



TECHNICAL TUESDAY

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TRADING STRATEGY AND MARKET UPDATE

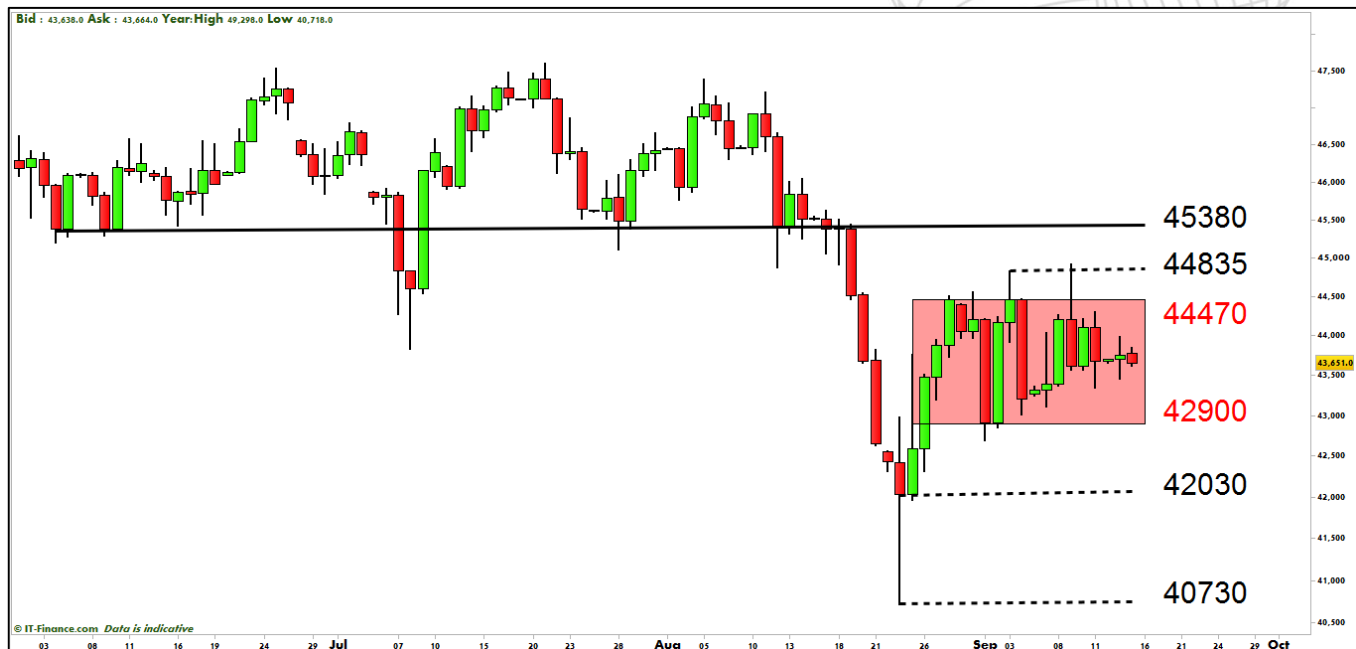
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1. SOUTH AFRICA 40 INDEX



SOUTH AFRICA 40 INDEX

- Over the last week the South Africa 40 cash index rallied to reach the initial upside target at 44835, however lacked the momentum to realise the channel resistance target thereafter
- The non-directional price action to follow has changed the shape of the consolidation and therefore the channel lines have now been removed
- The index is consolidating in lure of the upcoming rates decision out of the U.S. on Thursday evening.
- We await a directional commitment in the form of a breakout from the area highlighted red on the chart. For an upside breakout a close above 44470 is needed, in which case 45380 becomes the initial target favoured
- For a downside breakout, a close below 42900 is needed in which case 42030 becomes the initial target favoured
- A breakout in either direction before Thursday's U.S. data is released will carry less conviction than a breakout after the data is released
- While the short-term price action is in a consolidation, the longer-term trend bias at this stage remains negative



2. HIGHS & LOWS

SHARES | 52 WEEK HIGHS

Pick n Pay Stores Ltd
Redefine International PLC

SHARES | 52 WEEK LOWS

Grand Parade Investments Ltd
Trencor Ltd
Lonmin PLC (SA)

3. EQUITIES IN FOCUS

MMI HOLDINGS LTD VS SANLAM LTD (Daily chart)

The chart considered is that of MMI Holdings (candlestick) with a Relative Strength Comparison (RSC) indicator added. The RSC (blue line) compares the price of one security with that of another in a ratio format. The RSC has experienced a decline in value recently which highlights that security 1 (MMI Holdings) has been underperforming security 2 (Sanlam). Bollinger Bands have been added to the RSC and highlight the underperformance of security 1 reaching abnormality relative to the usual relationship of the two securities. It is expected that the relationship between the two securities will revert back to normality favouring a possible pair trade opportunity i.e. long MMI Holdings, short Sanlam. The target from the technical indications would be for the RSC to move back towards the 20MA (red line) which is regarded as the mean. This could occur with the price movements of the securities in a number of ways:

1. MMI Holdings rising and Sanlam falling
2. MMI Holdings rising faster than Sanlam rising
3. MMI Holdings falling slower than Sanlam falling.

Should one of these scenarios play out successfully the expectation would be for a net gain of 4%. A stop-loss would be considered equal to the anticipated gain of 4%.





