PROCEEDINGS RESUME

JIM O' NEILL s.u.o.

CHAIRPERSON: You may continue. You are on slide 29.

MR NAIDU: Dr O'Neill, before you proceed, you have mentioned that there are other countries that have persuaded a policy of inflation targeting. Those countries, or some of them, include the oil prices, CPIX. --- Thank you for reminding me. I should have mentioned that some, I gave you the example of New Zealand as one of a number of countries persuading Canada, the UK, that have adopted inflation targeting and generally speaking those countries have had extraordinary success in terms of meeting that target and along the lines perhaps coincidentally, but maybe because of that, have succeeded in achieving stronger economic growth. Now an important point there which this question has reminded me that I should have mentioned, in virtually all those cases they do not include oil prices as part of their targeted goal.

CHAIRPERSON: On the ascertain it is not under their control? --- Yes, on two related factors. One is that of course as I said already crude oil prices are not under the control of any single country no matter what it size. Now secondly the whole purpose of inflation targeting is to try to follow a policy that helps to resorting lasting benefits to the economy and the definition of inflation is not just price changes but related change and in so far as the world cycle and oil political risks resort in large change in oil prices. There is much evidence to share that in the past large movements in oil prices had impacted consumer price inflation but do not, unless policy is simply incorrectly followed, had not had lasting underlying inflation consequences.

I see. --- And let me try and give you a very important example. Last week Alan Greenspan(?) who is arguably the world's greatest essential banker and certainly the most important one, was speaking about the latest state of the US economy, specifically went out of his way to say that he feared that rising crude oil prices would actually weaken the US economy implying that he had more concern about that aspect of rising oil prices rather that the fact that oil prices would in the short term obviously raise producer price and consumer price inflation because CPIX is targeted and it includes oil prices. That seems to me a somewhat complicating factor for the Reserve Bank in terms of trying to explain the implementation of its policy in trying to achieve its goals.

M QUNTA: Sorry, can I just ask a follow-up question on that. Are you suggesting that if the oil price was not included in the inflation targeting, what effect would that have? --- Well, CPIX has started to rise notably and I believe today that and the economists here are aware that the producer price number being the least and I think it is pretty definite that that will show a big jump as a result of a number of factors including the rising oil prices. If the authorities introduced an inflation target that did not include oil, which I know or I am pretty sure that they do follow themselves. It is quite likely that that will not change so much because the increase in oil prices since last summer has been affecting headline inflation in all countries around the world. But those that formally adopt inflation target but also some like the US that actually do not have any inflation target, but those that adopt most inflation targets do not have them with oil prices in because they are trying to target underlying inflation which is going to be permanently affecting citizens of their country and affecting labour negotiations as well as all product markets and to stop an underlying problem in terms of lasting inflation rising and forcing them to adopt a most tighter policy and weakening the economy. So all oil price increases are only relevant in so far as they have a lasting impact on inflation generally and *vice versa* oil price decreases only affects inflation going downwards in a similar way and as Mr Greenspan has said I share his concern currently about the world economy if oil prices were to rise a lot further as a result of escalated conflict in the Middle East, in my opinion that would be more important for helping to weaken unfortunately world economic activity than contributing to inflation.

MR NAIDU: Dr O'Neill, whilst on the topic of inflation targeting, do you think it is necessary for the populace in any country to be informed about the policy of inflation targeting? --- Yes.

Why? --- I think it is highly important for the population at large to understand inflation targeting because more of its main goals is to effectively create buying in all forms of society. If you are to persist let us say a 3% to 6% inflation target, wage negotiators whether they be corporate side or the trade unions on the other, they need to understand that that is the goal of policy and they should be encouraged through the clarity of that policy to understand that therefore that condition the circumstances by which ways settlements can be met. Say for example this is a target that excluded oil and the middle of that range is 2½%, unless productivity was very very high, it would be therefore difficult and understood by many through time that wage supplements would have to approximate or be consistent with that inflation target.

Thank you. --- And in that regard I have simply encouraged one or two people I have spoken to in the past, I think the work I understand undertaken by the University of Stellenbosch, with respect to inflation expectations and (indistinct) inflation expectations in my opinion is simply that is needed is a lot of more efforts to put on in order to accurately monitor what expectations of inflation are by different parts of society here which in itself will help gage expectations for the central bank and the policy makers until the time helping individuals adjust to the thinking of policy than to understand the framework. One of the main reasons for inflation targeting was introduced in some countries. It shows in a simple way a visibly showing policy to many people as possible. If we go back to the sixties or early seventies, those sort of less transparent days, many central banks adopted a more pure monetary approach based on the works of Mildren Freedman in which they would actually have targets for money supply growth. Now that is very very hard to explain actually to many professional people never mind the population at large. An inflation targeting should have something which is generally understood by the population and that is part of the reason why I want to spend some time on this here because I emphasised what I finished before the break the rand's value is one of many factors that can influence the inflation outcome and beyond that if you are targeting inflation, you should not really have a view on the topic of the rand.

