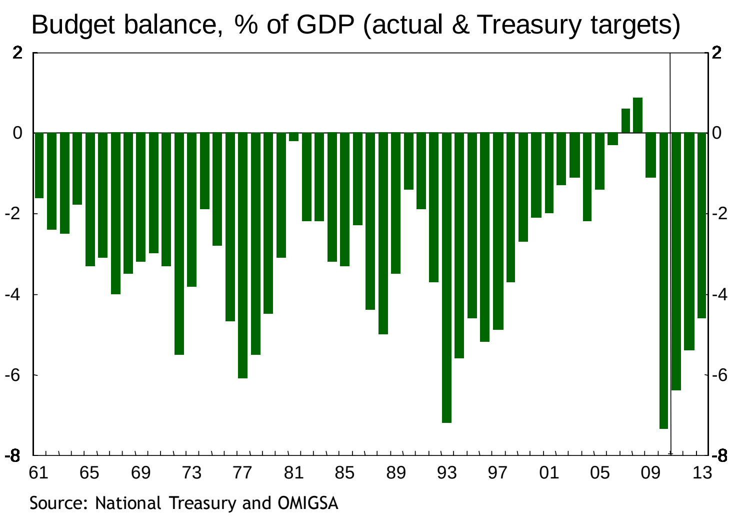
**OMIGSA Comment – Rian Le Roux, Chief Economist: Economic Research**

**Conservative budget – a welcome surprise!**

From what could have been a budget potentially filled with shocks, the conservatism of the 2010-11 Budget and plans for the years beyond are welcome. The firm commitment to lower the budget deficit over the next few years and a clear indication that the broad thrust of economic policy of the past number of years is to be continued were particularly important messages.




On broader policy, the decision to retain the inflation targeting policy framework for the Reserve Bank and the rejection of the suggestion that the rand should be pegged sent a strong message that the market-based policy approach of recent years will not be abandoned.

In rejecting the idea of a pegged exchange rate the Minister emphasised the need for improved competitiveness, smaller budget deficits, lower wage inflation and lower inflation as key underpins to ensuring a competitive currency. This is to be welcomed.

In addition, the R6.5bn in individual tax cuts was near what I had expected. The increases announced in excise duties, the fuel levy, green taxes and other taxes were basically in line with previous years and as-expected. Fortunately there were no major tax shocks.

So one could say this budget, although it had the potential to cause some big negative shocks, really contained no negative surprises and was mostly well received. However, it is now important that government holds to its spending and deficit plans in the months to come. Failing to do so will almost certainly elicit very negative investor reactions.

## 12 – 18 Feb 2010 in a nutshell

**Global:** Appetite for riskier assets returned to most global bourses this week, powering them upwards on the back of robust corporate earnings and stronger commodity prices. The S&P in the US shot up 2.69%, while its European counterpart rallied 3.66% and emerging market stocks were 2.28% higher.

**South Africa:** The resources-heavy local bourse cheered the rebound of global demand for commodities, with the FTSE/All Share Index climbing 3.53%. As expected, resources were winners of the week, surging 4.96%.

## Markets and Economics - Highlights

**Global**

- US housing starts rebounded more strongly than expected to their highest level in six months last month, while permits fell slightly less than forecast, a government report showed.
- Britain just crawled out of recession in the fourth quarter, with a preliminary estimate that gross domestic product (GDP) rose by 0.1%. Fears persist that the economy, propped up by massive government intervention, could fall back into recession later in the year.
- China's ownership of US government debt had its biggest fall since 2000 in December, allowing Japan to regain the position as the largest foreign holder of Treasury securities, official

data showed.

**South Africa**

- The rand rose significantly on Wednesday after the government announced in its Budget a smaller-than-expected deficit and raised its economic growth forecast for this year.
- The government's 2009/10 budget deficit – the shortfall between revenue and spending – was 7.3% of gross domestic product (GDP), said Pravin Gordhan in his budget speech on Wednesday.
- Retail trade sales fell by 3.7% y/y in December last year, a smaller contraction than in previous months, but economists have warned that a recovery would be slower than expected due to the impact of job losses.

Key Indicators:

| Market | Index | Movement for the period | | Year to Date |
|---|---|---|---|---|
| | | % | Index Value @ 18.02.2010 | % Performance Return |
| United States | S & P 500 (US$) | 2.69% | 1,107 | -3.33% |
| Europe | Euro Stoxx 50 (Euro) | 3.66% | 2,778 | -6.35% |
| Emerging Mkts | MSCI Emerg Mkts (US$) | 2.28% | 943 | -4.70% |
| South Africa | FTSE/JSE All Share (ZAR) | 3.53% | 27,281 | -1.39% |
| Global | MSCI (US$) | 2.80% | 1,139 | -2.48% |
| ZAR/Dollar | Rand/US $ (ZAR) | 0.39% | 7.66 | 3.65% |
| ZAR/Pound | Rand/£ (ZAR) | -1.17% | 11.83 | -0.25% |
| ZAR/Euro | Rand/Euro (ZAR) | -1.05% | 10.33 | -1.25% |
| JSE | Industrials | 1.99% | 25,209 | -0.14% |
| JSE | Financials | 3.59% | 19,765 | 2.27% |
| JSE | Resources 20 | 4.96% | 49,320 | -3.45% |
| JSE | Small Companies | 1.02% | 27,934 | 0.17% |
| JSE | Listed Property | 1.24% | 327 | 1.24% |
| JSE | RAFI® ALSI | 4.00% | 5,695 | -0.99% |
| JSE | RAFI® 40 | 4.06% | 5,540 | -0.93% |
| JSE | SWIX | 2.88% | 5,685 | -0.87% |

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