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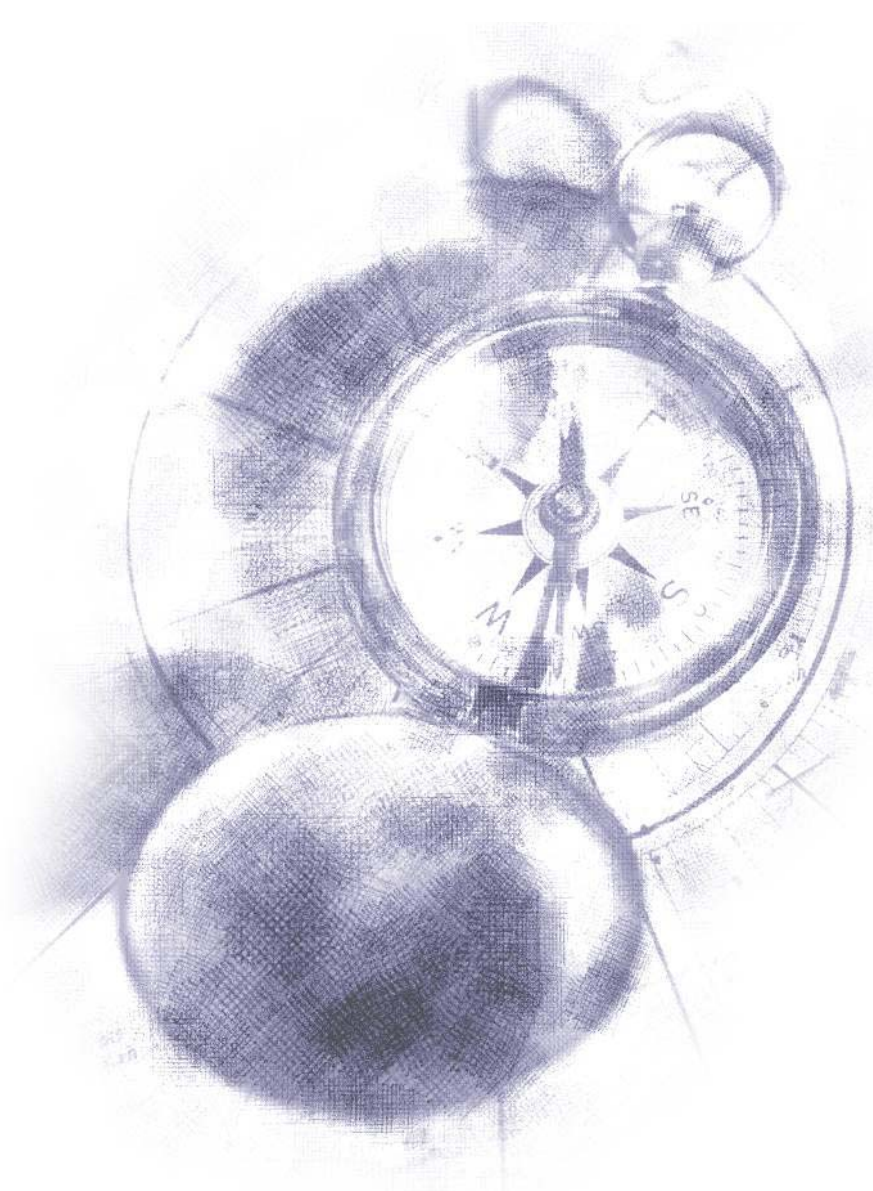
NFB ASSET MANAGEMENT

MONTHLY MARKET REPORT

FEBRUARY 2009

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FEBRUARY 2009 COMMENTARY

Dropping meringues into black holes

This during the first week of February alone:

- “Aussie rates cut to 45-year low”
- “BoE cuts rates to a new record low”
- “ECB leaves rates unchanged, may cut in March”
- “SARB takes chunk out of rates”

(First, second and fourth quote from fin24.co.za; third quote from Bloomberg.com)

Whilst we understand central bank’s desires to cut interest rates aggressively we must note that if banks are unwilling to lend and consumers equally as unwilling to borrow (i.e. the velocity of money falls to zero or more accurately M1 continues to expand whilst M3 stagnates) that lowering rates is much akin to throwing meringues into a black hole. In a similar vein taxpayer dollars are being used to fill up holes in bank balance sheets and are most assuredly not translating into an easing of credit conditions. (We further note that in excess of 60% of mortgage applications in South Africa are being turned down by the banks, who remain some of the more solvent banks across the globe, one can only imagine just how high this percentage might be in developed markets).

