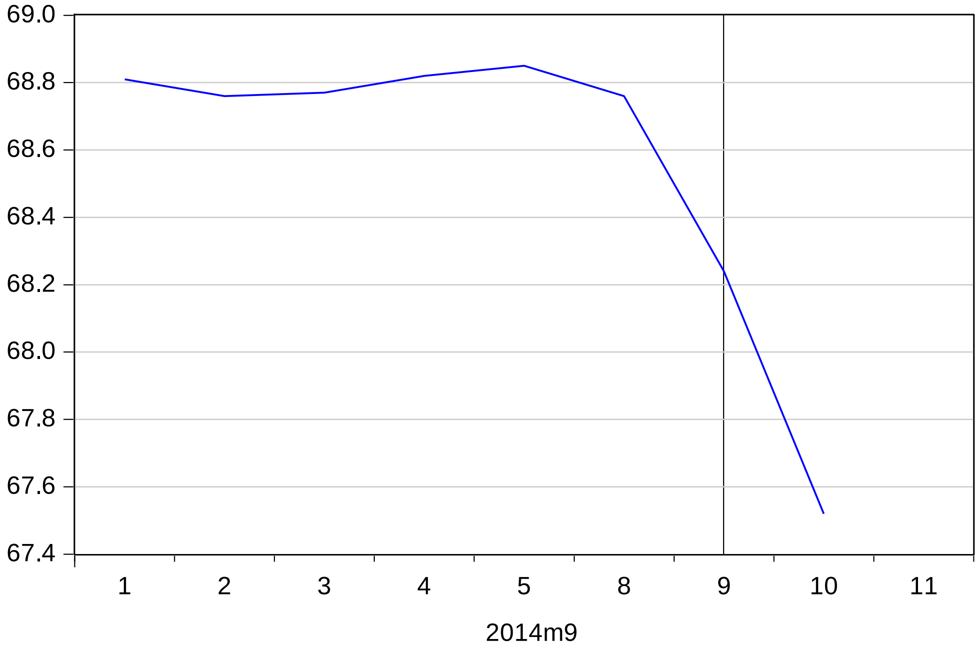
**Rand weakness is a global not a SA event**

The SA Reserve Bank on Tuesday morning announced a large current account deficit (some 6% of GDP in Q2 2014 and the rand weakened. On a trade weighted basis it declined from 68.8 on Monday morning the 8th September to 67.52 on Thursday evening, a decline of 1.9% (see below)

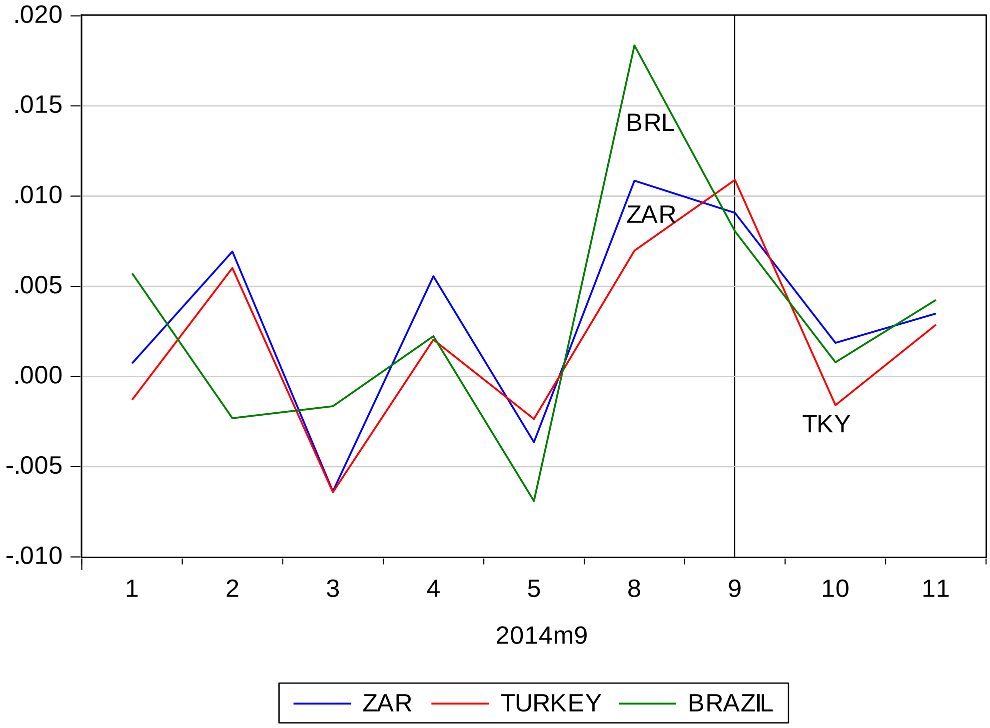
Rand- Trade Weighted Exchange rate Daily Data Sept 1st- 11th




