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"A Strong Rand means a Strong Economy"

… OR DOES IT?

This complimentary Executive Summary is the outcome of an in-depth investigation to answer the above question, and many, MANY more. Packed with simple-to-follow rationale and analysis, complete with 4 tables and 14 charts, this will give you insight into:

- **What is an Exchange Rate** and why is it needed?
- What is the Rand's trendline performance against the Dollar since 1971 and 1995?
- Is the Rand's recent strength all due to **Dollar weakness**?
- How do we actually stack up against our trading partners in productivity?
- What is a competitive level for the Rand, does it have to adjust annually to remain competitive, and if so, by how much?
- Is Gold still a huge factor in this economy, and are we still the largest Gold producer?
- See this country's economy in a new light – an ordinary business, and a brief look at the South African economy in this context over the past 5 years.
- Is all foreign direct investment really good for this country?
- A full analysis of the Trade Account, and a disturbing look at the Services Account
- Why is the Current Account deficit unsustainable?
- **Balance of Payments – our Achilles heel** – and why!
- Our forecast for the next Quarterly Bulletin – to be released by SARB late September

- **PLUS**, we answer the question as to whether future movements of the Rand can be forecast – see some surprising details (including a chart) and our SPECIAL OFFER to you…

August 2007
Revised and FURTHER Expanded

Extracts of a study researched, compiled and updated by

Dynamic Outcomes

Specialist Rand Market Analysts

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Executive Summary

Some Background

Having been in an export-related business since 1993, we fully believed we were clearly in a definite, steadily-depreciating market. In this period we had seen the Rand rise in a clear trend from the low R3's to the mid R6's by 1998, and we were not surprised to see this trend continue the next 3 years, although the sharpness of the rise in 2001 to over R13 by the end of the year was mind-numbing.

But from then, our world turned upside down, as the market retraced sharply to R8.50 the next 12 months, and to R6.20 by December 2003 and further in the next few months. In a few short years, our business model had been turned on its head. This change in the Rand's fortunes was lauded by economists, government and the SARB Governor alike, who almost with one voice acclaimed:

"A Strong Rand meant a Strong Economy"

Did it really? If so, what had changed? We decided to undertake an in-depth study into the Rand, looking at the real fundamentals of the South African economy to determine where the Rand should be, based on these fundamentals, whether we were now in a strengthening currency economy going forward, and to answer the question as to whether the above statement was true or not.

This is the summary of our 2004 study, but updated quarterly and constantly expanded.

Let's start with what is generally known:

1) HOW HAS THE RAND PERFORMED?

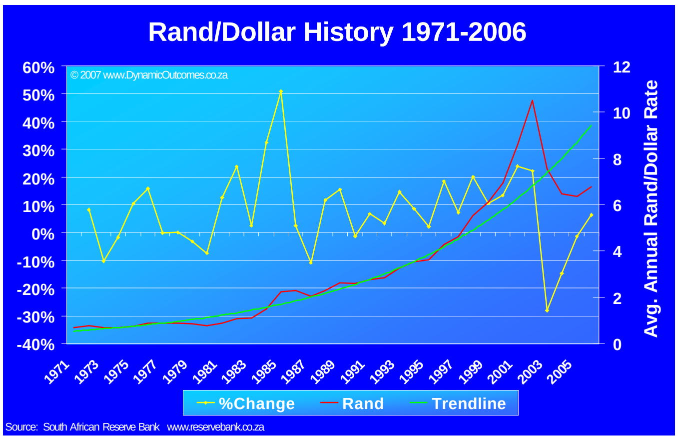
The following is the historical performance of the Rand since 1971 and its more recent performance since 1995.

35 Year History	
1971 - 2006 Trendline	6.6% p.a.

12 Year History (since abolition of apartheid & Financial Rand)	
Feb 1995 – May 2007 Trendline	4.2% p.a.
Feb 1995 - October 2001 Trendline	11.1% p.a.
"Floor Rate" Trendline	10.5% p.a.

Let's take a look in some detail.

The graph below shows the **Rand's performance since 1971**, reflecting the average annual exchange rate by year, and the trendline for the period, as well as year-over-year percentage changes.



Taking a look at the long term history of the Rand provides some indication as to what we can expect in the future.

So, what can we learn from this?

- The average depreciation per annum is **6.6%** for the period 1971 to 2006. This means that the currency has had to adjust by an average of 6.6% each year for South African goods to be competitive.
- The Trendline from 1971 to 2006 shows the undervaluation of the spike in late 2001 and overvaluation extent of the counter movement since mid-2003.
- This long-term Trendline indicates that the average rate for 2006 should have been **R9.50/$** – compared with an actual rate of R6.77/$.

However, this period could be seen to be too long a view considering the considerable structural changes that have taken place over the past 12 years:

- abolition of apartheid,
- establishment of a democratic government
- scrapping of the Financial Rand, and
- reduction of import duties
- monetary policy tied to inflation targeting

So let's look at the period since the Financial Rand was discontinued in February 1995 and ceased to exercise an abnormal influence on the Rand currency market.

This graph shows the **Rand movement since February 1995**, reflecting the daily rate since that date as well as three trendlines computed from this daily rate, based on different scenarios:

Feb 1995 – Aug 2007 Trendline A (Red)

- The Rand trendline since February 1995 to date has been **4.0%** per annum.