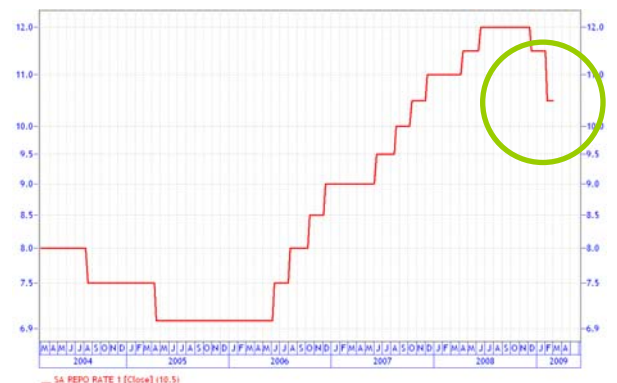
Two further comments:

1. Aggressive fiscal spending, monetary policy stimulus and the printing of money (more commonly and tastefully referred to as quantitative easing) will have long-term inflationary consequences. Without them, however, there may be nothing to inflate.
2. By cutting rates from 1% to 0.5% the BOE effectively HALVED the prevailing interest rate. The SARB has elected to lower rates by just 1.5% since December and is quickly moving into territory where if it cut rates close to the next scheduled meeting of the MPC such cuts may be viewed as *emergency* cuts rather than *interim* cuts with rather nasty negative market perception issues. Investec likened South Africa’s monetary and fiscal position to that of a car parked on a hill with the handbrake up.

BOE Overdraft Rate, Weekly, Feb 04 - Feb 09



SA Repurchase Rate, Weekly, Feb 04 - Feb 09



EURUSD, Weekly, Feb 04 - Feb 09



It's possibly worse across the pond

Despite significant dollar strength in recent weeks and months NFB has elected to move ALL of its euro exposure into dollars (in the dollar funds it manages, into sterling in the sterling funds) given that the data we're reading points to massive infrastructural imbalances that begin to dwarf those of the USA.

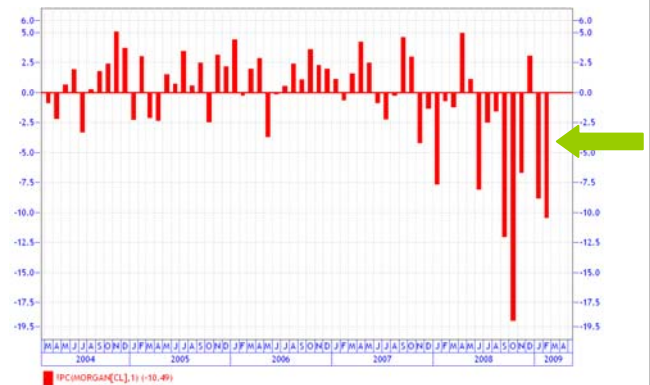
For example, if just 10% of Eastern European debt were to default there is a strong possibility that Austria could default in turn as it has over the course of the last decade bought several Eastern European banks. These banks have significant exposures to consumers who took out loans in Swiss francs, euros or Japanese yen against whose currencies theirs have fallen in the order of 30 to 50%. These consumers are the same ones who face the prospects of heavy retrenchments as the globe lurches into recession.

For completeness, NFB has also elected to move all of its sterling exposure into dollars in the dollar funds and dollar exposure into sterling for the sterling funds. We feel that currencies are exposed to massive volatility at present and that it would be wise to dampen the impact this has on your portfolios by returning them as much as we can to base currency.

