

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

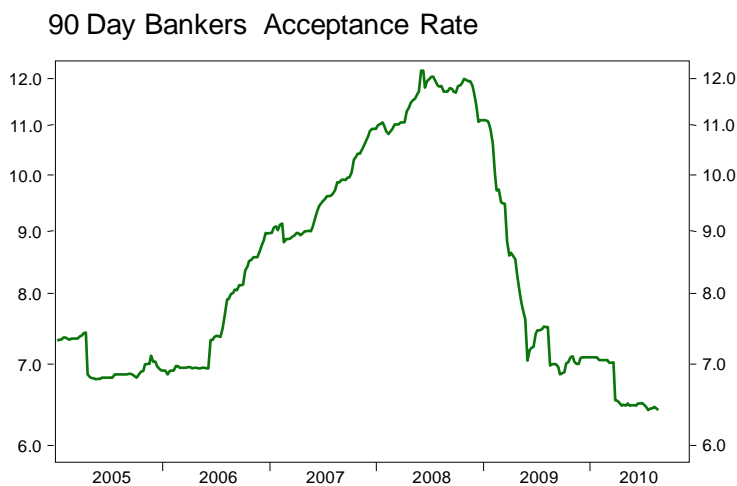
September rate cut now likely



In the face of a continued strong rand and low inflation, we now believe there is a reasonable chance that the South African Reserve Bank (SARB) will lower interest rates by 50 basis points at its next meeting on 8 and 9 September. This would leave the repo rate at 6.0% and the prime interest rate at 9.5% - very low levels by historic standards.

The key influences behind our view include:

- A persistently strong rand;
- Lower-than-expected inflation: CPI fell from 6.2% in January 2010 to 4.2% by June, surprising both consensus and the Reserve Bank on the downside;
- Concerns over the slow recovery and continued job losses: The recovery has so far been generally slow and there are some signs of a renewed loss of momentum. Moreover, some sectors like building construction remain very depressed. Job shedding has also not ended, and the recent spate of way-above-inflation wage settlements holds a serious risk of another wave of retrenchments.



Source: I-Net

However, there are also a few factors mitigating against another rate cut. Already-low rates are starting to show signs of stimulating consumer spending and credit demand, while recent above-inflation wage settlements hold considerable risks to the inflation rate over the medium term.

While a rate cut will lend some further cyclical support to the economy, only speedy and considerable structural policy changes will fundamentally improve SA's structural growth prospects, which currently appear rather poor.

13 - 19 August 2010 in a nutshell

Global: Global equities were a mixed bag this week, as investors search for direction amid disappointing macro-economic news from the US. The S&P 500 in the US dropped 1.20%, while the European market stocks gave up 1.69% and emerging market shares bucked the trend, climbing 1.84%.

South Africa: The local market tracked Wall Street lower this week, with the FTSE/JSE All Share Index falling 1.16%. The biggest losers were resources, shedding 2.74%.

Markets and Economics - Highlights

Global

- Claims for U.S. jobless benefits jumped to the highest level since November, by 12 000 to 500 000, Labour Department figures showed in Washington. And Philadelphia-area manufacturing shrank for the first time in a year, indicating the economy may be slowing faster than forecast.
- UK inflation held above the government's 3% limit in July, forcing Bank of England governor Mervyn King to write his third public letter this year to explain how he will bring prices under control. Consumer prices rose 3.1%, compared with a 3.2% rise in June, the Office for National Statistics said.
- China's abrupt growth slowdown is sending a chill through Asia, Australia and Africa as the

Asian giant's voracious demand for imports fades. Beijing is cooling its economy with lending and investment curbs after explosive 11.9% first-quarter growth fed fears of overheating.

South Africa

- Retail sales in June rose the most in three years as the World Cup boosted consumer demand. Retail sales rose 7.4% compared to June last year, in May they rose 4.5%, said Stats SA.
- Consumer credit continued to recover, after having begun to show positive signs late last year, during the first quarter of this year, according to a report by the National Credit Regulator. The improvement suggested consumer spending – the biggest contributor to economic growth – was growing.
- The recovery in SA's property market, which began in the second half of last year, has continued to take hold, according to bond originator ooba. The oobarometer price index recorded a 9.8% year-on-year increase in the average house purchase price to R850 763 from R775 172 last month.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 19.08.2010	% Performance Return
United States	S & P 500 (US\$)	-1.20%	1,071	-3.95%
Europe	Euro Stoxx 50 (Euro)	-1.69%	2,675	-9.82%
Emerging Mkts	MSCI Emerg Mkts (US\$)	1.84%	994	0.46%
South Africa	FTSE/JSE All Share (ZAR)	-1.16%	27,149	-1.87%
Global	MSCI (US\$)	0.09%	1,107	-5.22%
ZAR/Dollar	Rand/US \$ (ZAR)	0.27%	7.30	-1.22%
ZAR/Pound	Rand/£ (ZAR)	0.18%	11.37	-4.13%
ZAR/Euro	Rand/Euro (ZAR)	0.00%	9.35	-10.87%
JSE	Industrials	-0.16%	25,492	0.98%
JSE	Financials	-0.96%	20,002	3.50%
JSE	Resources 20	-2.74%	45,807	-10.33%
JSE	Small Companies	-0.28%	28,692	2.89%
JSE	Listed Property	-0.27%	369	14.24%
JSE	RAFI® ALSI	-1.01%	5,684	-1.18%
JSE	RAFI® 40	-1.60%	5,459	-2.38%
JSE	SWIX	-0.76%	5,755	0.35%

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