  This takes into account both the abnormal depreciation in Q4 2001, culminating in the 2 day spike above R13/$ in December 2001, and the extended overcorrection below R7.00/$ and excursion below R6.00/$.

- This trendline indicates the Rand should be at **R8.10/$**

Feb 1995 - Oct 2001 Extended Trendline B (Green)

- Excluding the period of above-mentioned aberrations following October 2001, the trendline depreciation has been **11.0%** per annum.

- This extrapolated trendline indicates the Rand should presently be **R12.35/$**

"Floor Rate" Extended Trendline C (Yellow)

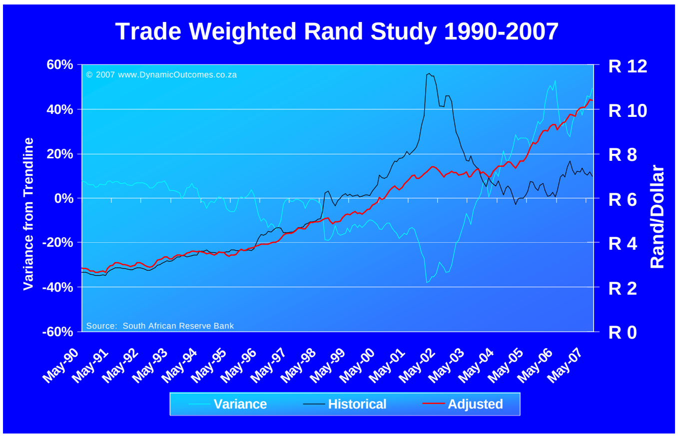
- The absolute "floor rate" trendline, based on strongest Rand levels over the same period as Trendline B above (Feb 1995 to October 2001, i.e. excluding the present aberration), gives average depreciation of **10.4%** per annum.

- This extrapolated trendline indicates the Rand should not be stronger than **R11.15** to the Dollar at present

2) "BUT IT'S DOLLAR WEAKNESS" – OR IS IT?

There is a large contingent out there that say that the Rand's recent strength has been purely due to Dollar weakness.

Let's analyse this argument, by looking at the **Trade Weighted Value** of the Rand.



The above graph reflects the following:

- The actual Dollar/Rand exchange rate from 1990 to date (**Black Line**)

- The Deviation of actual Trade Weighted Value (data sourced from SA Reserve Bank) from regressive trendline Trade Weighted Value over the same period (**Blue Line**)

- An adjusted Rand exchange rate, computed by taking the actual exchange rate and adjusting it by the Deviation factor (referred to above), determined on a Trade Weighted Index basis (**Red Line**).

By applying this Deviation Factor to the actual Rand exchange rates, we can establish what **the Rand's trendline rate would be** for the period 1990 to date **based on international competitiveness with trading partners.**

That is, recognising currency movements of all the economies of South Africa's trading partners in relation to the Rand.

The revealing results are:

- the Rand has been overvalued since July 2003 when it moved stronger than the Trade Weighted rate of R7.60/$

- as at **July 2007** the Rand should be **R10.40/$** on a Trade Weighted basis.

3) THE BURNING QUESTIONS…

The initial questions to investigate and answer are:

- **What are the actual factors** that have caused the Rand to depreciate during the long term, at an average annual rate of 6.6% since 1971?

- **How have these factors changed** over the past years, and especially more recently?

- **What can be expected for the future?**

4) WHAT IS AN EXCHANGE RATE?

To try and investigate these questions, let's first ask:

"What is an Exchange Rate?"

Why does a currency appreciate or depreciate? This is an essential baseline to any currency study.

> In essence, an exchange rate is the **adjusting factor (an economic mechanism)**
>
> …between a domestic economy and that of its international trading partners…
>
> …so that **exported goods** and services exported remain competitive…
>
> **…** and **goods** produced **for local consumption** are not threatened by cheaper imports –
>
> The exchange rate compensates for product cost differentials, and other factors that affect international trade competitiveness.

So what are these product cost and competitiveness differentials between South Africa and its trading partners?

5) INTERNATIONAL COMPETITIVENESS

The Domestic Supply Chain Cost of any product and its ultimate Value Added can be reduced to its essential elements:

Labour Cost and **Productivity**

If there are differentials in underlying Labour Cost and Productivity between two countries producing the same product, the essential adjusting mechanism to enable these countries to continue to trade (whether export or import) at competitive prices is **the exchange rate**.

International trade succeeds or fails through this essential gear working efficiently, or not!

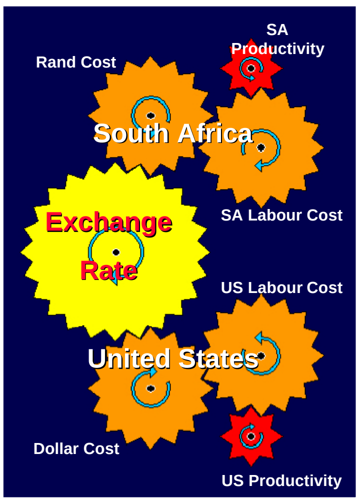
Below is a summary of the yardsticks whereby we can compare **South Africa's competitiveness with its trading partners** - broken down into Quantifiable, Semi-definable and Indefinable Effects (this 2004 data will be updated when sufficient more recent information becomes available):

