

Today's highlights

- The rand: A hopeful portend of better markets to come?
- Upcoming dividend dates and corporate actions
- Company calendar – 14 February to 18 February
- Economic calendar – 14 February to 18 February

Talking point: A smaller surplus – but can it last?

The Chinese authorities have staggered their main data releases this month, meaning markets do not have to absorb trade, fixed investment, industrial production and inflation data in one go. This morning saw the release of trade data for January, which showed the trade surplus slipped to US\$6.5bn, its smallest in nine months. The surplus was smaller than most economists had forecast, and was largely due to a 51% gain in imports (though exports did rise by 38%, also a very strong rate).

Will the falling surplus phenomenon continue? And if it does, will it satisfy critics (mostly in the US) of China's currency policies? The answers appear to be maybe not, and almost certainly not. Trade data out of China are very difficult to analyse this time of year, due to New Year holidays in February, which can affect patterns in the weeks before and after the holidays. Meanwhile the US appears to have the bit between its teeth regarding the value of the yuan, and sees a much stronger Chinese currency as the answer to many of its woes.

Further data due out this week, notably consumer and producer inflation tomorrow, will also be keenly watched. A reading for CPI at or above the Bloomberg median forecast of 5.4% (which would be a 30 month high) will increase calls for further currency appreciation – a stronger yuan would reduce some of the inflationary pressures on imported goods.

Meanwhile markets breathed a sigh of relief on the weekend as Egyptian president Hosni Mubarak agreed to stand down after intervention by the military. Of course, Egypt still has a long way to go before it can be considered a stable, democratic and economically prosperous country (and military interventions do not always end well), but a little clarity certainly goes a long way in financial markets.

Market highlights

A few strong economic readings for January helped US equities move higher on Friday, offsetting some earnings disappointments from the likes of Cisco.

The JSE finished off the week on a high note, as a firm opening in the US and news late in the day that Egyptian president Hosni Mubarak would stand down after all, lifted the local market. Platinum and bank shares led the gains.

Bond yields rose while the rand ended only slightly weaker on Friday after falling sharply earlier in the day. The turnaround came after news that Mubarak would step down emerged late in the day, easing many of the tensions from earlier in the day.

Base metals benefited from news of the resignation of Egyptian president Hosni Mubarak on Friday, but it was something of a different story for oil and gold prices, as both slid in late trade on easing regional tensions after the news was announced.

Key indicators in a nutshell – Friday 11 February 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year date to	1 Year
JSE All Share	32954.33	1.68%	1.45%	3.58%	2.60%	25.02%
S&P 500	1329.15	0.55%	3.36%	10.97%	5.69%	24.44%
Nikkei	10605.65	0.00%	0.88%	7.92%	3.68%	6.44%
Rand/US \$	7.25	0.27%	-6.05%	-3.77%	-8.71%	6.16%
Rand/GB Pound	11.60	0.74%	-7.46%	-3.70%	-11.17%	3.65%
US\$/Euro	1.35	0.41%	-3.10%	0.20%	-1.20%	1.48%
Gold \$/oz.	1356.85	-0.46%	-2.15%	-0.28%	-4.54%	26.46%

Company results and updates

Group Five reported a 21% decline in diluted HEPS for the six month to December, to 198c. An interim dividend of 52cps was declared, from 63cps in the comparable period in 2009.

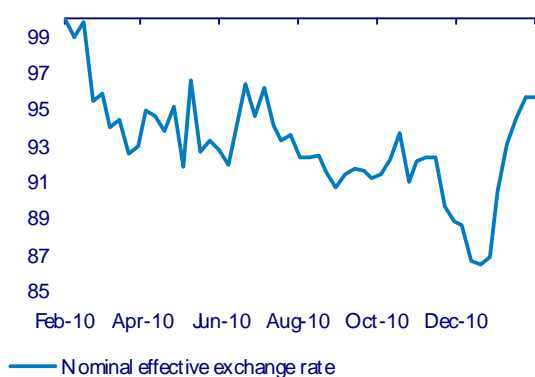
Metorex expects to report adjusted HEPS for the six months to December of between 30c and 33c, against 14c for the six months to June. Since Metorex has changed its year end to December from June, adjusted HEPS for the 18 months to December are expected to be between 58c and 62c. Metorex reports on about 1 March.

Daily ideas

The rand: A hopeful portend of better markets to come?

