

## Today's highlights

- The rand: No surprises
- Upcoming dividend dates and corporate actions
- Company calendar – 29 July to 5 August
- Economic calendar – 29 July to 5 August

### Talking point: Keeping the lid on second round effects

Despite producer inflation coming in higher than expected, other indicators released over the last two days reveal little reason for the Reserve Bank to think about increasing rates this year. PPI for June rose by 7.4%, well ahead of the 6.8% predicted by an I-Net poll of economists, due to a big month on month increase of 4.4%.

However private sector credit and employment numbers give a different story. Private sector credit extension grew by 5.25% in the 12 months to June, virtually unchanged from the rate of 5.22% in May, while money supply came in at 6% from a previous 6.2%. Meanwhile, second quarter unemployment rose to 25.7% from 25% in the first quarter. The still subdued picture on the credit and labour fronts should mitigate some of the second round effects on overall inflation that have been evident in recent months. Moreover, while the rand seems to benefit from fiscal turmoil in the US and Europe, it should also help keep the lid on inflation. The view that rate hikes are only likely in the New Year looks an increasingly sound one.

### Market highlights

Despite some good news on the economic front in the form of good housing and jobs data, US equities were lower again yesterday as the spectre of the failure of legislators to come up with an agreement on raising the debt ceiling hovered over markets.

The JSE finished lower yesterday, but was off its worst levels thanks to some good US data. Industrials eked out gains on the day but the other large indices were down.

Bonds were little changed while the rand was weaker yesterday, as it tracked the euro in the wake of new worries about ratings downgrades in the Eurozone.

Commodities were mostly firmer overnight in response to some good US economic data. Gold was a little lower after the record highs hit in previous sessions.

### Key indicators in a nutshell – Thursday 28 July 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year date to	1 Year
JSE All Share	31446.39	-0.47%	0.49%	-4.23%	-2.09%	10.49%
S&P 500	1300.67	-0.32%	0.31%	-4.62%	3.42%	16.77%
Nikkei	9901.35	-1.45%	2.62%	0.52%	-3.20%	4.26%
Rand/US \$	6.73	-0.79%	1.76%	-2.58%	-1.64%	8.64%
Rand/GB Pound	11.00	-1.11%	-0.52%	-0.40%	-6.32%	3.67%
US\$/Euro	1.43	0.26%	0.13%	3.29%	-6.63%	-9.40%
Gold \$/oz.	1617.03	0.19%	7.65%	3.29%	13.76%	39.10%

### Company results and updates

Anglo American reported underlying EPS of US\$2.58 for the six months to June, an increase of 40%. An interim dividend of 28 US cents a share was declared, an increase of 12%.

Coal of Africa increased its sales of export coal by 148% to 492 781t in the June quarter, compared with the March quarter.

Sasol expects to report an increase in HEPS for the year to June of between 22% and 32%. Results are due out on 12 September.

Oando reported a decline in HEPS for the six months to June, to 1.93 US cents from 2.25 US cents previously.

Optimum Coal produced 17.1m tones of run of mine coal for the year to June, an increase of 21%.

SABVest reported HEPS for the six months to June of 40.7c, down from a previous 42.7c. An unchanged interim dividend of 4cps was declared.

Mercantile reported unchanged HEPS for the six months to June of 1.4c.

Calgro M3 expects to report an increase in HEPS for the six months to August of more than 250%. Calgro M3 will provide an update on its earnings expectations closer to the release of the interims.

Investec recorded an improvement in operating profit for the June quarter, with a reduction in the credit loss charge to 0.82% of gross loans and advances, from 1.27% at 31 March 2011. The capital adequacy ratio of Investec plc was 16.8% at 30 June, or 15.8% using SA Reserve Bank rules.