Doctor, before you leave slide 28, is there anything that you would like to clarify in relation to your statement in number 8? --- Let me just pull back. Oh yes. Point number 8 suggested, it states the equilibrium price of oil was $20 per barrel and the equilibrium price of the rand is 7 against the dollar. Let me clarify what that shows because I am sure some people is somewhat confused as well as intrigued by those numbers. The exchange rate number there is consistent with the valuation framework which I said earlier, I showed you that the dollar was above the loss of currencies including the rand. In this mythical world where currencies would always trade at fair value, that is where the rand should be in this mythical world. In the same mythical world, would be an oil market based on our estimates of supply and demand globally. That is where crude oil should be and so if we have a world of equilibrium let us say that would imply that inflation would be below in terms of CPIX it would be below the target.

So is your R7,00 there the theoretical fair value of the rand? --- Yes.

Proceed to slide 29. --- Now slide 29, I thought I would show you in so far as I think it related to some of the issues that I have just discussed. What you can see here on the left hand scale is the dollar against the rand once more and here I am just showing you by month through last year and on the right hand scale you can see the yield on the so-called benchmark South African bond which ... the R150. What is I think very interesting, very very interesting globally speaking until November the bond market did not really seem to be that boblet about the rand. Yields had their absolute low early November and then actually appear to actually hit a slightly lower yield in December but throughout the preceding period, yield continued to decline despite the fact that the rand was weakening against the dollar and it can be seen here during the fourth quarter its weakness accelerated.

Why do you think so? --- I do not know. I say for the third time today economics is social science. It may well be that everybody in the bond market is completely mad and cannot understand things. It is also possibly the case, and one I would suggest more seriously probably was, that throughout that period the bond market did not see, certainly throughout the most of 2001, did not really seem to show or did not feel that there was a risk of any inflation for that no matter the rand's weakness or the rise in other currencies because underlying inflation, because I think we would probably suggest were pretty subdued. What I find .. that is probably the case rather than the fact that the bond market is full of people that just do not know what is going on. In many international markets it is often said that the bond market knows better than anybody else and quicker. So I think it would be inappropriately to leave you with that. What I find particularly interesting in the context of this Commission and some of the discussions that I have seen in the past, what is clear is that from December onwards the yield on the bond market rose sharply whilst the linkages between the decline of the rand and those rising yields, are not exactly clear on a day to day or week to week basis. Something seemingly happened which upset the foreign exchange market and the bond market. I am going to repeat that: something seemingly happened which upset both the exchange markets and the bond markets which would tend to lead me to the conclusion that it was not a particular flow but it was something that was more fundamental. It might have actually appeared in the bond market in late December but given that the bond market is usually guarded as the best guide of inflation and expectations particularly in countries which do not have fully developed and broadly known surveys of inflation expectations. It looks like the bond market got worse. And it may well be in the concept of the world economy the monetary policy developments running up to the fourth quarter, if I recall, I think the central bank eased its monetary policy slightly in September. In the concept of the inflation targeting of CPIX that might have destabilised some people globally. They are a little bit bothered in the context of some pressures for the inflation rising, was that consistence with inflation remaining in target and I would suggest that after that if I recall the dates correctly, I think it was October 14 when the central bank gave guidance about the further recognition and adopting of implementation or everybody needed, remember what the (indistinct) controls were, that actually scared people and I would say in the context of inflation targeting, if you were sticking to a CPIX target and not explaining clearly that even though you chose to include oil underlying pressures without oils, will show that there were no real problems. Perhaps the rightly response might have been a (indistinct) monetary policy then rather than perhaps scaring people in the concept of FX controls because as I have intimated with respect to the draw bonds of payments, because there was a BBoP deficit, in order for the accounting identity to hold, is probably the case that South Africa needed the help of the speculator as opposed to scare the speculator.

Slide 30 deals with the ... (intervenes) --- Slide 30 shows you in essence exactly the same but here in the concept of the (indistinct) and I do not think we need to spend any time on that.

Slide 31? --- Slide 31, I also suspect we do not need to spend too much time because I simply know you have discussed with many of the experts and it simply shows that the one thing did appear to a merge after October and it looks to be the case ever since that the turnover of the spot market turnover has declined and in that context lots of people became uncertain and destabilised. It might well be that the turnover contributed to the size of the decline or the speed of the decline.

And the announcement that you referred to in paragraph 2, is that the announcement during or about 16 October last year? --- Yes.

Were you in the country during that time? --- Coincidentally I was by coincidence. I flew in to Johannesburg on the morning of the 15th from China to read in the newspapers about a weekend meeting.