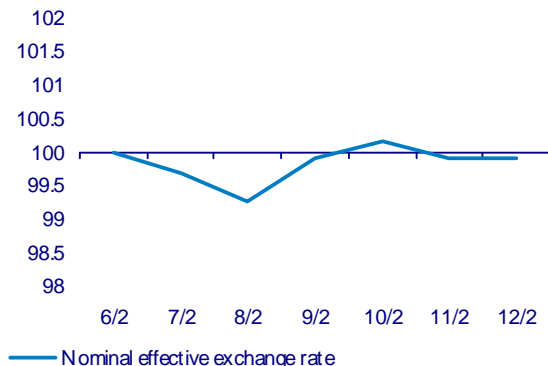
Last week was a better one for the rand. After an extended period of rand weakness that began at the turn of the year, the rand, on a trade weighted basis held its own.

The trade weighted rand Feb 2010- Feb 2011, daily data (lower numbers indicate strength)



Source: Bloomberg and Investec Securities

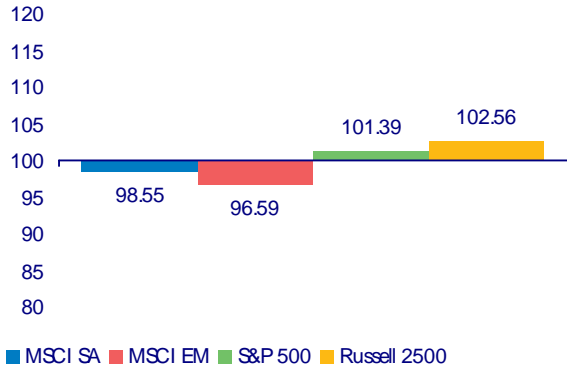
The trade weighted rand 7 to 12 February 2011, daily data (lower numbers indicate strength)



Source: Bloomberg and Investec Securities

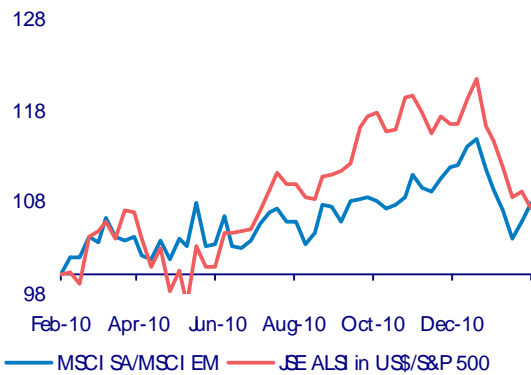
Accordingly the JSE proved to be one of the better emerging equity markets last week (measured in US dollars) though emerging markets again lagged behind the S&P 500 – a trend that has persisted since the beginning of the year. Until the year end the JSE had been an outperforming emerging market during a period when emerging markets had outperformed the S&P 500.

Total returns: Week ending 12 February 2011



Source: Bloomberg and Investec Securities

Relative performance Feb 2010- Feb 2011



Source: Bloomberg and Investec Securities

This trend in favour of developed over emerging markets has clearly been affected by events in Egypt. Egypt, being geographically part of Africa, may have had a disproportionate impact on the African components of the emerging market (EM) Index. However it should be said that the rand, as a very well traded emerging market currency, tends to act as a currency proxy for all EM currencies leading to some relative outperformance in the good times and underperformance when risks are elevating.

We show below how the sovereign risk premium for RSA Yankee Bonds over equivalently long dated US Treasuries (RSA bonds issued in US dollars) increased from a record low premium of 62bps on 21 January to 151bps by Friday 12 February 2011. The increase in the average EM bond spread has been less pronounced – an increase from 221bps in early January to a peak of 271bps at the end of January. This risk premium is currently 251bps over US Treasuries.