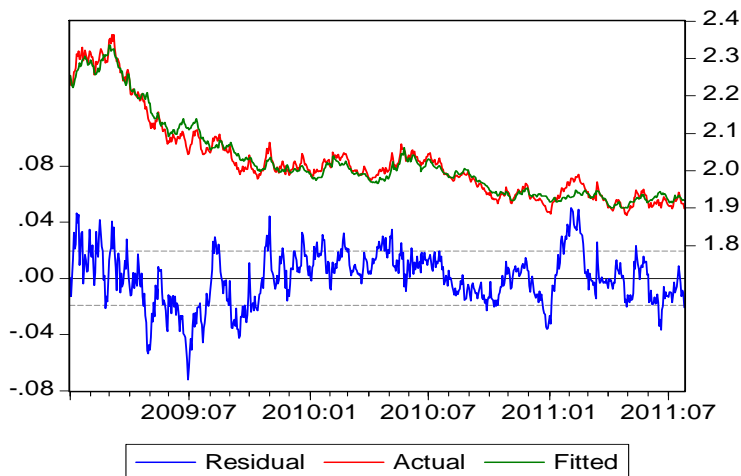
## Daily ideas

### The rand: No surprises

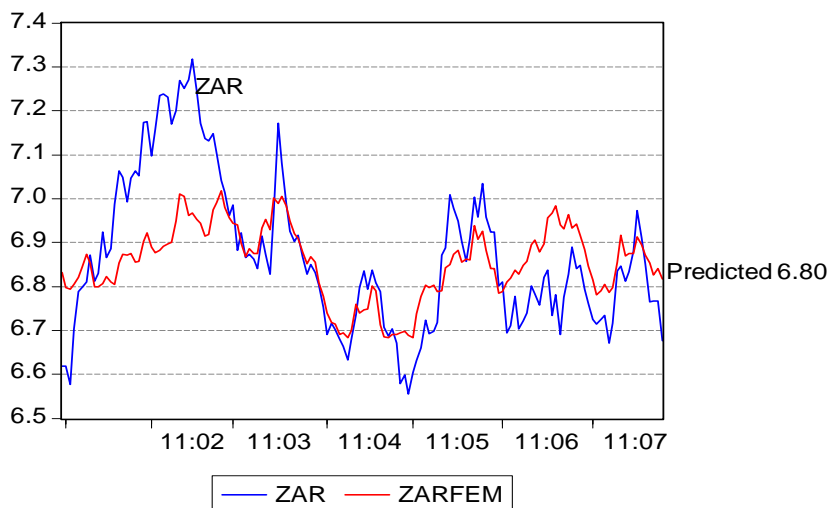
The recent strength of the rand should not have come as a surprise. The rand has continued to follow very closely the day to day the direction provided by emerging equity and bond markets.

A simple regression equation linking emerging equity markets (represented by the benchmark MSCI EM Index) to the rand explains over 95% of the daily value of the rand as we show below. This model predicted a value of R6.80 on Wednesday 27 July, slightly weaker than the R6.70 at which the rand traded that day.

### The model of the rand (log value), explained by the MSCI EM Index (log value)



Source: I-Net Bridge and Investec Wealth and Investment

**Actual and predicted value of the rand by the EM model**

Source: I-Net Bridge and Investec Wealth and Investment

This relationship seems obvious and persistent enough and very likely to continue: where emerging market (EM) equity markets go and where global growth and risk appetite take them, the rand will follow.

The explanation for the strength of the relationship is perhaps less than obvious. That the JSE All Share Index, especially when converted to US dollar, also follows the EM Index very closely, is part of the explanation. This connection that makes the JSE so highly representative of the average EM is by no means accidental. As we have pointed out, JSE earnings in US dollars follows average EM Index earnings as closely as does the Index. This is because the major companies listed on the JSE have a global and emerging market economy reach, rather than being dependent on the SA economy. And so capital tends to flow into and out of the JSE and the SA bond market, depending on the simultaneous direction being taken by the EM equity and bond markets generally.

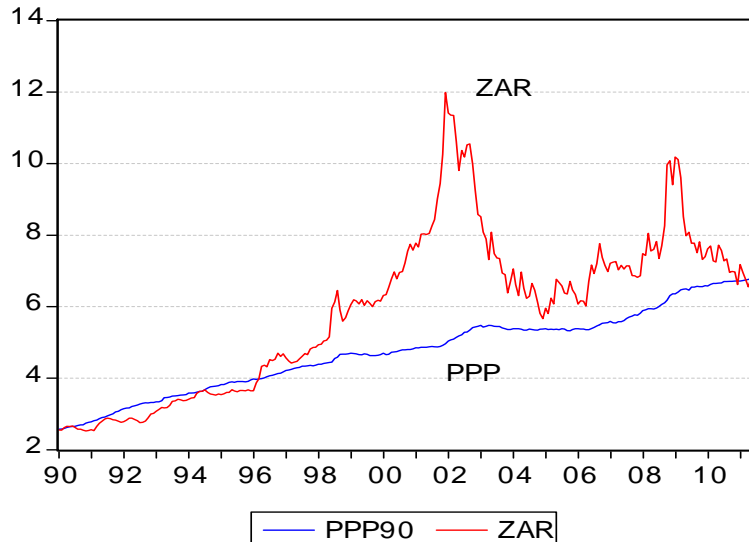
It should moreover be recognised that the market in rands is a large, active and liquid global market. Each day up to US\$20bn worth of rands is now being traded according the SA Reserve Bank. Much of this trade is conducted between third parties not directly engaged in SA trade or finance; they are presumably trading the rand because they can easily do so and are doing so because presumably the buying and selling of rands enables traders and investors to hedge exposure to Emerging Markets and their currencies that cannot be traded as easily.