Source; I-net Bridge Investec Wealth and Investment

The explanation of rand weakness seemed obvious enough. Bigger current account deficit- more dependence on foreign capital=a weaker rand. But appearances can be very deceptive. On the same day the rand weakened against the USD so did the Turkish Lire, the Brazilian Real, the Mexican Peso and the Indian Rupee. ( See Below) The rand weakness was an Emerging Market Event rather than South African specific. The 6% of GDP current account deficit itself was also not a surprise- weakness was expected given the disruption in Q2 to mining and manufacturing exports.

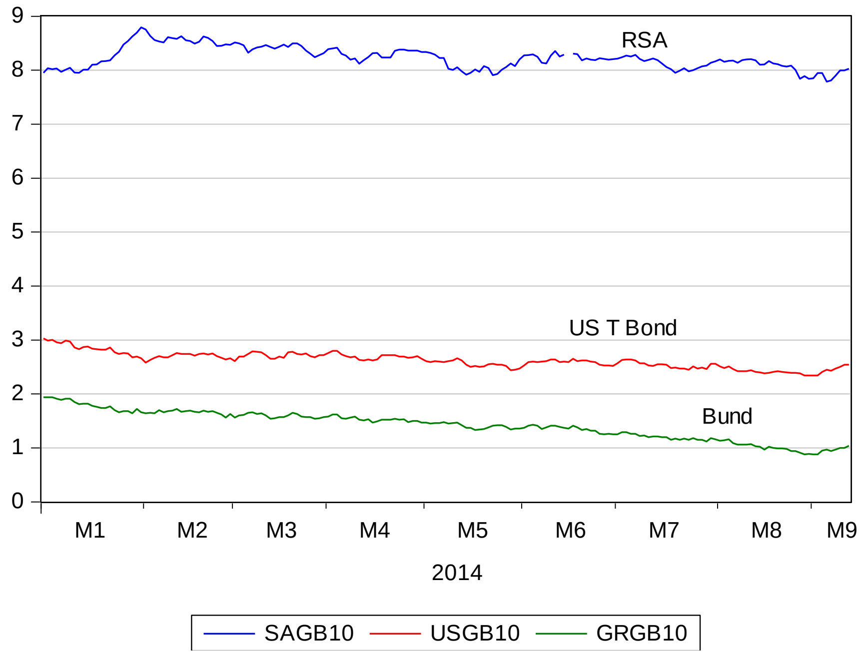
Daily % moves in USD exchange rates 1st-11th September 2014