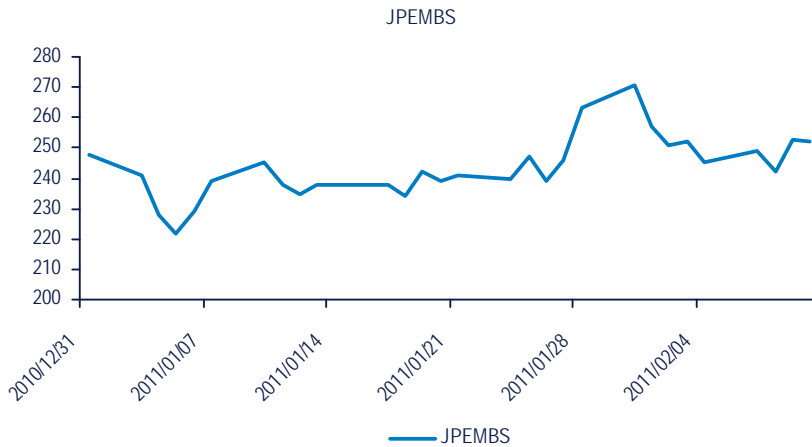
RSA sovereign risk premium



— Sovereign risk premium

Source: Bloomberg and Investec Securities

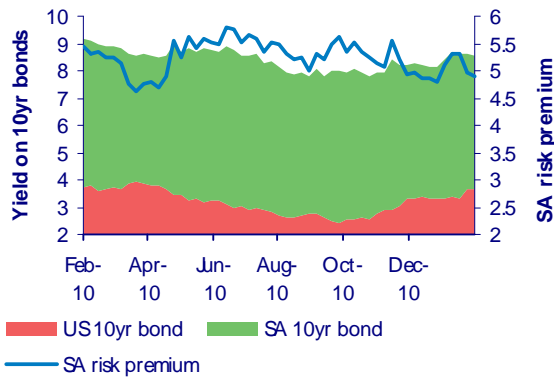
Emerging market bond spreads (JPMorgan EM Bond Index)



Source: Bloomberg and Investec Securities

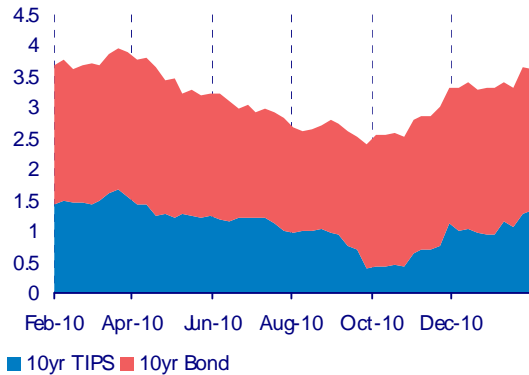
However some of the news on the SA risk front has been more encouraging. While RSA rand denominated bond yields have been rising, they have increased by less than their US benchmarks. And so the difference between RSA and US yields, indicating break even exchange rate depreciation, has declined to below 5% pa. This interest spread can be said to represent the total RSA risk premium, that is the extra income received for absorbing rand risk.

The RSA risk premium (Yield gap RSA-US Bond Yields)

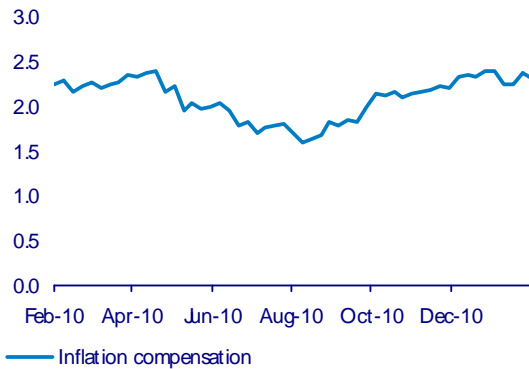


Source: Bloomberg and Investec Securities

A very important indicator for the US and SA is the extra reward bond investors receive for absorbing inflation risk. The difference between the yield on vanilla US Treasury Bonds and their inflation protected equivalents (TIPS) is an objective measure of inflationary expectations. Judged by this measure long term inflation expectations in the US remain well contained at around 2% p.a.

US Bond yields (vanilla vs inflation protected TIPS)

Source: Bloomberg and Investec Securities

Inflation compensation in the US

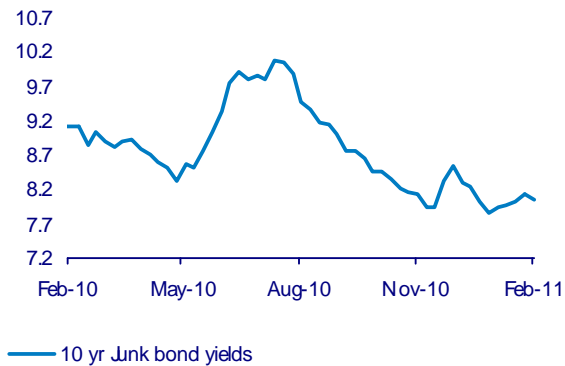
Source: Bloomberg and Investec Securities

The danger remains that unless the US addresses its fiscal deficits and unless the Fed can withdraw all the liquidity it has pumped into the system, inflation will pick up and extra protection for higher expected inflation will become reflected in higher long term Treasury yields. So far so good for the Bernanke Fed, at least in the opinion of Mr/Ms market.

It is of interest to note that while Investment grade corporate bond yields have moved higher in sympathy with Treasury yields, the yields on below investment grade bonds (so called junk bonds) have continued to decline. Less fear of default, given the improved state of the US economy, has seen a declining risk spread on these bonds offset higher benchmark yields.