This makes the rand much more of an emerging equity market currency and much less influenced by the direction of SA foreign trade and the implications that inflation differences, or purchasing power parity (PPP), can have for this trade. Exports are encouraged when the rand is undervalued – that is exchanged for the US dollar at a lower rate than its PPP equivalent; while imports are encouraged when the US dollar is cheaper and can be bought for less than its PPP equivalent value.

**It all depends on where you start**

The history of the rand relative to its PPP value, that is, its value explained by the difference between higher SA inflation and lower US inflation alone is shown below. In the decade of the 1990s the rand stayed close to PPP until 1995. Thereafter it depreciated at a much faster rate than PPP until the rand blew out in 2001. By then the rand was substantially undervalued relative to PPP. However by 2011, the rand was back to its 1990 PPP equivalent.

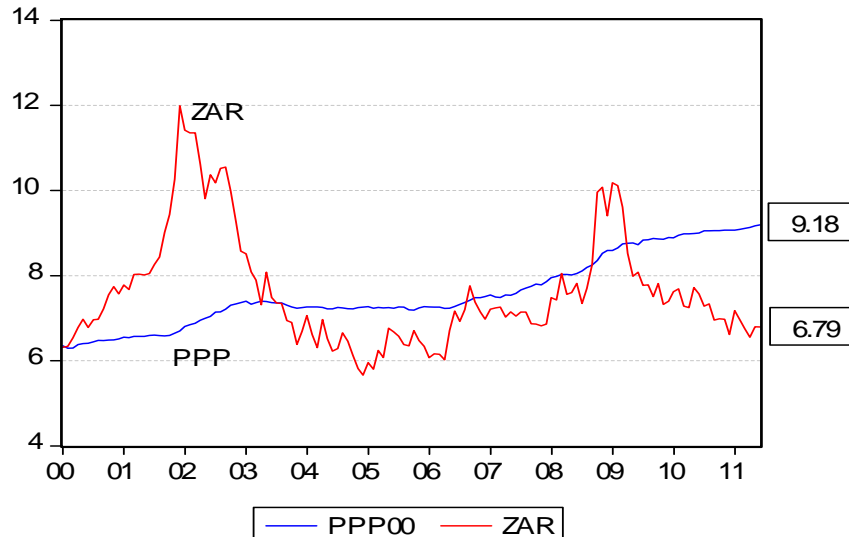
### The rand/US dollar VS Purchasing Power Parity 1990-2011



Source: I-Net Bridge and Investec Wealth and Investment

Thus if we begin the calculation of PPP in 2000 and carry it forward until now, the picture becomes very different. By 2011 the rand, compared with its PPP value, is substantially overvalued compared to its undervalued position in 2000 and 2001. The PPP value for the rand today (with January 2000 taken as the starting point) would be about R9 to the US dollar. But the strength of the rand over the last decade was due to the recoveries from two major shocks: the 2001 shock was almost completely domestic in origin – it was linked to the initiation of the asset swap facility. The shock in 2008 and the recovery thereafter represent the impact almost entirely of global forces (that is the impact of the global financial crisis on all emerging market currencies) including the rand and the subsequent recovery from this crisis.

### The rand/US dollar vs Purchasing Power Parity 2000 - 2011



Source: I-Net Bridge and Investec Wealth and Investment

As indicated, the rand cannot be well explained by PPP. Capital flows explain these differences from PPP and will continue to do so whatever the SA Reserve Bank might hope or try to do about this by interventions in the currency market. The market is just too big for the Bank to hope to muscle in one or other preferred direction.

These flows and their influence on the rand were severely restricted by exchange controls before 1995. Capital flows were captured within the financial rand pool and the financial rand exchange rate insulated the (commercial) rand. These controls were lifted for foreign investors in 1995 and gradually for SA investors ever since. The relief of the exchange control log jam

after 1995 and panic demand for asset swaps by individuals in 2001 explains most of the persistent weakness of the rand between 1995 and 2001 (just as the global financial crisis explained the weakness and recovery in 2008-2010). By 2002 global forces had taken over the exchange value of the ZAR.