	Annual Differentials		
	1981-2004	1996-2004	Future
Primary Factors (Quantifiable Effects)	21.6%	8.5%	8.0%
Labour Cost	13.9%	6.7%	6.0%
Productivity	7.7%	1.8%	2.0%
Secondary Factors (Semi-definable Effects)		2.0%	5.0%
AIDS Pandemic			?
Black Economic Empowerment			?
Emigration of Skilled Labour/Professionals			?
Structural Factors (Indefinable Effects)		1.0%	2.0%
Infrastructure Inefficiencies (Transportation/Energy)			?
Crime and Security Factors			?
Immigration Burden Costs			?
Illiteracy			? ?
Unemployment Burden Costs			?
Delivery Costs (remoteness from major markets)			?
Total		11.5%	15.0%

6) THE RESULTANT GEAR

The above table reflects the competitive situation that impacts on the Rand Exchange Rate using data that we have gleaned for the South African economy and its trading partners. It reflects the average annual performances for 1981 through 2004:

- **SA labour cost** has increased at a higher rate than its international trading partners – **13.9%** annually for 23 years.
- **SA productivity** has reduced while increases were achieved by its trading partners – a differential of **7.7%** annually for 22 years.



What is the essential compensating mechanism for the SA economy to remain competitive?

What can be done to offset these higher costs of SA products?

The Exchange Rate!

Without this gear reacting regularly, and unimpededly, SA exporters would not be competitive overseas, and local manufacturers serving the domestic market would not be able to compete with imports from other countries.

With respect, the Governor's use of the Rand in recent years to reduce imported inflation, so that he met his 3-6% inflation target, was a misuse of this economic mechanism.

An **exchange rate** is to **adjust the pricing** of exported and imported products and services **between one country and another** – not the domestic pricing of products and services!

South Africa	(Illustrative data used)	United States
R 900	**Domestic Price** (Base Rate of R9.00/$)	$100
108%	**Labour Cost Index**	102%
	+	
97%	**Productivity Index**	105%
	=	
11.0%	**Change in Product Cost**	-3.0%
R 999	**Local Price** adjusted change in costs	$97
	Export Price Scenario	
R 999	@ Base rate of R9.00/$	$111
R 999	@ Strong rate R6.50/$	$154
R 999	@ Realistic rate R10.30/$	$97

But how important are exports to the South African economy? And how is the economy affected by the Exchange Rate?

7) OUR SIMPLISTIC VIEW OF THE ECONOMICS

Firstly some background: When looking at the performance of an economy, economists speak in terms of Trade Account, Services Account, Current Account, Balance of Payments, Net Capital Inflows, etc.

But what do these terms and numbers actually mean? Can we relate these numbers to an ordinary business, and if so, how?

Well, consider this:

> If South Africa had NO trade or business transactions with any other country, would there be a necessity for an exchange rate? ....**NO**
>
> Would the Rand have an external value? ....**NO**

Since 1992, South Africa is NOT a closed economy (not one which has no external trade transactions), but is heavily dependent on foreign trade, the simplistic viewpoint set out hereunder helps to explain a complex situation:

Consider South Africa to be a very large business venture, a public company, called **Republic of South Africa (Pty) Ltd**, and that:

- All persons in employment are employees of RSA (Pty) Ltd
- There are various departments in RSA (Pty) Ltd making up the supply chain so that ultimate finished goods are sold to other companies, that is, exported to other countries.

- The interdepartmental transfers, although value added, are not accounted as turnover and profits, it is the finished goods when sold, and sold at profit that achieve turnover and profits for RSA (Pty) Ltd.

- The economic data relating to South Africa's foreign trade can be restructured in a form which suits this simple Company viewpoint, as set out in the Table below:

Income Statement for RSA (Pty) Ltd						
Ordinary Description	Technical Description	2002	2003	2004	2005	2006
Sales	Exports	333 251	291 434	310 525	347 673	432 735
Cost of Sales	Imports	(283 004)	(264 752)	(311 759)	(359 678)	(473 297)
Gross Profit/Loss	Trade Balance	50 247	26 682	(1 234)	(12 005)	(40 561)
Other Revenue	Offshore Services	53 314	64 131	62 526	70 492	79 520
	Offshore Investment Interest/Dividends	19 897	18 442	17 958	25 402	43 829
Expenditures	Foreign-sourced Services	(69 141)	(75 055)	(83 662)	(94 543)	(112 188)
	Foreign Investment Interest/Dividends	(46 803)	(50 961)	(43 053)	(53 720)	(75 642)
Net Other Revenue	Services Account	(42 733)	(43 443)	(46 231)	(52 369)	(64 481)
Total Net Income	**Current Account**	**7 514**	**(16 761)**	**(47 465)**	**(64 374)**	**(105 042)**
Cash outflow requiring short-term funding:						
Bank Overdraft/Loans	Foreign-sourced Loans	0	(16 761)	(47 465)	(64 374)	(105 042)

As can be seen from the above Income Statement, RSA (Pty) Ltd had a good year in 2002, recording a Gross Profit (Trade Surplus) of R50.2bn and a Net Profit (Current Account Surplus) of R7.5bn.

But since then, what has happened – yes, especially last year!

- In 2003, Gross Profit was down almost 50%, and Net Other Revenue also made a bigger loss, resulting in a Total Net Loss of R16.7 billion.

- In 2004, previous Gross Profit had reversed into a small Gross Loss, while Net Other Revenue loss had also increased, resulting in a worrying R47.5 billion Total Net Loss.

