



financial services group

MONTHLY MARKET REPORT OCTOBER 2009

Asset Management

OCTOBER 2009 COMMENTARY

First Around The Bend: Australia

Arguably the most significant recent event in the unfolding credit crisis was the Reserve Bank of Australia's decision to raise interest rates.

Australia is the first major country to raise rates, after Israel a few weeks ago, whilst interest rates across Europe, America and Japan remain at super-low levels. Rates in Australia were lifted to 3.25% having been slashed to a 49-year low of 3% during a rate cutting cycle that ran from September of 2008 through to April of 2009. During this period interest rates were cut 4.25%.

Whilst a rate increase of 0.25% is small in terms of quantum alone it is significant in that it potentially signals the end of the credit crisis, at least as far as Australians go. We say potentially because were the Australian and/or global economy to revisit recessionary territory then the Australian's interest rate move would have been premature.

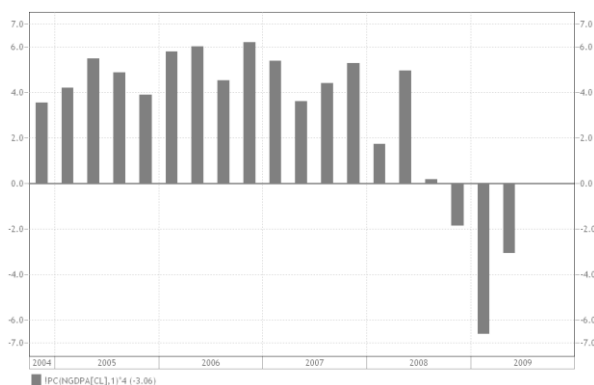
Key indicators of a turnaround in global economic fortune and of the ending the credit crisis: a return of business and consumer confidence (look to the various Consumer Confidence and ISM Surveys for a reading on these); increasing positive rhetoric from central bank governors, parliamentarians and/or captains of industry; gradual removal of 'quantitative easing' and, finally, rising interest rates. Expect these indicators to become evident in the order they appear here, but allow wiggle room for idiosyncrasies to assert themselves.

Reserve Bank of Australia Interest Rate, Daily
Oct 08 - Oct 09



First Budget Speech: Gordhan

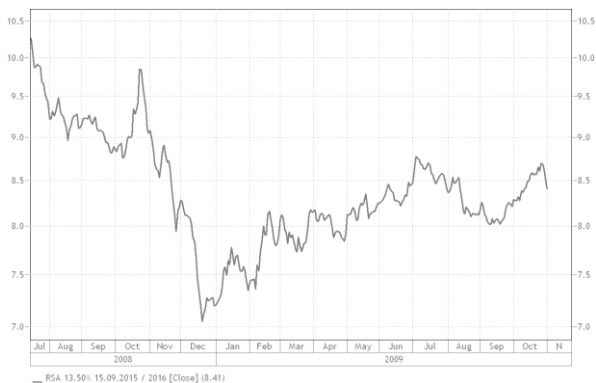
Gross Domestic Product, Quarterly, Annualised
Sep 04 - Sep 09



It is beyond the scope this report to embark upon a full dissection of Finance Minister Gordhan's first Medium Term Budget Policy Statement (MTBPS), however there are three items we wish to touch upon:

1. The MTBPS, for perhaps the first time in official format, puts numbers to the 'wall of debt' in the form of government infrastructure and SOE (State-Owned Enterprise) funding we have been anticipating for some time. The current budget deficit has been forecast at 7.6% of GDP and public debt is to rise from 22.6% of GDP in 2008/09 to 41.1% in 2012/13. This information has largely been absorbed by the bond market, though it remains to be seen whether forthcoming debt issues will be cleared by the market at existing levels.

**R157 (Benchmark Government Bond), Daily
Jul 08 - Oct 09**



2. The foreign capital allowance for individuals has been raised from R2m to R4m. This means that, effectively, there are no foreign exchange limits on individuals in South Africa.
3. The appearance, through the MTBPS as evidenced by the two extracts below, of a recommitment by Government to the process of inflation targeting, if not inflation targeting itself,:

“Mindful of the appreciation of the currency in recent months, the National Treasury and the Reserve Bank will enhance coordination of fiscal and monetary policy to support low inflation and a more stable and competitive exchange rate.”

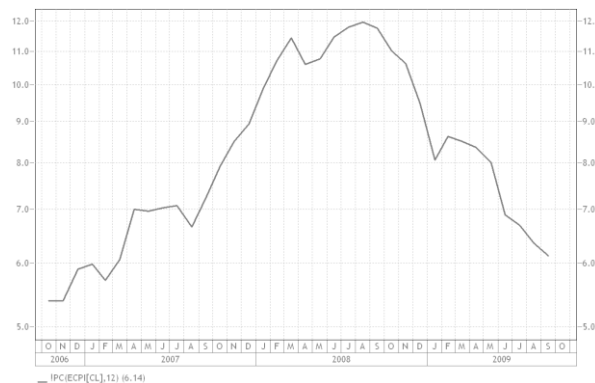
“Inflation rates that are higher than those of our trading partners imply decreasing competitiveness, something that needs to be countered more strongly in the period ahead through various economic policies, not only monetary policy.”

Next Round Of Increases: Eskom

Eskom has recently applied to Nersa for approval for a series of 45% annual tariff increases, beginning next year and continuing for three years or for an increase of 146% next year followed by two successive annual increases of 12%. Whilst electricity comprises less than funeral costs in the average South African’s basket of goods it has a knock-on effect on almost every good and service in the South African economy. Expect these increases, if granted, to place a fairly tough floor under the inflation rate offsetting much of the positive effects of base-effects and the resurgent rand.

[Though we do note and acknowledge that the most recent Consumer Price Index information to make its way out of the offices of Statistics South Africa surprised many market commentators and certainly the consensus view of 6.3% by registering an annual change of just 6.1%.]

**Consumer Price Index, Annual Change, Monthly
Sep 06 - Sep 09**



OCTOBER 2009 DATABANK

	Index Value	Last Month	Year-to-Date	12 Months Ago
SA Repo Rate	7.00%	0.00%	-4.50%	-5.00%
JSE ALSI	26,360.55	5.82%	22.55%	25.58%
ALBI	295.19	-0.22%	-2.26%	9.33%
R157	8.41%	8.29%	7.21%	9.09%
USDZAR	7.81	3.93%	-18.02%	-20.06%

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