It should be appreciated that with the almost complete lifting of exchange controls and the trading appetite for rands abroad, the rand is no longer a one way bet. It is much more a bet on emerging markets. Those who like to believe that rand weakness (given higher SA inflation) is a fact of economic life should think again. And they should also appreciate that a stable rand helps to reduce inflation pressures in SA. **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
Avusa	22 July	25 July	29 July	1 August	Cash Dividend	R0.85
Investec Ltd	22 July	25 July	29 July	8 August	Cash Dividend	R1.02
Investec plc	22 July	25 July	29 July	8 August	Cash Dividend	R1.02
Mix Telematics	22 July	25 July	29 July	1 August	Cash Dividend	R0.06
Nampak 6.5% Cum Pref	22 July	25 July	29 July	1 August	Cash Dividend	R0.065
Nampak 6% Cum Pref	22 July	25 July	29 July	1 August	Cash Dividend	R0.06
RGT Smart	22 July	25 July	29 July	1 August	Minority Offer	R0.10
Reunert 5.5% Cum Prefs	22 July	25 July	29 July	1 August	Cash Dividend	R0.055
SBR003	22 July	25 July	29 July	5 August	Interest	R1.49
MAS plc	29 July	1 August	5 August	12 August	Cash Dividend	EUR0.0214
Mondi	29 July	1 August	5 August	12 August	Consolidation	0.8054 new Mondl per 1 MND held
Pinnacle Point	29 July	1 August	5 August	8 August	Rights issue	18.54197 PNGN per 100 PNG
SABMiller	29 July	1 August	5 August	12 August	Cash Dividend	USD0.615
Foord Compass CD	4 August	5 August	12 August	15 August	Scrip Dividend	R0.13 per debenture or 4.013 FSPD per 100
Zurich SA	4 August	5 August	12 August	15 August	Cash Dividend	R1.00
Anglo Platinum	12 August	15 August	19 August	22 August	Cash Dividend	R5.00
BAT	12 August	15 August	19 August	28 August	Cash Dividend	R4.197477
Hudaco	12 August	15 August	19 August	22 August	Cash Dividend	R1.30
Kumba Iron Ore	12 August	15 August	19 August	22 August	Cash Dividend	R21.70
SBR002	2 September	5 September	9 September	15 September	Interest	R1.45
Argent	2 September	5 September	9 September	12 September	Cash Dividend	R0.03
Richemont	9 September	12 September	16 September	23 September	Cash Dividend	CHF0.02925 less Swiss withholding tax
JOZI03	9 September	12 September	16 September	21 September	Interest	R15.06
Naspers	16 September	19 September	23 September	26 September	Cash Dividend	R2.70
Foschini Prefs	16 September	19 September	23 September	26 September	Cash Dividend	R0.065
Afrox	14 October	17 October	21 October	24 October	Cash Dividend	R0.22

Source: JSE

## Company calendar – 29 July to 5 August

<b>Friday 29 July</b>	DRDGold AGM Tongaat Hulett AGM
<b>Monday 1 August</b>	Nedbank interims
<b>Tuesday 2 August</b>	Capital Shopping Centres interims Merafe interims
<b>Wednesday 3 August</b>	Capital & Counties interims
<b>Thursday 4 August</b>	Liberty Holdings interims African Bank quarterly update RandGold Resources quarterlies Sappi quarterlies AngloGold Ashanti quarterlies Vodacom AGM Investec AGM

