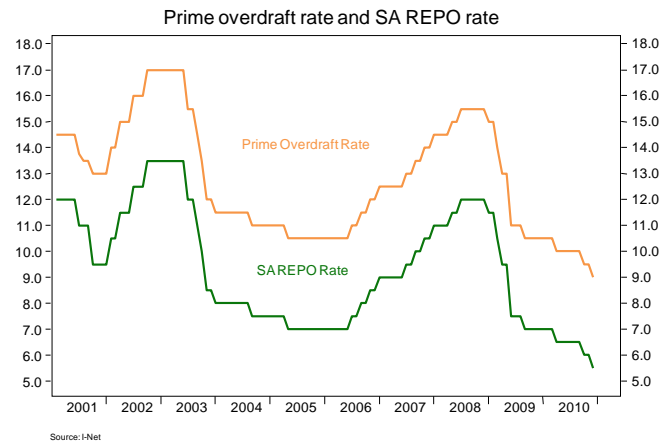


OMIGSA Comment – Rian le Roux, Chief Economist: Economic Research

Rate cut was expectedand likely the last one in this cycle



The 50-basis-point (bp) interest rate cut announced by the South African Reserve Bank (SARB) on Thursday had been increasingly expected by the market, including ourselves, and was factored into prices well ahead of time.



The reduction - which takes the repo rate to 5.5% and the prime interest rate to 9.0% (the lowest rate since 1974) - was made possible by a combination of factors, including the continued surprising decline in inflation in recent months, the strong rand and slow economic recovery. With inflationary pressures largely benign around the world and the rand still very strong, SA's consumer inflation has surprised sharply to the downside, falling to 3.2% y/y in September, the lowest level since early 2005. Low food inflation and the still-strong rand continue to depress inflation in trade-able goods such as footwear, clothing, furniture, appliances and vehicles.

We believe this will likely be the last cut in this cycle. With the economy in recovery (especially consumer spending), credit demand rising (albeit still moderately), wage settlements still high and some administered prices still rising well ahead of average inflation, we believe the SARB will be cautious about cutting rates too deeply - in order to prevent being forced to hike rates again relatively soon. This is a preferable outcome - stable rates for an extended period, fostering economic growth, but also sending a message that the SARB is serious about getting inflation expectations under control.

12 - 18 Nov 2010 in a nutshell

Global: It was a 'choppy' ride for global equities this week, on lingering questions about debt problems in Europe, US quantitative measures and China's monetary tightening. The S&P 500 in the US shed 1.40%, while its European counterpart gained 0.85% and emerging markets shares gave up 2.37%.

South Africa: The local bourse was unmoved this week, with the FTSE/All Share Index delivering a lacklustre 0.04%. The biggest losers were resources, losing 2.09% on weaker commodities prices.

Markets and Economics - Highlights

Global

- Economic growth in the US will expand 2.7% this year, instead of the 3.2% previously predicted. Growth will decelerate further in 2011, when gross domestic product (GDP) will increase just 2.2%, and pick up again with a 3.1% gain in 2012, according to the OECD (Organisation for Economic Cooperation and Development).
- The 16-nation euro-zone economy will grow 1.7% both this year and next, as governments tighten strained budgets and peripheral members including Greece and Ireland battle crippling debt burdens, the OECD estimated.
- China would intervene to control consumer prices if they rose too quickly, a move that will do little by itself to tame inflation, but could culminate in harsher monetary tightening.

South Africa

- The South African Reserve Bank cut interest rates by half a percentage point, as predicted by OMIGSA economists, saying the step was warranted by a benign inflation outlook, sustained strength in the rand and a fragile economy.
- Retail sales surprised on the upside, rising 6.1% year on year in September, compared with the 4.6% in August, said Stats SA. The gain was largely driven by sales in imported goods as the rand's strength drove prices down.
- Growth in the residential property market was much slower last month than earlier in the year, a bond originator said. The oobarmeter price index showed the average house purchase price increased 1.4% year on year to R832 705 last month from R820 885 a year ago.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 18.11.2010	% Performance Return
United States	S & P 500 (US\$)	-1.40%	1,197	7.34%
Europe	Euro Stoxx 50 (Euro)	0.85%	2,855	-3.75%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-2.37%	1,111	12.28%
South Africa	FTSE/JSE All Share (ZAR)	0.04%	31,574	14.12%
Global	MSCI (US\$)	-1.12%	1,234	5.65%
ZAR/Dollar	Rand/US \$ (ZAR)	0.58%	6.96	-5.82%
ZAR/Pound	Rand/£ (ZAR)	0.18%	11.17	-5.82%
ZAR/Euro	Rand/Euro (ZAR)	0.74%	9.50	-9.44%
JSE	Industrials	1.63%	29,611	17.30%
JSE	Financials	0.19%	21,619	11.86%
JSE	Resources 20	-2.09%	54,855	7.38%
JSE	Small Companies	-0.32%	32,410	16.22%
JSE	Listed Property	0.51%	391	21.05%
JSE	RAFI® ALSI	0.08%	6,534	13.60%
JSE	RAFI® 40	-0.24%	6,355	13.64%
JSE	SWIX	0.27%	6,615	15.34%

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