

Today's highlights

- After the MPC: Interest rate expectations and the rand
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- Economic calendar – 16 May to 20 May

Talking point: French farce (or tragedy) for the IMF

The arrest in New York on sex charges of one of the most powerful men in the world, Dominique Strauss-Kahn, head of the IMF and previously a likely candidate for President of France, on his way to save the world (or at least Europe) from a debt crisis is more than farce; it is tragedy. It calls for more than a Molière or a Georges Feydeau – perhaps only a Victor Hugo could do the events and their consequences full poetic justice. As for justice proper it will take its course before a jury of anything but peers.

One would not normally expect such an event to have an impact on markets, but it could this time as Strauss-Kahn was due for a series of important meetings on the weekend and this week. This included meetings with German chancellor Angela Merkel and meetings with European ministers to discuss the thorny problem of Greece. While the IMF will have many other capable figures able to deputise for their leader in key meetings in the coming weeks, the experience and stature of the man in these crucial gatherings would have presumably been key in swaying arguments one way or another.

Presumably markets will move on, as will the stewardship of some of the world's major institutions. Nonetheless it has been quite a month of surprises so far: this, the slaying of Osama bin Laden and a victory for the Lions in the Super 15 in Australasia. What else could this extraordinary month hold?

Market highlights

Wall Street fell on Friday, ending a second downward week in a row on a combination of worries about Eurozone debt and Chinese growth.

The combination of a weaker rand and firmer commodity prices meant that the JSE was able to post gains on Friday despite weakness on most global markets.

The US dollar made some hefty gains against most currencies on Friday, with the rand moving out to R7 to the greenback. Local bonds were also weaker, feeding off the selling in the rand.

Despite the stronger US dollar, most commodities were higher on Friday as good US data boosted base metals and short covering lifted oil prices. Gold however fell in response to the dollar's gains.

Key indicators in a nutshell – Friday 13 May 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year date to	1 Year
JSE All Share	31959.93	0.88%	-1.22%	-3.43%	-0.49%	13.42%
S&P 500	1337.77	-0.81%	1.78%	0.41%	6.37%	14.18%
Nikkei	9648.77	-0.70%	0.08%	-10.04%	-5.67%	-7.17%
Rand/US \$	7.01	-1.75%	-3.01%	3.73%	-5.57%	6.23%
Rand/GB Pound	11.35	-1.24%	-2.68%	2.70%	-9.20%	-2.65%
US\$/Euro	1.41	0.84%	2.30%	-4.53%	-5.19%	-10.52%
Gold \$/oz.	1494.7	-0.78%	2.54%	9.76%	5.16%	20.65%

Company results and updates

Raubex reported a 25.8% decline in HEPS for the year to February, to 240.2c. A final dividend of 68cps was declared.

JD Group reported a 44% gain in HEPS for the six months to February, to 202.9c. An interim dividend of 100cps was declared, up from a previous 70cps.

Vodacom reported HEPS for the year to March of 656c, an increase of 28.6%. A final dividend of 280cps was declared.

Netcare reported HEPS for the six months to March of 48c, up from a previous 41.5c. An interim distribution of 22cps was declared, up from a previous 19cps.

Astral Foods grew its HEPS for the six months to March by 31% to 635c. The interim dividend was increased by 5% to 305cps.

Gold One has received an offer of 55 Australian cents a share for its shares from a Chinese led consortium.

Calgro M3 reported diluted HEPS for the year to February of 13.48c, from a previous loss per share of 7.64c.

Kelly Group reported a 16% fall in diluted HEPS for the six months to March, to 13.5c. UCS expects to report a 50% to 55% decline in HEPS for the six months to March. UCS reports on 30 May.

Cargo Carriers expects to report a 55% to 65% fall in HEPS for the year to February. Cargo reports on Friday

Impala Platinum grew its refined platinum production for the nine months to March by 9% to 1.38m ounces.

Anooraq reported platinum production for the March quarter of 22 173oz, down 28% on December and 17% on the previous March quarter.

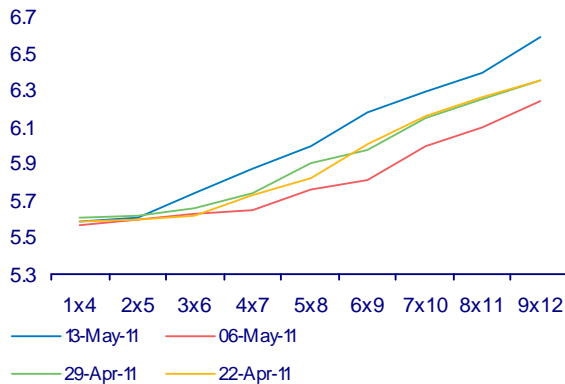
Evraz Highvekd Steel reported HEPS of 21.2c for the March quarter, up from a loss per share of 17.1c in the March quarter of 2010.