- In 2005, the Gross Loss had slidden further, with Total Net Income now showing a R64.4 billion loss.

- And 2006? Gross Loss (Trade Deficit) more than trebled, and Net Other Revenue (Services Deficit) further deteriorated, with Total Net Loss (Current Account) at an astounding R105 billion!

Is this a good performance? Should the "directors" feel happy with the performance of the company?

Well, from their reported statements they seem to be – but only because their bankers are still happy to finance this escalating net loss. But who are these bankers?

Mostly, short-term investors, seeking higher yields. And just like any short-term financier, at the first sign of trouble, what will they do? Recall their loan or investment.

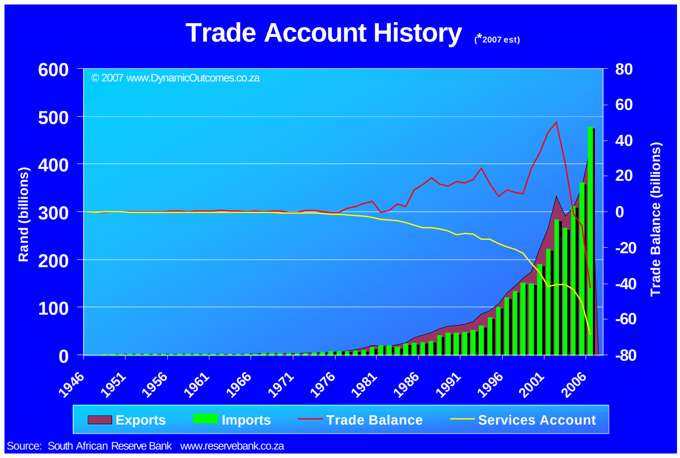
So, are these signs of trouble, or has the situation improved in 2007? Let's take a look.

8) EXPORTS AND THE TRADE ACCOUNT

As can be readily seen from the above illustration, it is imperative that South Africa maintains a positive Trade Balance (Exports exceeding Imports), to offset the Services Account, which always run in negative territory.

Let's have a look at the history.

The Trade Account History chart below shows clearly that from 1970 until 2002, exports exceeded imports, and the resulting Trade Surplus more than offset the Services Account deficit, which has steadily increased year on year (more on this later).



However, from 2002 the situation has reversed dramatically, with Imports outstripping Exports to such an extent that from a record Trade Surplus we tumbled to a Trade Deficit in just 2 years.

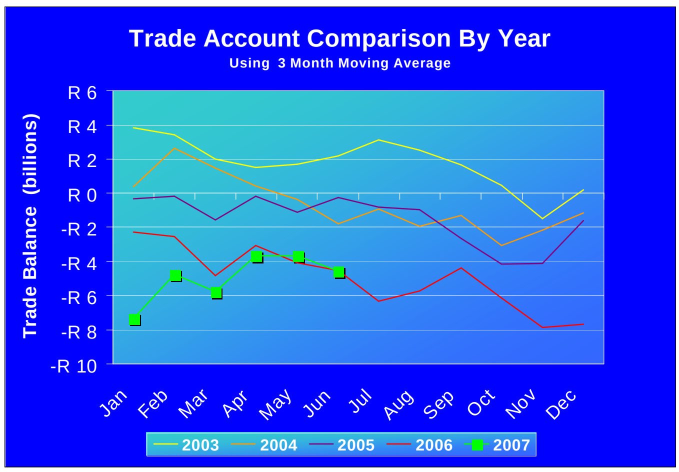
And this trend has continued:

- In 2005, the Deficit increased five-fold to R7.7bn

- And in 2006, it fell almost five-fold again to register a massive R42.5bn loss!

And 2007 is not looking any better – based on Trade Statistics released by SARS for the first 6 months, this year is likely to show an accumulated deficit of R60bn!

Let's have a closer look at the last 4 years' performance, based on the data released by SARS.



The above chart compares the 3 month moving average for each month, with each year represented by a different line.
This tells its own story.

As can clearly be seen, the Trade Account has shown steady deterioration year on year, with only the period June to August 2005 showing any improvement over previous years.

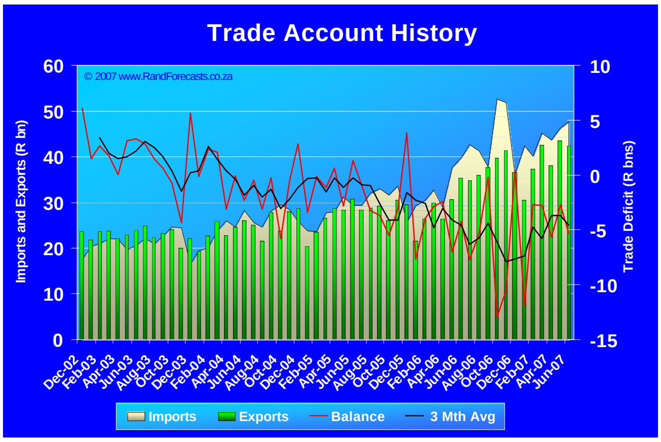
Last year 2006 (red line) was a shocker, despite a more competitive exchange rate than the couple of years previous.

For year to date 2007 (green line), the 1st quarter was substantially lower than that of 2006, with the 2nd quarter achieving equivalent levels for the same months in 2006.

