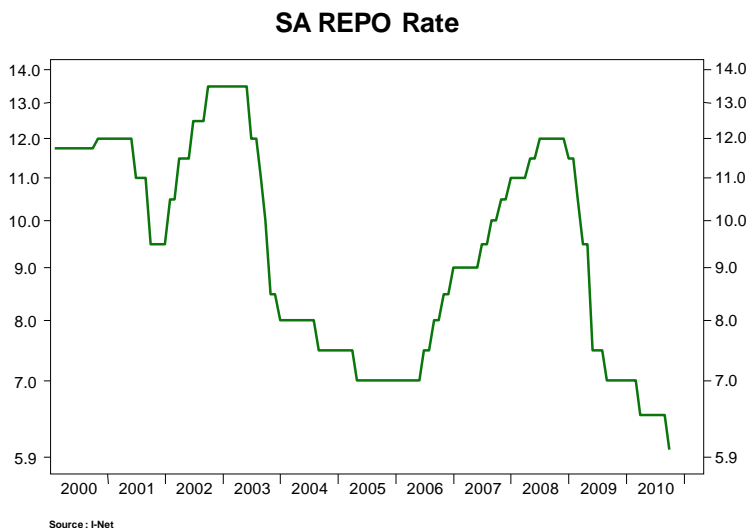


OMIGSA Comment – Rian Le Roux, Chief Economist: Economic Research

Rate cut was expectedand rates will remain low for an extended period



Yesterday's 50-basis point (bp) interest rate cut announced by the South African Reserve Bank (SARB) had been widely expected by the market, including ourselves, and was fully factored into prices well ahead of time. The reduction – which takes the repo rate to 6.0% and the prime interest rate to 9.5% - was made possible by a combination of factors, including the continued sharp decline in inflation in recent months, the resilience of the rand and slow economic recovery.



With inflationary pressures largely benign around the world, SA's consumer inflation again surprised sharply to the downside in July, falling to 3.7% y/y, the lowest reading since April 2006 and also down from the 4.6% at the time of the last MPC meeting. At the same time, the rand has remained very strong against key currencies, as our relatively high interest rates, falling inflation and low government debt levels have continued to attract foreign buyers to SA government bonds.

Looking further out, we expect local rates to remain low for an extended period and we are not expecting any further decline in rates from current levels. However, we also do not expect rates to start rising any time soon, provided global interest rates remain low, as we expect, the rand does not weaken sharply and the inflation outlook remains benign. Should this environment remain in place, we do not expect rates to start rising again before deep in 2011, and then only if macro-economic conditions, including the inflation outlook, warrant it.

03 - 09 Sept 2010 in a nutshell

Global: Global equities edged up for a second week in a row this week, on better-than-expected data from the US. The S&P 500 in the US collected 1.28%, while its European counterpart gained 2.47% and emerging market shares rose 1.41%.

South Africa: The interest cut by the SARB, which was largely expected, failed to cheer-up local investors, with the FTSE/JSE All Share Index up only 0.52% this week. The biggest losers were industrials, falling 1.15%.

Markets and Economics - Highlights

Global

- The US trade deficit narrowed more than expected in July, as imports retreated and exports shot to their highest since August 2008, according to a government report that could lift hope for third-quarter growth. The monthly trade deficit shrank 14% to \$42.8bn, which was smaller than the mid-point forecast of \$47.3bn from a survey of economists.
- The Bank of England kept interest rates at 0.5% for the 18th month in a row and announced no new quantitative easing purchases, in a widely expected decision yesterday. British inflation was 3.1% in July, well above the central bank's 2% target.

- China's property prices rose 9.3% in August from a year earlier, signaling officials may extend a crackdown on speculators and multiple home purchases. Average prices in 70 major cities were unchanged from a month earlier, reported the statistics bureau's newspaper.

South Africa

- The South African Reserve Bank's monetary policy committee cut the key repo rate by half a percentage point yesterday. This decision was expected as most economists have argued for a rate cut to boost the economy in the wake of a favourable inflation outlook, as well as slower gross domestic product growth figures and factory data.
- Factory output growth slowed to 7.5% in July, less steeply than expected, from an upwardly revised 9.3% in June. Consensus forecasts were for a rise of 6% from a year earlier. Growth was driven mainly by production of petroleum, chemicals, rubber and plastic as well as the vehicle industry and wood, paper and printing.
- The South African Chamber of Commerce and Industry says its business confidence indicator jumped by 3.3 points to 87.6 last month – its highest reading since September 2008.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 09.09.2010	% Performance Return
United States	S & P 500 (US\$)	1.28%	1,104	-1.00%
Europe	Euro Stoxx 50 (Euro)	2.47%	2,782	-6.21%
Emerging Mkts	MSCI Emerg Mkts (US\$)	1.41%	1,009	1.97%
South Africa	FTSE/JSE All Share (ZAR)	0.52%	27,985	1.15%
Global	MSCI (US\$)	1.70%	1,138	-2.57%
ZAR/Dollar	Rand/US \$ (ZAR)	-0.41%	7.20	-2.57%
ZAR/Pound	Rand/£ (ZAR)	0.00%	11.12	-2.57%
ZAR/Euro	Rand/Euro (ZAR)	-1.19%	9.15	-6.24%
JSE	Industrials	-1.15%	25,928	2.71%
JSE	Financials	-0.62%	20,650	6.85%
JSE	Resources 20	0.96%	46,853	-8.28%
JSE	Small Companies	0.31%	28,997	3.98%
JSE	Listed Property	0.00%	370	14.55%
JSE	RAFI® ALSI	0.24%	5,864	1.95%
JSE	RAFI® 40	0.36%	5,626	0.61%
JSE	SWIX	0.25%	5,930	3.40%

 Editor: kbuthelezi@omigsa.com

OMIGSA: Tel. 021 509 7622

www.omigsa.com

The information in this document is obtained from OMIGSA, Morningstar and Reuters as at 09 Sept 2010. While every effort has been made to ensure the accuracy of information contained on this document, the Old Mutual, the Old Mutual Investment Group, its associated companies, its Directors or employees provide no representation or warranty, express or implied, regarding the accuracy, completeness or correctness of information contained in this website. Any opinion expressed is intended for general information, and is subject to change at any time without notice. Old Mutual Investment Group (South Africa) (Pty) Limited is a licensed financial services provider, FSP 604, approved by the Registrar of Financial Services Providers (www.fsb.co.za) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. Old Mutual Investment Group is a member of Old Mutual South Africa Limited. Reg No 1993/003023/07.