Source: I-Net, Company updates

## Economic calendar – 29 July to 5 August

Date	International	South Africa
<b>Friday 29 July</b>	<b>UK</b> – June M4 lending [10h30] <b>US</b> – Q2 Real GDP advance [14h30] <b>US</b> – July Chicago PMI [15h45] <b>US</b> – July Consumer sentiment [15h55]	June National exchequer [14h00] June Trade balance [14h00]
<b>Monday 1 August</b>	<b>Germany</b> – July PMI manufacturing [09h55] <b>EMU</b> – July PMI manufacturing [10h00] <b>EMU</b> – July Unemployment [11h00] <b>UK</b> – July PMI manufacturing [10h30] <b>US</b> – July ISM manufacturing [16h00]	July Kagiso PMI [11h00]
<b>Tuesday 2 August</b>	<b>EMU</b> – June PPI [11h00] <b>US</b> – June Personal income [14h30]	
<b>Wednesday 3 August</b>	<b>Japan</b> – July PMI services and composite <b>Germany</b> – July PMI services and composite [09h55] <b>EMU</b> – July PMI services and composite [10h00] <b>EMU</b> – June Retail sales [11h00] <b>UK</b> – July PMI services [10h30] <b>US</b> – July ADP Unemployment [14h15] <b>US</b> – July ISM nonmanufacturing [16h00] <b>US</b> – June Factory orders [16h00]	
<b>Thursday 4 August</b>	<b>UK</b> – BoE MPC meeting [13h00] <b>EMU</b> – ECB rates announcement [13h45] <b>US</b> – Initial jobless claims for previous week [14h30]	
<b>Friday 5 August</b>	<b>Japan</b> – BoJ MPC meeting and rate decision <b>UK</b> – July Industrial production [10h30] <b>UK</b> – July PPI [10h30] <b>Germany</b> – June Industrial production [12h00] <b>US</b> – July Nonfarm payrolls [14h30] <b>US</b> – June Consumer credit [21h00]	

Sources: Bloomberg, StatsSA, SA Reserve Bank, SA Revenue Service, National Treasury

## Key market indicators – Thursday 28 July 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	31446.39	-0.47%	0.49%	-4.23%	-2.09%	10.49%
JSE Fini 15	7964.29	-0.60%	-0.55%	-4.53%	-2.53%	-2.27%
JSE Indi 25	27799.46	0.25%	1.96%	-0.33%	3.76%	19.76%
JSE Mining	34362.84	-1.04%	-0.70%	-8.50%	-7.62%	7.22%
JSE Resi 20	52235.72	-1.10%	-0.94%	-8.73%	-7.22%	7.86%
S&P 500	1300.67	-0.32%	0.31%	-4.62%	3.42%	16.77%
DJI	12240.11	-0.51%	0.42%	-4.45%	5.72%	16.16%
NASDAQ	2766.25	0.05%	1.35%	-3.73%	4.27%	20.89%
Nikkei	9901.35	-1.45%	2.62%	0.52%	-3.20%	4.26%
Hang Seng	22570.74	0.13%	2.31%	-4.85%	-2.02%	7.18%
FTSE 100	5873.21	0.28%	1.84%	-3.24%	-1.64%	9.46%
CAC 40	3712.66	-0.57%	-3.61%	-9.60%	-2.42%	1.26%
DAX	7190.06	-0.86%	0.27%	-4.32%	3.99%	15.83%
ASX-ORD	4539.20	-1.59%	0.35%	-7.34%	-6.35%	0.31%
JSE All Share (in US\$)	4672.99	-1.25%	2.26%	-6.70%	-3.70%	20.04%
MS EM Index	1145.40	-0.31%	2.16%	-4.87%	-0.52%	15.58%
MS World Index	1312.63	-0.48%	1.25%	-5.47%	2.54%	16.07%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US \$	6.73	-0.79%	1.76%	-2.58%	-1.64%	8.64%
Rand/GB Pound	11.00	-1.11%	-0.52%	-0.40%	-6.32%	3.67%
Rand/Euro	9.65	-0.68%	1.87%	0.67%	-8.36%	-1.45%
Rand/Aus \$	7.40	-0.55%	-2.48%	-2.36%	-8.67%	-11.44%
Yen/ US \$	77.73	0.26%	4.31%	4.45%	4.35%	12.96%
Swiss Franc/US \$	0.80	0.01%	3.92%	7.95%	16.61%	32.42%
US \$/Euro	1.43	0.26%	0.13%	3.29%	-6.63%	-9.40%
US \$/GB Pound	1.64	-0.25%	-2.33%	2.08%	-4.62%	-4.78%
US \$/Aus \$	1.10	0.31%	-4.20%	-0.60%	-7.02%	-18.10%
Nominal Effective Exchange Rate (2000 = 100)	77.10	-0.39%	-2.33%	-0.26%	5.40%	-2.04%

	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
<b>Commodities</b>						
Gold \$/oz.	1617.03	0.19%	7.65%	3.29%	13.76%	39.10%
Platinum/oz.	1790	-0.36%	5.85%	-4.53%	1.13%	16.92%
Brent Crude \$/bbl	117.18	-0.31%	8.46%	-7.18%	23.67%	52.66%

Fixed income	Closing yield %
SA R157	7.36
US 2 YEAR	0.43
US 10 YEAR	2.96
UK 2 YEAR	0.52
UK 10 YEAR	2.98
EURO 2 YEAR	1.26
EURO 10 YEAR	2.65

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