Whereas there has been no improvement year-on-year in 2007, there are some promising signs, as it is the first time in 4 years that the 2nd quarter, in any year since 2003, has shown an improvement over the 1st quarter.

The second Trade Account History chart (below), while showing a very depressed picture, also gives some hints that the trade balance trend could just be changing as a less overvalued Rand starts to have its beneficial effect on the economy.

Note how the 3 month average (black line) has showed a bottoming out since January 2007 and is now possibly on an upward trend.



This is certainly encouraging, and the next few months will tell whether this is sustained or not. However, it is essential to put this Trade Account data in perspective, which we'll attempt to do.

9) THE SERVICES ACCOUNT DILEMMA

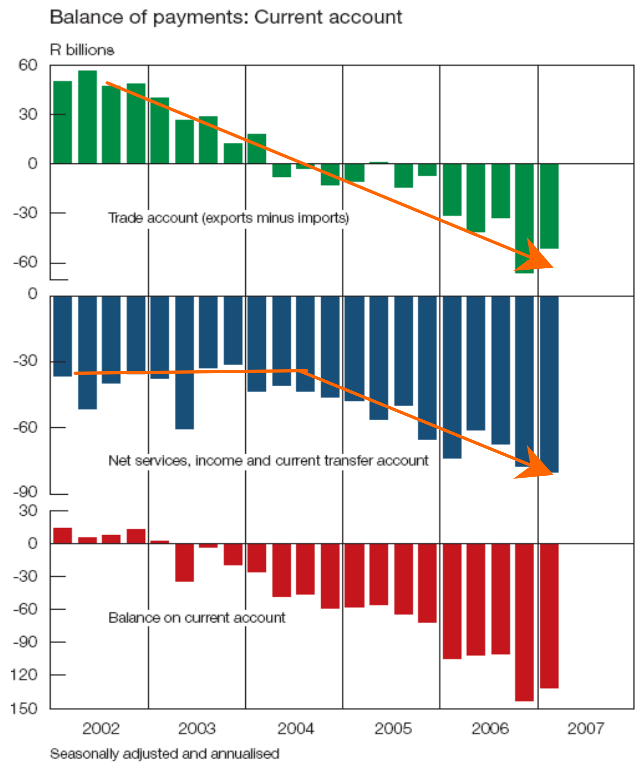
As already spelt out in Section 7, there are two income generating sources in an economy – actual export of physical goods (Trade Account); and then selling of exported services and offshore investment income (Services Account).

There has been considerable comment and concern on the Trade Account situation, and with good reason too. But it is the Services Account that should be of just as much concern, with the trend that has developed.

Let's elucidate, taking a look at the bar charts opposite:

- In 2002, the Trade Account (physical exports less imports) was showing a healthy surplus (profit) of some R50bn, which neatly offset the Services Account deficit (other income less other expenditures), resulting in a small Current Account surplus (Net Profit) of ±R10bn.
- By mid-2004, the Trade Account had dropped to breakeven, while the Services Account remained at fairly constant levels, with the resultant Current Account now in negative territory by some R50bn.
- In 2005, the Trade Account did not deteriorate very much more, but the Services Account now started showing larger deficits (losses).
- And then in 2006, the Trade Account and Services Account both started increasing their plunge into negative territory, with the resultant Current Account hitting a deficit of R105bn – almost double 2005.
- 1Q 2007 has seen a slight reversal in the Trade Account, but the Services Account recorded its worst levels ever! (2nd quarter Services Account data is not yet available)

So why should the Services Account be deteriorating and why should this be of concern?



Well, in simple business terms, as an economy, we have been trading at a loss in both the tangible and intangible areas of operation, in other words both Trade and Services Accounts.

Consequently, we have needed to borrow money from offshore (Net Foreign Inflows) to fund these losses – but these investors are here to get a return on their investment:

The higher your borrowings, the higher your interest cost

…the higher your interest cost, the bigger your loss

…the bigger your loss, the more you need to borrow

… it becomes a vicious circle.

But then, as some have proclaimed, we have had the distinct advantage that there has not been the need to rely solely on these short-term borrowings, with their indeterminable recall timing, because there has been substantial foreign investment of a permanent character!

However, the actual facts, unpalatable indeed as this might be, are that some of this country's major incoming generating assets have been sold offshore to foreign companies.

Great! We have foreign inflow (to fund the Current Account).

BUT, the profits generated since then are being remitted as dividends out of this country and are no longer for this economy's benefit.

The result – an outflow of funds that have, or will soon, surpass the initial inflow – and it will not stop then…

These are two major reasons why the Service Account deficit has continued to escalate, and we believe that, in business terms, this is a whirlpool that it almost impossible to escape from when you get to this point.

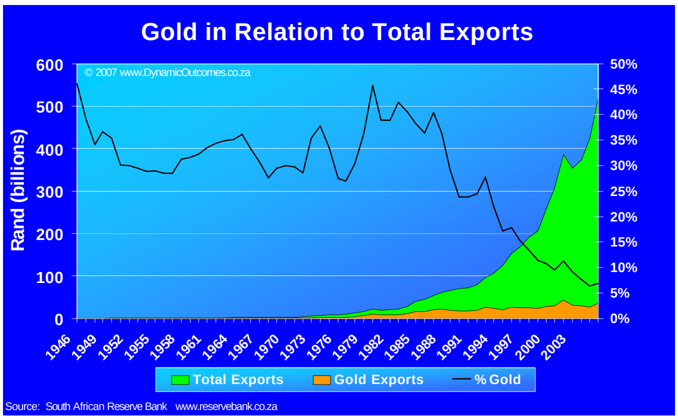
But yet we sail along quite complacent that our bankers (short-term investors) are happy with our performance. Just like a bank that is happy to take their pound of flesh from a company that is in dire straits, knowing that they can pull their "investment" out at any time…

10) HAVE WE NOT BENEFITTED FROM GOLD?