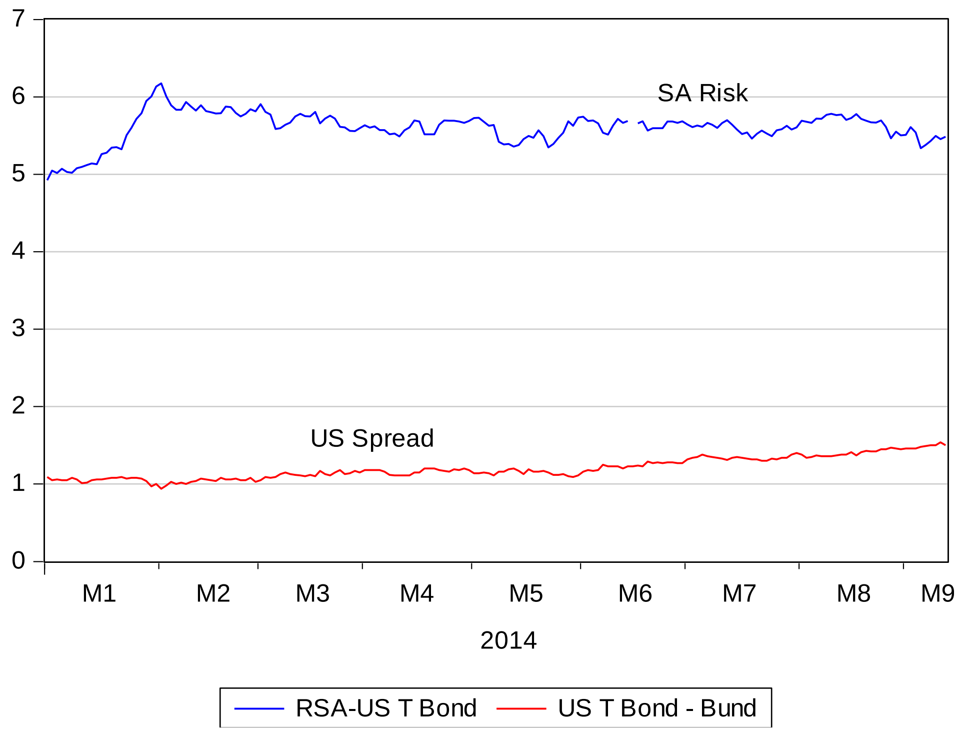

Source; I-net Bridge Investec Wealth and Investment

The force driving EM markets and currencies lower was probably the reversal of recent trends in the bond markets. Rates - led by the German Bunds - had fallen significantly. This week they moved aggressively higher pushing US yields and the spread in favour of the US higher. The spread between RSA and US yields were largely unaffected- indicating that no more SA risk or rand weakness was priced into markets. (See below) The spread between higher US rates and lower bund rates (until this week) has widened this year while the US-RSA spread is somewhat lower than it was in January 2014. (See below)

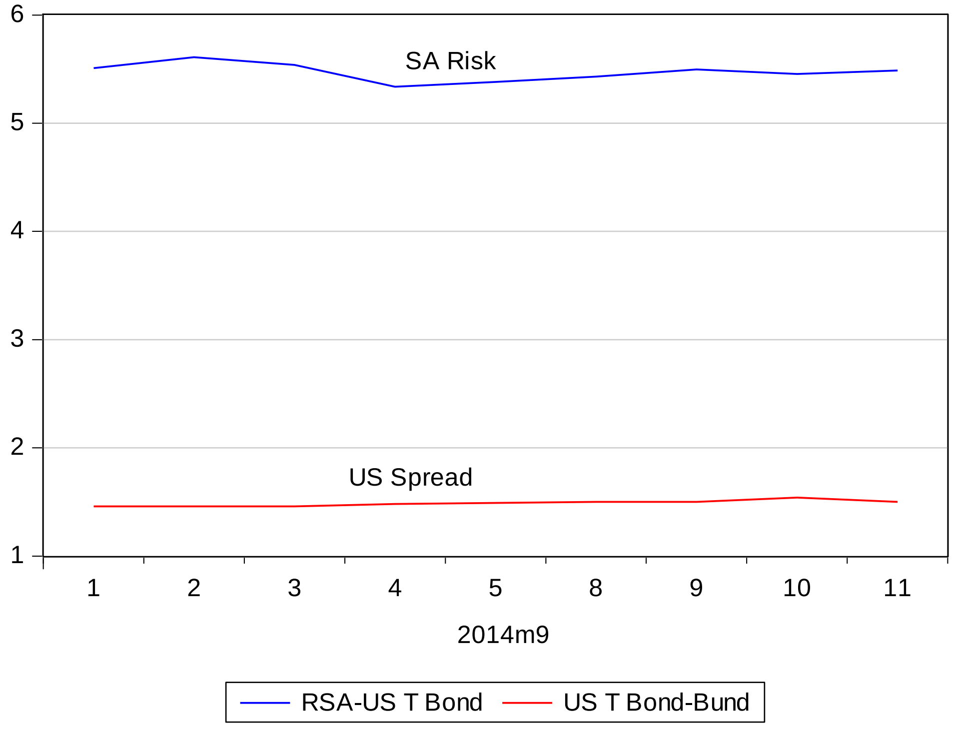
Long dated (10 year) Bond Yields




Source; I-net Bridge Investec Wealth and Investment




Source; I-net Bridge Investec Wealth and Investment




Source; I-net Bridge Investec Wealth and Investment