Daily ideas

After the MPC: Interest rate expectations and the rand

The money market has raised the probability of an early increase in short term interest rates (in three months' time) following the meeting of the Reserve Bank's Monetary Policy Committee (MPC) on Thursday that maintained the repo rate at 5.5%. As we show below the short term three month Forward Rate Agreement curve (FRA) of the banks moved higher by between 10 and 30bps across the range of forward rates beyond the next three months late last week.

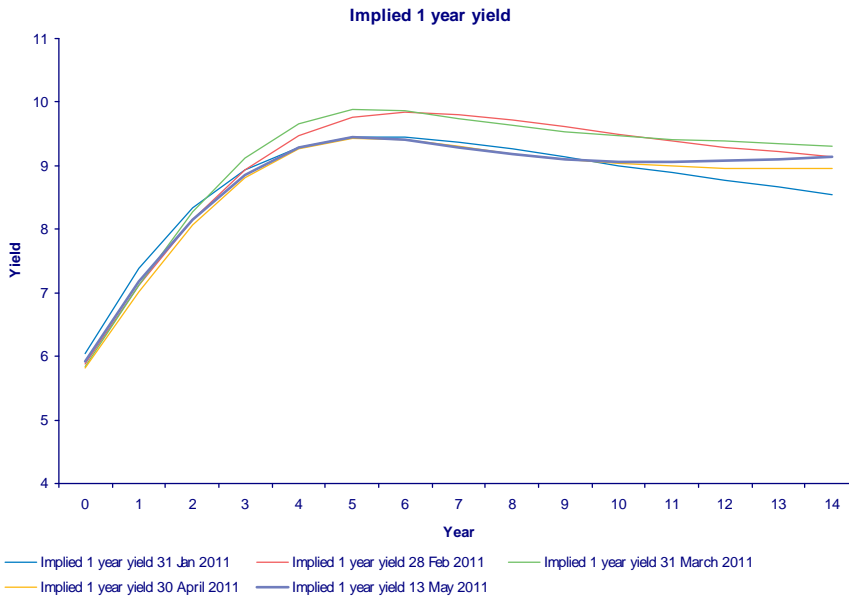
SA Banks Forward Rate Agreements (FRA), April - May 2011



Source: Bloomberg, Investec Securities

Interest rates expected over the longer term, beyond four years, have remained unaffected. The zero coupon yield curve implies that the one year government bond rate, currently around 6% per annum, will rise consistently to a level of about 9% in four years' time and then stabilise at this level.

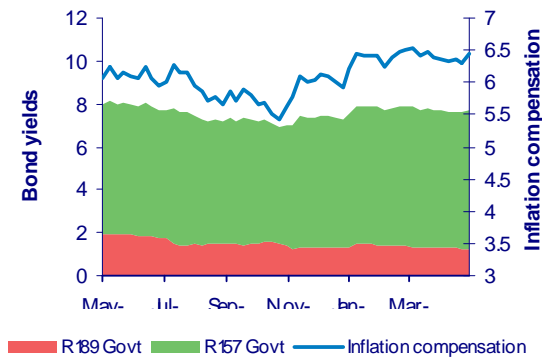
Implied One Year Interest Rates, April - May 2011



Source: Bloomberg, Investec Securities

These expectations remain consistent with inflation compensation priced into the bond market in the form of the yield gap between conventional RSA bond yields and their inflation linked alternatives. This gap remains consistently above 6% regardless of the rate of inflation.

RSA Bond Market Yields and Inflation Compensation, May 2010 to May 2011



Source: Bloomberg, Investec Securities

Our own interpretation of the MPC statement and the press conference is that the Governor and the MPC would be extremely reluctant to take any interest rate action before the economy has regained its potential growth, which it is still some way from attaining. However further increases in fuel and food prices and the headline inflation rate might force them in this direction for fear of second round effects on inflation itself. In other words, more inflation expected would lead in turn to still more inflation.

We have found comprehensive evidence that inflation in SA does to a small degree influence inflation expected, as measured for the Reserve Bank by surveys conducted by the Stellenbosch Bureau of Economic Research for business, trade unions and financial institutions. However, the reverse has not been true, although the Reserve Bank seems to believe otherwise.

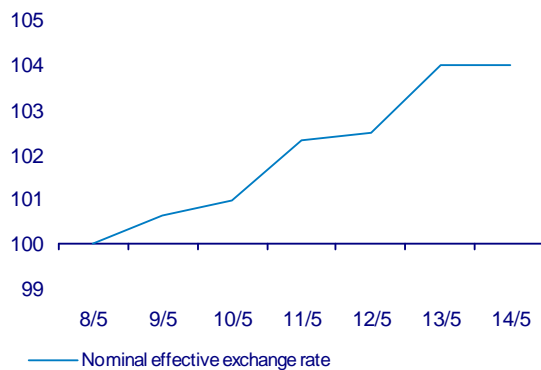
Moreover it is clearly concerned to preserve its inflation fighting credentials even if this should mean having to raise rates. This is so even when it is clear that the inflation it is attacking is not under its control and when higher interest rates might lead to slower

growth and a wider gap between actual and potential output and employment. The striking feature of inflation expectations in SA is just how stable they have been and how they remain above the inflation target band of 3% to 6%.