This study would not be complete without addressing Gold.

What about the bullishness of gold and other commodities – is this the reason for the Rand's recent strength and, more importantly, will this not support the Exchange Rate and the economy going forward, recognizing that South Africa is the largest producer globally?

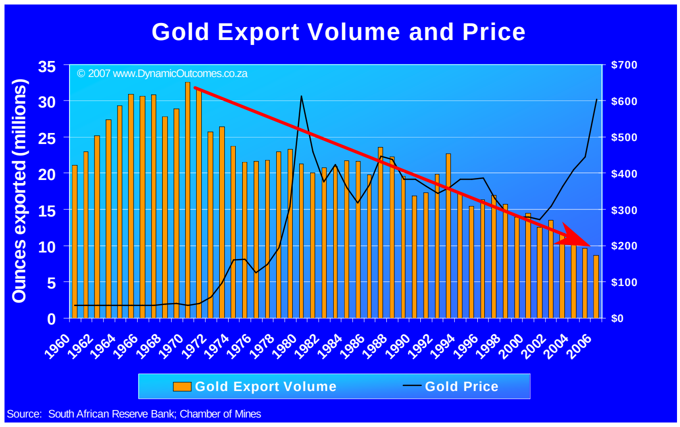
Let's take a look at this argument.



The above graph tells us the following:

- ➢ From 1946 to early 1970s, Gold Exports represented around 30-35% of Total Exports.
- ➢ By the time the Gold price peaked in 1981, Total Exports had increased more than 7 times and Gold Exports by more than 11 times, making up 45% of Total Exports!
- ➢ Since the mid-1980s, Total Exports have steadily increased in Dollar terms.
- ➢ Over this period, however, Gold Exports have **steadily decreased** to just **7%** of Total Exports in 2006 – and this, despite the Gold price (in Dollars) having more than doubled in the last 6 years!

To further highlight, we attach another Chart which shows the actual volume (not value) of Gold exported by year.

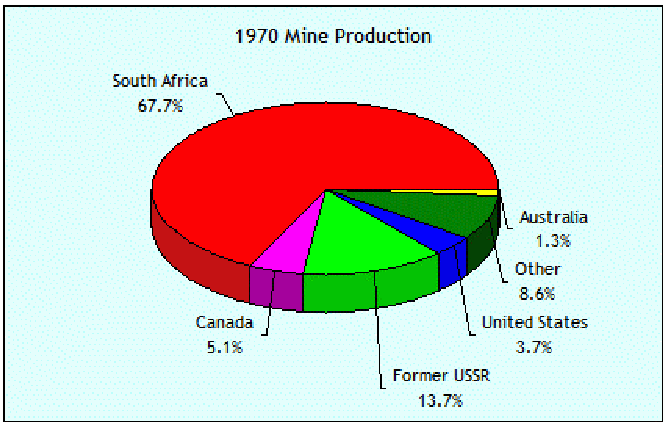


The above chart tells the story.

- Actual volume of Gold exported has reduced substantially the past 30 years – from over 30 million Troy ounces in the 1970's to below 10 million the past couple of years.
- And noticeably, despite the Gold price having more than doubled since 2000, this trend has continued.
- And in 2006, with the Gold price at its best levels for over two decades, South Africa exported the smallest volume in living memory – just 9 million ounces!

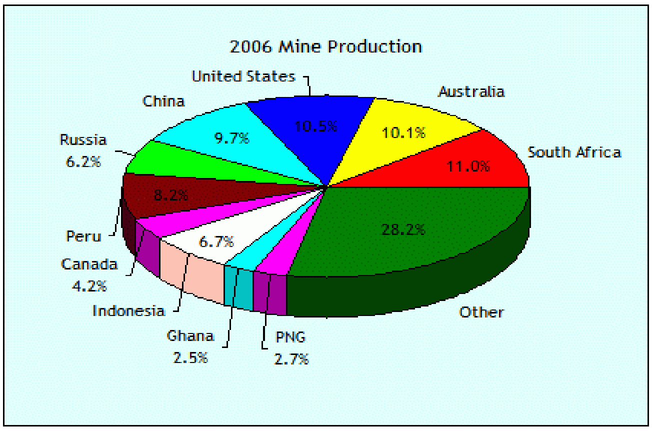
We have all probably taken it as an accepted fact that South Africa has always been, still is, and will always be the largest gold producer internationally.

However, with the astonishing figures above, we decided to take a closer look at this.



The above pie-chart shows production by country in 1970, with South Africa producing over two-thirds of the world's gold – more than double the rest of the world put together – with the next largest the former USSR at just 13.7%.

Let's roll on a few years to 2006.



Source: www.goldsheetlinks.com

From the above Chart you can see South Africa still holds top dog position…but only just!

It's share of the market has **dropped to just 11.0%** in 2006, while the USA output rose 0.3% to take over second spot with 10.5% of world output, followed closely by Australia at 10.1% and then China at 9.7%.