3. EQUITIES IN FOCUS CONTINUED...

SABMILLER PLC (Daily chart)

SABMiller looks to have broken out of a bear flag (parallel black lines) formation after finding resistance on the 200 day simple moving average (blue line). A bear flag formation is considered a pause in a directional move before it is continued. In this scenario the direction is down. In addition to the bearish price action the Stochastic is crossing out of overbought territory whilst displaying a negative divergence with the price (dotted red lines). The recent closing low at 59800 is the initial target favoured, if this level this level is broken, 58300 is the next downside target favoured. A close above resistance at 64100 considers the failure of the aforementioned bearish indications.



PIONEER FOODS LTD (Daily chart)

The share price of Pioneer Foods has consolidated into a triangle formation. Triangle patterns are referred to as continuation patterns as they have a habit of forming before the trend, which preceded the consolidation, is continued. It is however prudent to wait for a breakout to occur rather than pre-empting the move. A close above 20320 considers an upside breakout in line with the preceding uptrend. Should this situation occur the recent high at 21190 becomes the initial resistance target favoured; a break of this level further favours a move to the projected target from the triangle consolidation (dotted lines) at 22700. A close below 18960 would consider the failure of the upside breakout scenario. Should the price close below 18960 before incurring the upside breakout scenario, a wait and see approach is considered as the move would be against the longer-term uptrend.





4. MARKET OVERVIEW

Key Indicators

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
S&P 500	Sideways	Down	Down	Flat	Neutral
South Africa 40	Sideways	Down	Down	Decreasing	Neutral
USD/ZAR	Up	Up	Up	Decreasing	Neutral
Spot Gold	Sideways	Sideways	Down	Decreasing	Oversold

Banks

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
Barclays Africa	Down	Down	Down	Decreasing	Oversold
FirstRand	Sideways	Down	Sideways	Flat	Neutral
Nedbank	Down	Down	Down	Decreasing	Neutral
Standard Bank	Down	Down	Down	Decreasing	Oversold

Financial

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
Discovery	Sideways	Sideways	Up	Decreasing	Neutral
Investec (inl)	Sideways	Sideways	Sideways	Decreasing	Neutral
Investec (inp)	Sideways	Sideways	Sideways	Decreasing	Neutral
Liberty Holdings	Down	Down	Down	Decreasing	Neutral
Old Mutual	Sideways	Sideways	Sideways	Decreasing	Neutral

Food Retailers

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
Pick 'n Pay	Up	Up	Up	Increasing	Overbought
Shoprite	Sideways	Sideways	Sideways	Flat	Neutral
Spar	Down	Sideways	Up	Decreasing	Neutral

Retailers

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
Compagnie Richemont	Sideways	Sideways	Sideways	Decreasing	Neutral
Foschini	Sideways	Sideways	Sideways	Decreasing	Neutral
Mr Price	Down	Down	Down	Increasing	Oversold
Steinhoff	Up	Sideways	Up	Flat	Overbought
Truworths	Sideways	Sideways	Sideways	Decreasing	Neutral
Woolworths	Sideways	Sideways	Up	Decreasing	Neutral

Construction

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
Aveng	Sideways	Sideways	Down	Flat	Neutral
Group Five	Sideways	Down	Down	Increasing	Oversold
M & R	Sideways	Down	Down	Increasing	Oversold
WBHO	Up	Sideways	Down	Increasing	Neutral



4. MARKET OVERVIEW CONTINUED...

Telecomms

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
MTN	Down	Down	Down	Decreasing	Neutral
Vodacom	Down	Sideways	Sideways	Flat	Oversold
Telkom	Sideways	Sideways	Down	Flat	Neutral

Gold

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
Anglogold	Sideways	Sideways	Sideways	Decreasing	Neutral
Goldfields	Sideways	Sideways	Down	Decreasing	Oversold
Harmony	Sideways	Sideways	Down	Increasing	Oversold

Platinum

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
Angloplat	Sideways	Up	Sideways	Decreasing	Oversold
Impala	Sideways	Sideways	Down	Decreasing	Neutral
Lonmin	Down	Down	Down	Increasing	Oversold
Northam	Sideways	Sideways	Sideways	Increasing	Oversold

Resources

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
African Rainbow	Sideways	Sideways	Down	Flat	Neutral
Anglo American Plc	Sideways	Sideways	Down	Flat	Neutral
BHP Billiton	Sideways	Sideways	Down	Decreasing	Neutral
Exxaro	Sideways	Sideways	Down	Flat	Neutral
Kumba	Sideways	Down	Down	Flat	Overbought
Sasol	Sideways	Sideways	Sideways	Flat	Neutral

Industrials

	Near trend	Intermediate trend	Primary trend	Volatility	OB/OS
Aspen	Down	Down	Down	Flat	Neutral
Barloworld	Sideways	Down	Down	Decreasing	Neutral
Bidvest	Sideways	Sideways	Sideways	Flat	Neutral
Imperial	Sideways	Sideways	Down	Decreasing	Neutral
Naspers	Sideways	Sideways	Sideways	Decreasing	Neutral
Remgro	Sideways	Sideways	Sideways	Decreasing	Neutral
Reunert	Sideways	Sideways	Sideways	Decreasing	Neutral
SABMiller	Sideways	Down	Sideways	Decreasing	Neutral
Tigerbrands	Sideways	Sideways	Down	Flat	Neutral