Tough got tougher

After a very difficult 2008 investors have found that 2009 isn't terribly different. Tough conditions got tougher in February for international and local investors alike as bonds sold off (3.6% for South African bonds and -3.1% for international bonds) and equities sold off (the JSE All Share Index was down 10.2% for February alone, whilst the MSCI was off 10.5%). Investors who sought refuge in cash were rewarded with paltry interest rates. However, as each month/week/day of losses goes by we get that much closer to a bottom and a rebound in global valuations and investor portfolios.

Monthly Change in MSCI World Index Feb 04 - Feb 09



All charts are sourced from I-Net Bridge.



FEBRUARY 2009 DATA BANK				
Inflation Rates as at 31-Jan-09				
	Index Value	Last Month	Last 12 Months	
CPI	103.1	0.36%	8.06%	
CPIX	103.1	0.41%	8.24%	
PPI	180	-0.72%	9.16%	
Interest Rates as at 28-Feb-09				
	Value	Last Month	YTD	Last 12 Months
SA Repo Rate	10.50%	-1.00%	-1.00%	-0.50%
US Federal Funds Rate	0.25%	0.00%	0.00%	-2.75%
UK Overdraft Rate	1.00%	-0.50%	-1.00%	-4.25%
European Repurchase Rate	2.00%	0.00%	-0.50%	-2.00%
JSE Indices as at 28-Feb-09				
	Value	Last Month	YTD	Last 12 Months
JSE ALSI	18,465.33	-10.23%	-14.15%	-39.80%
JSE FINDI	13,068.88	-10.91%	-17.17%	-38.11%
JSE Mining	21,735.50	-9.77%	-12.35%	-51.16%
JSE INDI	17,767.40	-10.61%	-17.35%	-37.00%
PE Ratios as at 28-Feb-09				
	Value	Last Month	At End Dec '08	12 Months Ago
JSE ALSI	8.21	9.05	9.45	15.71
JSE FINDI	5.93	6.38	6.88	9.98
JSE Mining	8.51	9.35	9.60	20.99
JSE INDI	7.10	8.46	9.12	12.92
International Indices as at 28-Feb-09				
	Value	Last Month	YTD	Last 12 Months
MSCI	750.86	-10.49%	-18.40%	-48.41%
S&P 500	735.09	-10.99%	-18.62%	-44.76%
FTSE 100	3,830.09	-7.70%	-13.62%	-34.91%
DJ Euro Stoxx 50	1,976.23	-11.66%	-19.39%	-46.94%
Nikkei 225	7,568.42	-5.32%	-14.57%	-44.36%
Bond Markets as at 28-Feb-09				
	Value	Last Month	YTD	Last 12 Months
ALBI	163.32	-3.62%	-6.68%	2.06%
JPM Global Government Bond Index	415.61	-3.11%	-6.92%	-1.85%
Bond Markets as at 28-Feb-09				
	Value	Last Month	At End Dec '08	12 Months Ago
R153	6.93	6.88%	7.3%	9.58%
US 10 Year Government Bond	3.03	2.83%	2.18%	3.52%
JPM Emerging Market Bond Spread	649	633	690	291
Currencies as at 28-Feb-09				
	Value	Last Month	YTD	Last 12 Months
USDZAR	10.07	-1.08%	5.72%	29.87%
EURZAR	12.63	-3.88%	-4.04%	6.36%
GBPZAR	14.24	-4.32%	3.78%	-7.55%
EURUSD	1.27	-1.15%	-9.42%	-16.52%
GBPUSD	1.43	-1.70%	-2.29%	-27.99%
Other				
	Value	Last Month	At End Dec '08	12 Months Ago
PSCE (Jan '09)	14.04%	15.30%	14.04%	21.53%
M3 (Jan '09)	14.40%	16.16%	14.40%	24.45%
Gold (Feb '09)	\$943.75	\$918.5	\$865	\$969
Petrol Price Unleaded JHB (Feb '09)	R6.62	R6.01	R7.35	R7.64

All data is sourced from I-Net Bridge.