It does not take much arithmetic to work out that if this trend continues this year, that South Africa could well lose it's long-held crown in 2007…

Also, as can be seen from the 2006 pie-chart, there are many more gold-producing countries in the last few years – the segment Other (countries with production below 2.5%) now producing 28.2% of world output.

So, to get back to the question:

"What effect does Gold have on our total economy?"

The truth is that, apart from lingering remembrance of a commodity-based economy – VERY little!

Furthermore, have these casualties of a strong Rand escaped worthy attention:

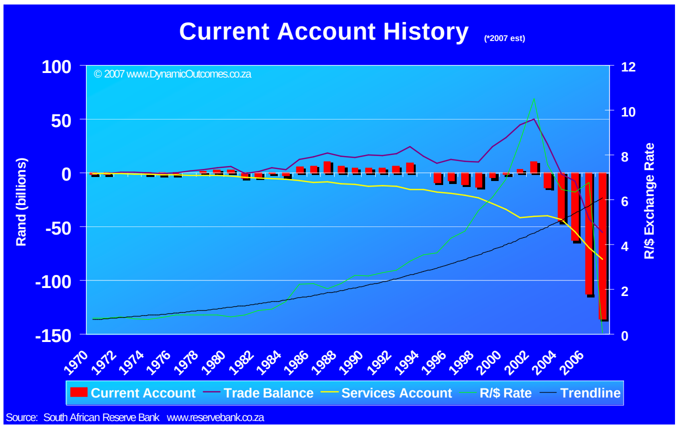
- the alarming extent of closure of gold mines and precious metal mines in recent years?
- And, as concerning, the abandoning of plans to proceed with new metal exploitation ventures?

11) CURRENT ACCOUNT BALANCE WORSENING!

Having now seen how the Trade Balance (Gross Profit/Loss) has turned to a deficit (loss) as a consequence of declining exports (and of escalating cheaper imports challenging domestic manufacture) and how the Services Account (Net Other Revenue) has deteriorated, how has this affected the Current Account (Net Profit/Loss)?

Here's Part 1 of the real shocking news as to where the South African economy has been heading:

The next graph, Current Account History, reflects historical Trade, Services and Current Account data in Rand from 1970 through to



2006, plotted against the Rand/Dollar Exchange Rate, and its long-term trendline.

What does this tell us about the economy's performance?

- From about 1990 through to 2003 the Trade Account was in surplus reaching a peak in 2002.
- During this same period the Current Account has fluctuated between R10bn surplus and R20bn deficit.
- Since 2003, when the Rand fell below it's Trendline, the situation has steadily deteriorated – at an increasing rate.
- The last 2 years have seen increasing record Trade deficits, with 2005 full year being the worst ever to date.
- But 2006 outstripped this by 80%, with a massive record **deficit of R112bn!** (slightly higher than our Nov forecast)
- Based on preliminary data (see next section for more details) 2007 is estimated to record a **deficit of R135bn**!

Recognizing that many export contracts are negotiated annually, the full effects of "the strong Rand" are now starting to filter through. Furthermore, many companies have lost long term contracts to other economies, perhaps never to regain them, with resultant closure of many SA export manufacturing facilities.

The strong Rand has been a double-edged sword, damaging manufacturer's export and domestic market areas.

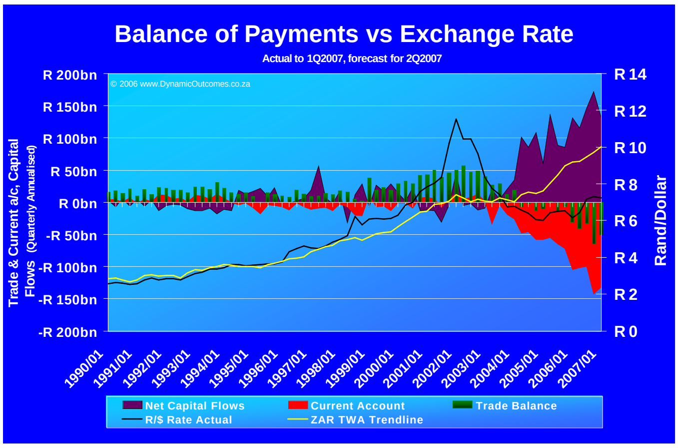
True that this state of affairs forces innovative reductions in costs, but when these thrifting actions have been exhausted, the **economic mechanism – the Rand exchange rate – is needed to maintain secondary sector business**, so essential to this economy.

But this has failed, through the Authorities' stated support of a "strong Rand" since 2002, thereby stimulating foreign inflows and strengthened the Rand, with a view to lowering imported inflation to meet their 3-6% target range.

12) ACHILLES HEEL – BALANCE OF PAYMENTS

Part 2 of the real shocking news is shown in the following graph – a deteriorating Balance of Payments:

This next chart, Quarterly Balance of Payments, from 1990 to date graph gives a more detailed snapshot of the more recent history:



- Quarterly data in respect of the Trade Account, Current Account, plus **Financial Inflows** data
- This plotted together with the Rand/Dollar Exchange Rate, and the **Trade Weighted Average Trendline.**

Again, we see the relatively healthy state of affairs until the Rand fell below its Trendline in 2003.

Thereafter, once the Trade Account started falling into deficit, the Current Account deteriorated rapidly, with Q1 to Q3 2006 each notching up record deficits of R100bn (quarterly annualised).