US Investment grade bond yields

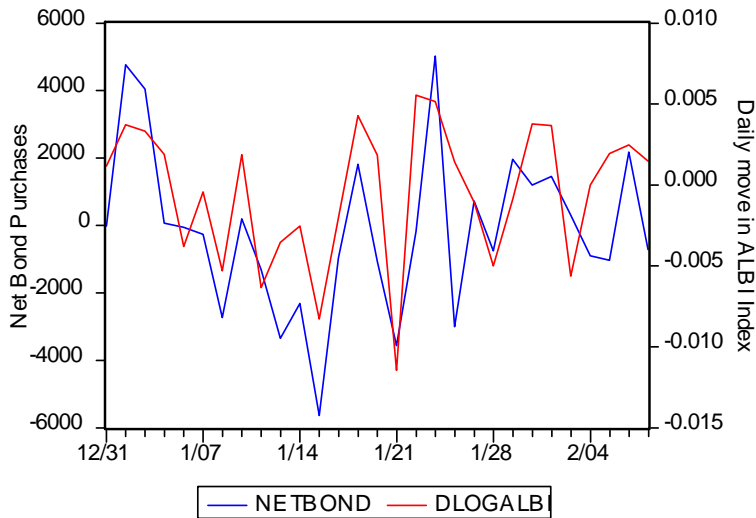
Source: Bloomberg and Investec Securities

US High Yield Bonds

Source: Bloomberg and Investec Securities

The hope for a stronger rand in the weeks to come depends largely on less risk being priced into emerging market equities and bonds. The yields on RSA bonds have been moving up and down quite consistently with net foreign bond purchases. And foreign bond sales rather than net purchases have aided rand weakness in recent weeks. A sense that these yields represent an attractive carry, especially if rand stability can be priced in, would assist the rand as would any renewed appetite for emerging equities.

RSA bond yields and the rand (daily moves)



Source: I-Net Bridge and Investec Wealth and Investment

A degree of tolerance for risk, given the state of the world, seems justified. This view is consistent with commodity price strength and a renewed confidence in emerging markets and their economic management. Expecting rand stability or even a degree of rand strength in such circumstances, not rand weakness, seems consistent also. **Brian Kantor**

Upcoming dividend dates and corporate actions

Share/security	Last day to trade	Ex-dividend	Record date	Pay date	Description	Per share amount/result
Digicore NPLs	11 February	14 February	18 February	21 February	Rights take up	1 DGNN converts to 1 DGC at R3 a share
Freeworld	11 February	14 February	18 February	tba	Minority offer	R12 per share tendered
Trematon	11 February	14 February	18 February	21 February	Cash Dividend	R0.015
SA Coal	11 February		18 February	21 February	Minority offer (extended)	R0.30 a share
Sovereign	11 February	14 February	18 February	21 February	Rights issue	66.04155 SOVN per 100 SOV
Winhold	11 February	14 February	18 February	21 February	Cash Dividend	R0.10
AR Hold 5.5% Prefs	18 February	21 February	25 February	28 February	Cash Dividend	
Dialogue	18 February	21 February	25 February	28 February	Capital reduction	R0.1238
Marshall Monteagle	18 February		25 February	28 February	Restructure	2 MMP per 1 MTE
Premium NPLs	18 February		25 February	28 February	Rights take up	1 PMMN converts to 1 PMM on take up at R15 per unit
Rareco			28 February		Minority offer	R3 a share
EsorFranki NPLs	25 February		4 March	7 March	Rights take up	1 ESRN converts to 1 ESR at R2.15 a share
Hudaco	4 March	7 March	11 March	4 April	Cash Dividend	R2.35
RMB Holdings	4 March		7 March	14 March	Unbundling	1 Rand Merchant Insurance Holdings per RMH
Paracon	4 March	7 March	11 March	14 March	Cash Dividend	R0.10
Simeka Business Group	4 March	7 March	11 March	14 March	Name change	Morvest Business Group (MOR)
SBR002	4 March	7 March	11 March	15 March	Interest	R1.41
Sovereign NPLs	4 March		11 March	14 March	Rights take up	1 SOVN converts to 1 SOV at R4.75 a share
JOZI03	11 March	14 March	18 March	22 March	Interest	R14.83
Foschini Prefs	17 March	18 March	25 March	28 March	Cash Dividend	R0.065
Country Bird	6 May	9 May	13 May	16 May	Capital reduction	R0.111

Source: JSE

Company calendar – 14 February to 18 February

Monday 14 February	Spar Group AGM
Tuesday 15 February	Absa finals Tiger Brands AGM
Wednesday 16 February	BHP Billiton interims City Lodge interims Conduit Capital interims
Thursday 17 February	BHP Billiton interims AngloGold Ashanti finals Impala interims City Lodge interims Woolworths interims Conduit Capital interims Afrox finals
Friday 18 February	Anglo American finals Gold Fields quarterlies and interims Pioneer Food AGM

