



financial services group

MONTHLY MARKET REPORT SEPTEMBER 2010

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SEPTEMBER 2010 COMMENTARY

Before we begin...

Before we begin we'd like to extend a quick word of thanks to those of you who kindly took the time to compliment us on August's edition of this Report, many thanks. For newcomers, should you wish to review last month's Report, previous editions of this Report can be found on NFB AM's website (www.nfbam.co.za).

An Open Letter

We brought this upon ourselves, and only through our own actions will we resolve this. Well, no, that's not entirely true. Overzealous corporate financiers, backed by swarms of American residential property speculators, egged on by governments and regulators that looked the other way brought this upon us. Expecting the sources of the Global Financial Crisis to be its salvation is folly of the first order. Salvation will come in the form of thrift, hard-work, creativity and entrepreneurialism, actions on the part of individuals, not through the deployment of additional debt by supra-national/global organisations. You don't solve a debt crisis with more debt. And whilst we're grandstanding we take umbrage with the term *Global* Financial Crisis. Its epicenter was most certainly not global, nor was the immediate aftermath but the consequences, the aftershocks if you will, will be felt around the globe. Only in this aspect is the Financial Crisis a global one.

Further umbrage for a moment, if you'll indulge us: The subsequent recovery is not one of *developed* markets versus *developing* ones; there are nuances that the media struggles to contain within the five or so words of a headline. Within developed markets there are those who are doing particularly well: consider the case of Germany whose export economy is doing fantastically on the back of a relatively weaker euro; though we submit that this has more to do with excellent products (see creativity and entrepreneurialism above) being bolstered by a more favourable exchange rate rather than currency movements alone. Within developing markets there are Tier 1 countries (China, India, Brazil - even if Brazil considers currency machinations (manipulation?) a currency war) whose economies are bounding along and then there are Tier 2 countries, like South Africa, that aren't quite bounding but aren't quite bumbling along either.

It has become passé to quip that the developing world has uncoupled from the developed world. Nonsense! The strong rand, and its attendant benefits on inflation and consequently interest rates, is directly a result of portfolio flows from the developed world. If anything the Financial Crisis has starkly highlighted a greater interconnectedness between countries, and more specifically: currencies; to this end witness recent discussions at meetings of the World Bank and the International Monetary Fund.

One wonders whether establishing a global currency (the Earth Dollar?) and a global interest rate wouldn't be the answer we're all searching for: capital would then flow to where people are smartest and hardest working, not where, if you reflect on it, rather arbitrary political and economic institutions encourage it to flow. People would then follow capital and like-minded communities would develop. This is probably ultimate utopia and, given the political fallout associated with the euro earlier this year, we wouldn't want to be the organization that attempts to develop this rather academic concept.

Speaking of currencies we have skirted the issue of the rand's strength thus far in our discourse (diatribe?). We understand that a strong rand has made life particularly miserable for investors who took money offshore in late-2001/early-2002 and/or in 2008. We also understand that a strong rand has made business for exporters very difficult, but calling for the government, or whoever the powers that be are, to actively weaken the rand is asking them to embark on a fool's errand. It has already cost the South African Reserve Bank a billion rand, a bill we as taxpayers will ultimately pay, to attempt to defend the rand. In the global race to the bottom of each countries' currency South Africa will always be chewing on dust. We simply do not have the reserves to defend the rand or to engage in competitive currency devaluation. Remember that not all currencies can be weak against each other at the same time, nor can becoming an exporting nation be salvation for all countries at the same time. Developing a well-educated, healthy, motivated domestic consumer with robust, democratic, well-governed institutions is the only way to see our way clear through these turbulent times. Rand strength has very little to do with the rand. Lowering interest rates, selling rands, imposing Tobin taxes all have very little chance of engineering long-term, material weakness in the rand.

SEPTEMBER 2010 DATABANK

	Index Value	Last Month	Year-to-Date	12 Months Ago
SA Repo Rate	6.00%	-0.50%	-1.00%	-1.00%
JSE ALSI	29,456.04	8.08%	6.47%	18.25%
ALBI	341.20	0.76%	14.11%	15.34%
R157	7.30%	7.23%	8.39%	8.29%
USDZAR	6.96	-5.60%	-5.98%	-7.41%

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