And then a whopper deficit for **Q4 2006 of R143bn**, followed by another huge deficit of R131bn (6.97% of GDP) for the 1Q 2007. So what can be expected for the balance of 2007?

Based on preliminary data available (all quarterly annualised):

- From data released by SARS, the 2Q 2007 Trade Account is expected to have recorded a R55bn deficit.
- If 2Q 2007 Services Account deficit remains the same as the first quarter, this economy is likely to have sustained another Current Account deficit of some **R140bn!**
- This forecast deficit would represent about **7.3% of GDP** – the third consecutive quarter of 7% of GDP, an unsustainable level!

Future financing of a potentially large Current Account deficit is cause for great concern, especially in that the Authorities have until recently referred to it as "a healthy state of affairs."

The fact is that it is presently being funded by "foreign call funds".

And these offshore investor funds (in the bond and money markets particularly) can and will be recalled immediately the Rand depreciates to any extent – this is of great concern.

From where will the long term funding be secured thereafter, and how will its incremental interest cost burden be met?

It is of significance that the Reserve Bank Governor has recently made statements hinting that the Rand is overvalued, based on the level of Current Account deficit, and that it was surprising that it had not adjusted yet.

We anticipate that it will be some occurrence in the near future that will eventually spark this adjustment, whether it be the issue of next Quarterly Bulletin at the end of September, a further sharp drop in the stock market, our own "subprime" fallout or some political or financial event.

It is not a case of IF, but WHEN…

13) WHERE TO NOW? OUR CONCLUSION …

The purpose of this abbreviated summary (a portion of the extensive study on the Rand, which we originally researched during 2004 and have updated and expanded quarterly since then) is to indicate to readers the direction of thought, and appropriate weighting placed on basic fundamental economic data, in order to assess on a rational scientific basis where the Rand can be expected to move in the future.

Other valid factors that can affect the Rand, such as being an emerging market, do not form part of this study or its conclusions.

Our science is a collaboration of 3 sets of data:

- **Historical Trendline of the Rand since 1971**
- **Trade Weighted Value of The Rand since 1990**
- **Competitiveness of the South African economy**

All these indicate:

1. Intrinsic value of the Rand in 3rd Quarter 2007 is within the range **R8.10 - R12.35**, and
2. Economic Factors will combine to force a correction of the Rand back to its intrinsic value indicated above, and
3. The Rand will continue to depreciate for the foreseeable future at **minimum 4.0% annually** – and maybe as high as **15% annually**.

So, from where the Rand is now, we have an indication of where it is most likely to go before equilibrium is reached. That still leaves one very big question:

14) CAN FUTURE MOVEMENTS BE FORECAST?

It's all very well knowing that the Rand is overvalued, but it has been so for several years now. Has it bottomed out yet? If not, when is it likely to? How long is it likely to take to adjust back to realistic levels?

Is it likely to rise strongly or gradually, and by how much, and when? Or will we see another move down towards the R6.50 level first, or even R6.00?

Is it possible to answer these questions?

We had not thought so, until in 2004 we discovered the most advanced forecasting technology available and started applying its uncanny abilities to the Rand.

And further, since October 2005 we have been publishing these forecasts on a daily basis, and have managed to clock up an **accuracy of over 80%** over short, medium and long term.

Sufficient to say that this technology forecasted that the market would bottom out early 2005, which in fact it did.

And it has also confirmed our fundamental view the Rand was clearly overvalued and is expected to revert back to more equitable levels in the next few years.

This is extremely valuable information to have on hand with long term planning and budgeting, but more importantly,

Where is it likely to be heading in the short and medium term?

Would you like to know?

Well, we can show you – with chances being that **8 out of 10 times** we are correct.

How would YOU like to have this sort of crystal ball in YOUR hands? Quite seriously, if you are affected by the fluctuations of the Rand in any way, you need to ask yourself these questions:

- Have you ever been caught buying or selling your Dollars just before the market moved strongly in your favour?
- Do you find yourself panicking when you need to trade?
- Have you ever missed out on a good price because you thought the market would move further?

  …And then waited for the market to bounce back, which it never did, and you eventually were forced to get out at a loss, or a substantially reduced profit?
- Do you spend an inordinate amount of time trying to find out where the market is heading?
- Do you wake up at night sweating, or worrying where the market is going?

If your answer to any of these questions is **Yes** – we can well understand that – and what is more, we can help you.

We have been there ourselves. And it is stressful, living in a world of uncertainty, and feeling like the market is against you.

BUT, we have found the solution. And **YOU** could well have too…

Having access to our forecasting service, and being able to see where the market is likely to head in the short, medium and long term, can mean a wonderful change to your trading and stress levels:

- You live in a world of high probabilities, not unknowns
- You can trade the Rand with confidence
- You are able to maximize profits on each trade – 8 times out of 10
- You live a far less stressful life – no more headaches, no more waking up at night, no more stomach ulcers
- You have more time to spend on other things

So, if you are tired of guessing where the market is going, tired of the stress involved in deciding when to trade (and when not to):

You are in time to take advantage of our **SPECIAL OFFER**, backed by our Iron-Clad 30 Day Money back Guarantee.

Try it out for a full 30 days. We can guarantee you will see the markets as you have never seen them before.

And if for whatever reason you believe it is not for you, simply cancel and we will refund you, in full. Guaranteed.

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