



financial services group

# MONTHLY MARKET REPORT MAY 2010

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## May 2010 COMMENTARY

### Contextualizing

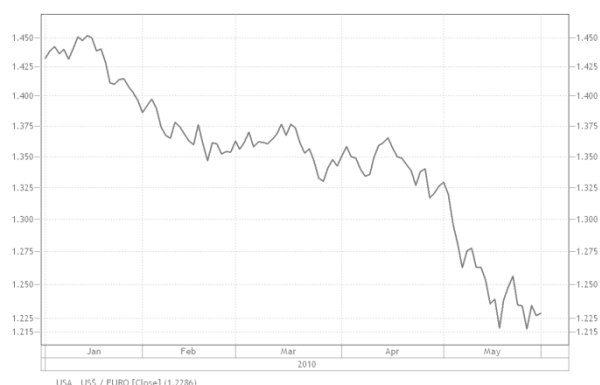
Global markets throughout the year, having run hard since bottoming out in March of 2009, have been looking for a reason to pull back and in May they found any number of reasons to post their biggest monthly losses since early 2009: the stand-off between the two Koreas, the environmentally-tragic BP oil spill in the Gulf of Mexico and the realization that the trillion dollar euro stabilization fund only buys Greece a single year's worth of breathing space. Each of these reasons, not being an exhaustive list by themselves, are worthy of a full Monthly Market Report of their own, however we thought placing global market conditions in the South African context was an excellent proposition for this edition of the MMR.

### Currencies

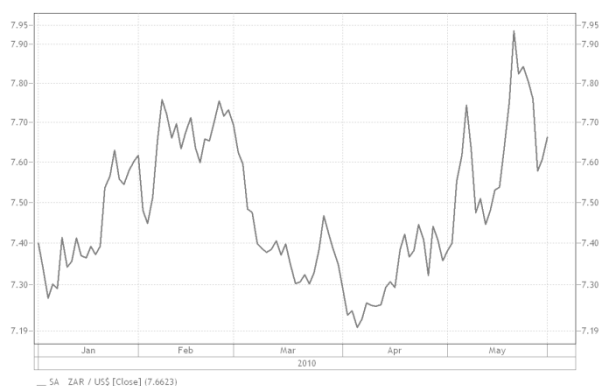
In general the US dollar, the pound and the euro (and occasionally the Swiss franc and perhaps the Japanese yen) are traded off against each other. Most recently the pound and the euro have been particularly weak against the dollar. Once global investors have exhausted themselves of these major currencies they begin to look outward, especially so when these countries' interest rates are at, effectively, zero. Initially, this outward move - more commonly known as the global carry trade - was simplistically focused on countries with high interest rates and/or high growth rates. South Africa, with interest rates of 6% and economic growth rates of around 3%, was, until very recently, viewed rather favorably. More so as the US, UK and euro-region economies faltered, resulting in significant rand strength.

Lately, however, that trend has begun to reverse itself mostly as a result of risk-aversion but also because global investors have begun to be more discerning. It is now no longer sufficient to have higher interest rates and/or economic growth rates; these must be combined with low budget deficits, preferably budget surpluses, and low debt-to-GDP ratios. South Africa's budget deficit, at around 6%, is by no means low and its debt-to-GDP ratio is set to accelerate dramatically in the years ahead as Government embarks on further ambitious development programs. By those measures South Africa is no longer viewed as positively as countries like Australia and Denmark. Expect to see a volatile rand over the coming quarters as global investors struggle to determine South Africa's risk-reward payoff profile, in other words as 'hot money', known in economic parlance as Foreign Portfolio Investments, flows in and out of the country.

EURUSD, Daily  
Jan 10 - May 10



USDZAR, Daily  
Jan 10 - May 10

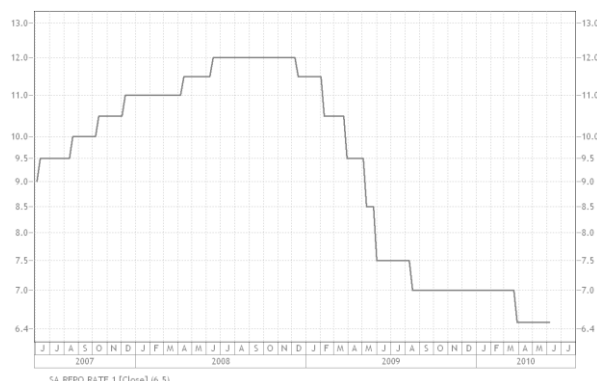


### Interest rates

The hand-off of defaulting sub-prime debt from the originating consumers to the banks that granted the loans to the governments that bailed the banks out has seen developed markets embark on ambitious market stabilization initiatives such as the Troubled Asset Relief Program (TARP), Quantitative Easing (QE) and near-zero interest rate policies (these, too, not being an exhaustive list). Interest rates set by the Federal Reserve, the Bank of England and the European Central Bank are likely to remain at these super-low levels until the second quarter of 2011, or until such time as the market stabilizes and economic growth reasserts itself. Europe has scope to lower interest rates further, though we think such moves are largely improbable.

While economic growth remains brittle and inflation remains well contained - see 'Inflation rates' below - expect interest rates to remain at current levels, both within developed markets and emerging markets, including South Africa. Whilst a further reduction in central interest rates from the Reserve Bank cannot be ruled out completely, it is likely that rates will remain at or around 6% for the balance of 2010.

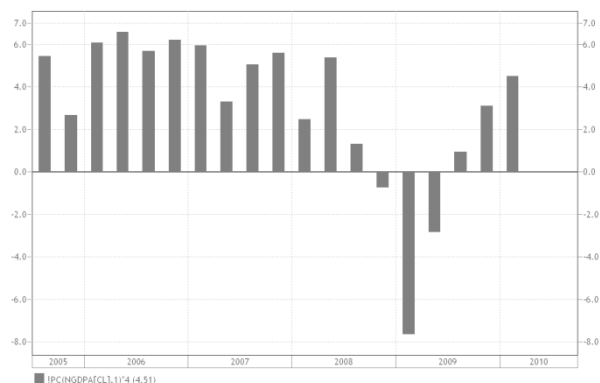
SA Repurchase Rate, Weekly  
May 07 - May 10



## GDP growth

As already discussed, economic growth is likely to be below par around the world for some time. This has a direct and attendant effect on South African growth and, as exciting as the most recent reading of South African GDP growth is (at 4.8%), we fully expect South African growth for 2010 to be front end loaded as a result of the World Cup, i.e. a better first half of the year than the second half.

SA GDP growth, Quarterly  
May 05 - May 10



## In conclusion

South Africa falls somewhere between countries like Australia and Denmark, on one side, and countries like the UK, on the other. We're not as indebted as some but nor are we growing as quickly as others.

## MAY 2010 DATABANK

|              | Index Value | Last Month | Year-to-Date | 12 Months Ago |
|--------------|-------------|------------|--------------|---------------|
| SA Repo Rate | 6.50%       | 0.00%      | -0.50%       | -1.00%        |
| JSE ALSI     | 27,145.36   | -5.20%     | -1.88%       | 19.21%        |
| ALBI         | 314.93      | -0.42%     | 5.32%        | 9.35%         |
| R157         | 8.04%       | 7.79%      | 8.39%        | 8.25%         |
| USDZAR       | 7.66        | 3.81%      | 3.55%        | -3.34%        |

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