As we indicated in our first reactions to the MPC statement, the outlook for interest rates in SA will depend primarily (and unfortunately) on the rand price of oil and the continued upward direction of administered prices and not on the state of the economy that might be intolerant of higher interest rates. There should be a better way of running monetary policy in SA with more sensitivity to the state of the domestic economy and with the media and the financial markets well able to understand that a shock to the inflation rate does not imply permanently higher inflation. Keeping interest rates on hold in such circumstances when demand pressures are subdued does not mean being soft on inflation. This better way is indicated by the inflation targeting mandate itself, which does not demand adherence to inflation targets regardless of the causes of inflation and the consequences of higher interest rates for the economy, as is indicated explicitly and clearly in Paragraph 4 of the Mandate.

The rand has however weakened in recent days despite an earlier expected increase in interest rates. This again confirms that the influence of movements in interest rates on the value of the rand is not easily predicted. As we show below the rand lost about 4% of its trade weighted value last week.

The trade weighted value of the rand, 8 May to 14 May 2011



Source: Bloomberg, Investec Securities

Perhaps the market is being influenced to a degree by the unknown outcomes of the municipal elections in SA on Wednesday, which have become a test of the national government and its competence to govern. A small additional protest vote would probably be welcome as an incentive for the government to improve its delivery. An unexpectedly large vote for the opposition might be regarded as a serious longer term threat to the powers that be, and would perhaps have unpredictable outcomes for the ruling party, its leadership and its policies. As we know markets do not appreciate uncertainty. **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
Altech	20 May	23 May	27 May	30 May	Cash Dividend	R3.56
Fountainhead	20 May	23 May	27 May	30 May	Interest	R0.2771
JSE	20 May	23 May	27 May	30 May	Cash Dividend	R2.10
KayDav	20 May	23 May	27 May	30 May	Capital reduction	R0.055
PBT	20 May	23 May	27 May	30 May	Cash Dividend	R0.03
Redefine	20 May	23 May	27 May	30 May	Interest	R0.16
Redefine International	20 May	23 May	27 May	30 May	Interest	R0.221594
Spanjaard	20 May	23 May	27 May	30 May	Cash Dividend	R0.16
Barloworld Prefs	27 May	31 May	3 June	6 June	Cash Dividend	R0.06
Basil Read	27 May	31 May	3 June	6 June	Cash Dividend	R0.30
Capital Shopping	27 May	31 May	3 June	21 June	Cash Dividend	R1.15355
ELB	27 May	31 May	3 June	6 June	Cash Dividend	R0.15
ELB Prefs	27 May	31 May	3 June	6 June	Cash Dividend	R0.06
Life Healthcare	27 May	31 May	3 June	6 June	Cash Dividend	R0.11
Life Healthcare	27 May	31 May	3 June	6 June	Capital reduction	R0.20
Mvela Resources	27 May	31 May	3 June	6 June	Scheme of arrangement	9.5980 NHM per 100 MVL
CMH	3 June	6 June	10 June	13 June	Cash Dividend	R0.30
Pick n Pay	3 June	6 June	10 June	13 June	Cash Dividend	R1.055
Pikwik	3 June	6 June	10 June	13 June	Cash Dividend	R0.5134
Spar	3 June	6 June	10 June	13 June	Cash Dividend	R1.42
SBR002	3 June	6 June	10 June	15 June	Interest	R1.45
Freeworld	9 June	10 June	17 June	tbc	Minority offer	R12 per share tendered
JOZI03	9 June	10 June	17 June	21 June	Interest	R14.90
Brait NPLs	17 June	20 June	24 June	27 June	Rights take up	1 right converts to 1 BAT at R16.50
Capitec	17 June	20 June	24 June	27 June	Cash Dividend	R2.05
Altron	24 June	27 June	1 July	4 July	Cash Dividend	R1.08
Altron Prefs	24 June	27 June	1 July	4 July	Cash Dividend	R1.08
Clicks	24 June	27 June	1 July	4 July	Cash Dividend	R0.37
Oceana	24 June	27 June	1 July	4 July	Cash Dividend	R0.37
Value Group	24 June	27 June	1 July	4 July	Cash Dividend	R0.12
Datatec	1 July	4 July	7 July	11 July	Capital reduction	R0.88
SBR003	22 July	24 July	29 July	5 August	Interest	R1.49

