

A report compiled by Citadel Investment Strategists

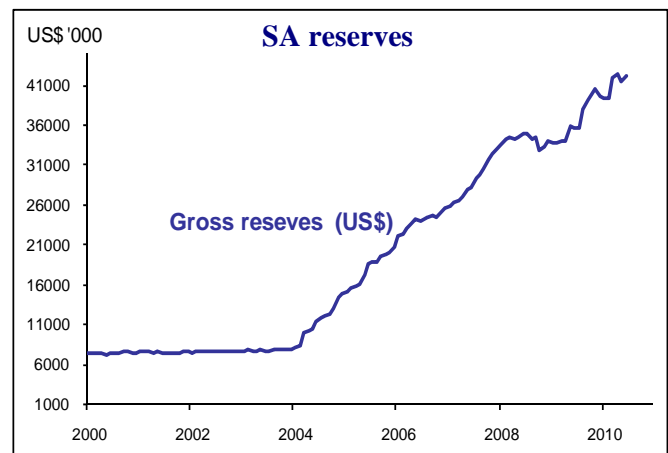
Forex reserves higher in June

The value of South Africa's gross gold and forex reserves rose US\$602 million to \$42.2bn at the end of June. Forex reserves were US\$513 million higher at US\$34.6bn. The slightly higher gold price saw the value of gold reserves increase by US\$88 million to US\$5bn. Net reserves improved US\$261 million to the end of the month.

The increase in US\$ forex reserves can be attributed to some net buying by the SARB and a jump in foreign deposits from SARB's clients. Taking the foreign loan repayment of US\$350 million into account, net buying in the forex market is estimated to have been less than US\$200 million. The effect of currency movements on the value of forex reserves was relatively small in June.

The SARB's continued policy of not trying to influence the value of the rand on currency markets means that the rand is mostly driven by market forces, particularly positive global investor sentiment towards emerging markets and commodity producers. As a result the currency remains vulnerable to global financial market upheaval.

Borrowed reserves (foreign loans) were historically a large component of official foreign reserves. During the time of the emerging market crisis in 1998, borrowed reserves made up almost 60% of gross reserves. As a result of large capital inflows in recent years, the Bank was able to repay these foreign loans. At the end of June borrowed reserves was reduced to zero. However, it can be assumed that the SARB will still have the facility to borrow, should the need arise in future.



- The US\$ value of the gross gold and foreign exchange reserves increased US\$602 million to US\$42.2bn at the end of June.
- Forex reserves rose US\$513 million. Foreign deposits received jumped US\$661 million, reflecting foreign deposits from the SARB's clients.
- Import cover (previous 3 months average imports covered by latest reserves) is currently close to seven months. This is seen as a reasonable level for an emerging country like South Africa.

	Gross Reserves	Foreign loans	R/US\$	International liquidity position (net reserves)*	Forward position	Import cover
May 2010	\$41.6bn	-\$0.4bn	R7.68	\$37.9bn	\$0.032bn	6.7 months
June 2010	\$42.2bn	0	R7.64	\$38.2bn	\$0.001bn	6.7 months

* Gross reserves minus foreign loans plus forward position

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