Source: I-Net, Company updates

Economic calendar – 14 February to 18 February

Date	International	South Africa
Monday 14 February	EMU – December Industrial production [12h00]	
Tuesday 15 February	Japan – December Industrial production Japan – BoJ MPC meeting and rate decision China – January CPI China – January PPI Germany – Q4 GDP flash [09h00] UK – January CPI [11h30] EMU – Q4 GDP flash [12h00] EMU – December Foreign trade [12h00] US – January Retail sales [14h30] US – February Empire State survey [14h30] US – December Long term TIC flows [15h00] US – February NAHB survey [16h00]	
Wednesday 16 February	US – January PPI [14h30] US – January Housing starts [14h30] US – January Industrial production [15h15] US – FOMC minutes	January CPI [09h00] December Retail sales [10h30]
Thursday 17 February	EMU – December Balance of payments [11h00] US – January CPI [14h30] US – Initial jobless claims for previous week [14h30] US – January Leading indicators [16h00]	
Friday 18 February	Germany – January PPI [09h00] UK – January Retail sales [11h30]	

Sources: Bloomberg, StatsSA

Key market indicators – Friday 11 February 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	32954.33	1.68%	1.45%	3.58%	2.60%	25.02%
JSE Fini 15	8135.90	1.50%	-2.69%	-0.71%	-0.43%	11.25%
JSE Indi 25	26739.59	1.70%	0.07%	1.75%	-0.20%	28.73%
JSE Mining	40088.76	1.95%	5.40%	7.69%	7.78%	27.84%
JSE Resi 20	60868.48	2.14%	5.89%	8.39%	8.11%	29.06%
S&P 500	1329.15	0.55%	3.36%	10.97%	5.69%	24.44%
DJI	12273.26	0.36%	4.40%	9.56%	6.01%	22.26%
NASDAQ	2809.44	0.68%	2.63%	11.76%	5.90%	30.80%
Nikkei	10605.65	0.00%	0.88%	7.92%	3.68%	6.44%
Hang Seng	22828.92	0.53%	-5.37%	-4.99%	-0.90%	14.59%
FTSE 100	6062.90	0.71%	0.20%	4.17%	1.54%	18.14%
CAC 40	4101.31	0.15%	3.96%	6.13%	7.79%	12.81%
DAX	7371.20	0.42%	4.28%	8.56%	6.61%	33.14%
ASX-ORD	4970.60	-0.62%	2.87%	4.13%	2.55%	9.65%
JSE All Share (in US\$)	4545.24	1.95%	-4.69%	-0.33%	-6.34%	32.72%
MS EM Index	1091.17	0.17%	-6.18%	-2.14%	-5.23%	19.58%
MS World Index	1340.99	0.24%	3.28%	8.55%	4.76%	21.75%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US \$	7.25	0.27%	-6.05%	-3.77%	-8.71%	6.16%
Rand/GB Pound	11.60	0.74%	-7.46%	-3.70%	-11.17%	3.65%
Rand/Euro	9.82	0.65%	-8.80%	-3.66%	-9.95%	7.92%
Rand/Aus \$	7.26	0.20%	-6.39%	-5.61%	-6.95%	-6.88%
Yen/ US \$	83.44	-0.12%	-0.44%	-0.34%	-2.79%	7.75%
Swiss Franc/US \$	0.97	-0.45%	-0.61%	1.25%	-3.97%	9.62%
US \$/Euro	1.35	0.41%	-3.10%	0.20%	-1.20%	1.48%
US \$/GB Pound	1.60	0.59%	-1.61%	0.24%	-2.44%	-2.46%
US \$/Aus \$	1.00	-0.12%	-0.68%	-1.92%	2.02%	-12.53%
Nominal Effective Exchange Rate (2000 = 100)	73.52	-0.29%	8.41%	3.93%	10.53%	-3.70%

	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Commodities						
Gold \$/oz.	1356.85	-0.46%	-2.15%	-0.28%	-4.54%	26.46%
Platinum/oz.	1804.5	-1.26%	0.14%	7.92%	1.95%	19.38%
Brent Crude \$/bbl	100.43	-0.42%	2.92%	16.10%	5.99%	41.63%

Fixed income	Closing yield %
SA R157	7.83
US 2 YEAR	0.84
US 10 YEAR	3.65
UK 2 YEAR	0.85
UK 10 YEAR	3.88
EURO 2 YEAR	1.40
EURO 10 YEAR	3.30

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