Source: JSE

Company calendar – 16 May to 20 May

Tuesday 17 May	PPC interims Barloworld interims Reunert interims Coronation interims Mazor finals Resilient Property Income Fund AGM
Thursday 19 May	SABMiller finals Investec finals Gold Fields quarterlies Richemont finals
Friday 20 May	Tradehold finals

Source: I-Net, Company updates

Economic calendar – 16 May to 20 May

Date	International	South Africa
Monday 16 May	EMU – March Foreign trade [11h00] US – May Empire State survey [14h30] US – March Long term TIC flows [15h00] US – May NAHB survey [16h00]	
Tuesday 17 May	UK – April CPI [10h30] Germany – May ZEW Business survey [11h00] US – April Housing starts [14h30] US – April Industrial production [15h15]	April CPI [10h00]
Wednesday 18 May	UK – MPC minutes [10h30] UK – April Labour market report [10h30] US – FOMC minutes	Public holiday – municipal elections
Thursday 19 May	Japan – Q1 GDP first estimate Japan – March Industrial production final UK – April Retail sales [10h30] US – Initial jobless claims for previous week [14h30] US – April Existing home sales [16h00] US – April Leading indicators [16h00]	
Friday 20 May	Japan – MPC meeting and interest rate announcement Germany – April PPI [08h00] EMU – March BoP [10h00]	

Sources: Bloomberg, StatsSA

Key market indicators – Friday 13 May 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	31959.93	0.88%	-1.22%	-3.43%	-0.49%	13.42%
JSE Fini 15	8089.64	0.49%	-1.28%	-0.68%	-1.00%	1.01%
JSE Indi 25	27692.19	0.90%	3.59%	3.06%	3.36%	23.79%
JSE Mining	35927.87	1.13%	-5.25%	-11.03%	-3.41%	9.58%
JSE Resi 20	54697.23	1.19%	-5.35%	-10.55%	-2.85%	11.09%
S&P 500	1337.77	-0.81%	1.78%	0.41%	6.37%	14.18%
DJI	12595.75	-0.79%	2.65%	2.67%	8.79%	15.59%
NASDAQ	2828.47	-1.21%	2.42%	0.40%	6.62%	16.64%
Nikkei	9648.77	-0.70%	0.08%	-10.04%	-5.67%	-7.17%
Hang Seng	23276.27	0.88%	-3.56%	0.67%	1.05%	15.16%
FTSE 100	5925.87	-0.32%	-1.41%	-2.21%	-0.76%	10.08%
CAC 40	4018.85	-0.11%	0.32%	-1.90%	5.63%	7.63%
DAX	7403.31	-0.55%	3.14%	0.09%	7.07%	19.73%
ASX-ORD	4787.30	0.22%	-4.25%	-4.70%	-1.23%	4.08%
JSE All Share (in US\$)	4559.65	-0.89%	-4.20%	0.18%	-6.04%	20.49%
MS EM Index	1144.69	-0.25%	-3.43%	3.54%	-0.58%	18.25%
MS World Index	1343.17	-0.59%	0.33%	-0.12%	4.93%	15.92%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US \$	7.01	-1.75%	-3.01%	3.73%	-5.57%	6.23%
Rand/GB Pound	11.35	-1.24%	-2.68%	2.70%	-9.20%	-2.65%
Rand/Euro	9.82	-0.17%	-0.05%	-0.02%	-9.98%	-4.20%
Rand/Aus \$	7.36	-0.21%	-3.06%	-1.00%	-8.19%	-9.43%
Yen/ US \$	80.77	0.33%	3.73%	3.27%	0.42%	15.35%
Swiss Franc/US \$	0.89	-0.93%	0.40%	8.74%	4.69%	24.43%
US \$/Euro	1.41	0.84%	2.30%	-4.53%	-5.19%	-10.52%
US \$/GB Pound	1.62	0.55%	0.46%	-1.04%	-3.60%	-8.40%
US \$/Aus \$	1.06	0.84%	-0.72%	-5.23%	-3.26%	-15.36%
Nominal Effective Exchange Rate (2000 = 100)	75.11	-0.19%	2.42%	-1.81%	8.19%	0.24%

	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Commodities						
Gold \$/oz.	1494.7	-0.78%	2.54%	9.76%	5.16%	20.65%
Platinum/oz.	1765.5	-0.34%	-0.54%	-3.50%	-0.25%	1.88%
Brent Crude \$/bbl	113.8	0.19%	-5.83%	10.29%	20.11%	41.14%

Fixed income	Closing yield %
SA R157	7.72
US 2 YEAR	0.55
US 10 YEAR	3.19
UK 2 YEAR	0.67
UK 10 YEAR	3.38
EURO 2 YEAR	1.78
EURO 10 YEAR	3.09

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