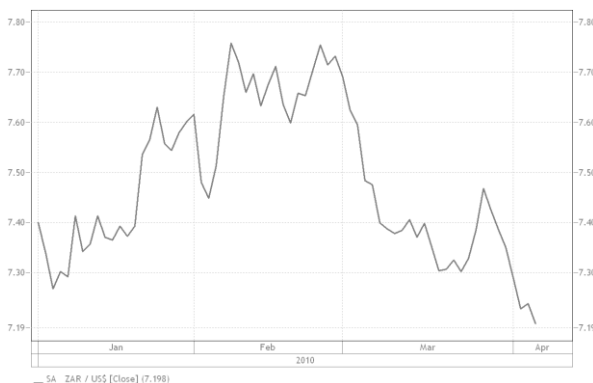
South African Repurchase Rate, Daily  
Dec 08 - Mar 10



Consumer Price Index, Annual Change, Monthly  
Feb 08 - Feb 10

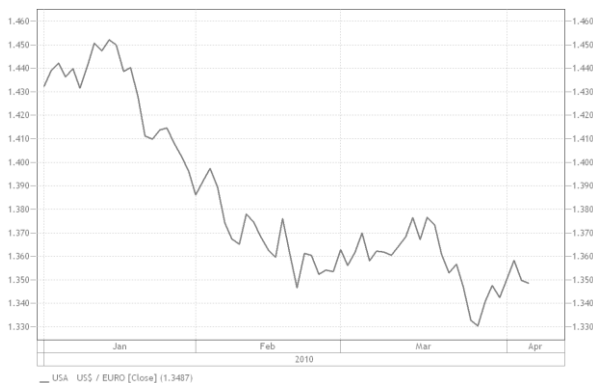


USDZAR, Daily  
Jan 10 - Mar 10



## Not All Greek Tragedies Are Ancient

**EURUSD, Daily  
Jan 10 - Mar 10**



We continue to keep a close watch on Greek austerity measures and the presence or absence of a bailout package, though at times we despair of the absence or presence of *clear intentions* in relation to a bailout package. Semantics, yes. But the impact on the EURUSD cannot be underestimated.

We completely understand the caution in addressing Greece's perilous circumstances for Greece acts as the test case for the remaining EU nations in strife (Ireland, Italy, Spain and Portugal - with Spain being, arguably, the largest powder keg) and, perhaps more importantly, Greece acts as the litmus test of the EU as a conceptual, economic and social entity. The manner in which this is resolved is likely to determine the course of greater Europe for decades to come.

We continue to diversify currency exposure amongst the USD, GBP and EUR. Though - like most investments - currency allocation is a dependent on your personal circumstances and should be done in consultation with your financial advisor.

## Where to for the US?

It was once often said that the rate of return on any investment instrument in the world could be traced back to the yield on the US 10-year government bond. Even though this might be changing as the world digests the effects of the Great Recession and as global growth, demographics and capital move East, the US 10-year is an instrument we continue to keep a close eye on.

At the peak of the Crisis its yield dropped very close to 2% and has been rising since (i.e. US government bond prices have been falling). We anticipate that this will continue while:

- Global market participants reassess the credit risk posed by the US government. There is some talk of the US losing its AAA credit rating, though we believe that this is a long way off.
- Unemployment remains high. Interest payments and - ultimately - capital repayment is funded through tax collections. Lower employment means lower tax receipts.
- Economic growth remains anemic. Similar to unemployment dynamics; a growing economy results in greater tax receipts, though this is at present being more than offset by an expense line that is growing at a faster rate than the economy.

**US 10 Year Government Bond Yield, Weekly  
Jan 00 - Mar 10**



## MARCH 2010 DATABANK

	Index Value	Last Month	Year-to-Date	12 Months Ago
SA Repo Rate	6.50%	-0.50%	-0.50%	-3.00%
JSE ALSI	28,747.56	7.41%	3.91%	41.17%
ALBI	312.31	2.11%	4.45%	9.01%
R157	7.95%	8.17%	8.39%	8.17%
USDZAR	7.29	-5.22%	-1.48%	-23.86%

All charts and data are sourced from I-Net Bridge.