Could you formulate any impression about that? --- I was surprised and I was hopefully to hear the big inflation targeting and in the context of the inflation targeting, it bothered me that so much attention was being given to exchange controls. I think I have tried to make clear earlier that if you are trying to control inflation and that is your target, try and do something from a policy perspective to another target i.e. the exchange rate. It is incompatible. Ad for the first time since inflation targeting was introduced, it made me nervous about the commitment to inflation targeting because it seemed to be quite obvious and I am sure it is something that we may get into a bit more in a minute, the foreign exchange controls are likely to have any impact other than reducing the turnover. So yes it concerned me for the first time in about I guess close on two years.

Alright. Slide 32 you deal with the results of the survey of your 29 GS clients. --- The final slide I want to show you I thought would be both in addition but certainly from my own observations, it would be interesting for you to see which is a survey where we asked 30 clients of ours around the world last week, those three questions. These 30 clients which 29 replied, reflect multi-currency asset managers, some of the biggest asset managers in London and New York, some hedge firms, some corporations with commercial exposure in South Africa and actually one or two individuals and so I would say even though it is a small group, it is a pretty rapid entity group of the global financial community and I found it interesting to see what the answers to these questions would be and so the first question we asked: Are you Bullish/Bearish on the Rand? And as you can see 31% said they were Bullish. So 69% said they were Bearish. The second question is: Do you think that the framework for policy is good/bad? And by that our clients took it to be asking do we think the framework for monetary and fiscal policy is good or bad? And as you can see and I think it is quite an interesting contrast to the answer to number 1, 59% said good. So whilst there was a majority of them answering, that they were actually bearish for the rand, the majority said that they think that the framework for policy is good - monetary and fiscal policy. And in that context again I emphasise for a further time the reason why I think a lot of people think that is because of the (indistinct) of authorities in the introduction of fiscal policy resulting in significantly reduction in the fiscal deficit which would actually allow South Africa to qualify for the European Monetary Union, that probably South Africa's fiscal position is healthier than virtually all anticipating members and then in addition the monetary policy side under the framework of inflation targeting. But you can see despite the fact that people see that framework is good, it does not make them bullish on the rand. The third question was: Do you think that the framework has improved/deteriorated in the past year? And what is interesting here is a small majority but statistically it obviously is 50/50 and I take that related to some of the other matters that I will talk about in a minute, suggest that people became somewhat nervous in the latter part of last year. The fourth question which I do not have a slide of, but you can see from my written points, we also asked the people: What is the biggest single change that could be positive for the rand and South Africa? And you can see in the concept of what you asked me earlier, some of the favourite topics were raised. The two single biggest answers were 21% said more open markets and by that it greatly includes capital controls and it adds to my own personal belief that if you are targeting inflation, you really should not need or want to have capital controls.

CHAIRPERSON: Is that what we would call foreign exchange controls? --- Yes.

So .. (intervenes) --- I would put it to you that in the context of broader economic policies the removal of foreign exchange controls, might not have any negative impact on the rand at all. It might actually strengthen it.

MR NAIDU: And that response of 21%? --- The 21% together with the second thing, I put it deliberately in this order because the 21% said more open markets and 14% said open more FDI. Together that 35% said more open markets including FDI and I think in particular in the context of removing FX controls whilst at the same time a deliberately trying to stimulate more foreign direct investments given that the rand is so cheap compared to fair value, the rand would probably do extremely well. Remember I showed you earlier Mexico and China how broad balance of payment surpluses. In both cases it is because of large FDI. Now what is interesting is that together with more open markets, Zimbabwe was mentioned by 21% as being the single most important issue too and as you can see as you go down the list of the answers, 14% said Aids, 10% said crime and then the remaining 21% mentioned a whole variety of different specific issues and the forward book was mentioned there actually in both directions but the biggest answers actually related to economic policy and in particular operation with respect to the openness of markets.

You deal with your conclusions finally. --- Finally in conclusion I hoped to have demonstrated to you that the foreign exchange markets has been generally very peculiar since 1999 since the introduction of European Monetary Union lots of currencies including the most important in the world, the dollar and the euro specifically, have behaved very differently than the consensus expected. Secondly, the US dollar has been and remains peculiarly strong and it is because of lots of capital inflows including foreign direct investments and portfolio flows. Thirdly, until late last year despite a broad downward in payments of deficit, the rand was not independently weak from the general weakness which other currencies showed against the dollar. Fourthly, I think policy should concentrate on inflation targeting and not the rand and I think if policy was supplemented and intensified with its inflation targeting, some of the problems surrounding the rand and things you have to look into, would probably go away. Fifthly, specifically related to that if you purely want a strong rand, then it means you need to have a BBoP surplus so that you will not be subject to the (indistinct) of sentiment and so the way to achieve that is to attract more foreign direct investments and more portfolio flows - if that is what you want.

Any suggestions in relation to how these capital inflows can be attracted? --- In a general sense I would not think it appropriate in this forum to have specific recommendations, but I think geared with the opening up of foreign exchange controls, specific policies or specific targets aimed towards gearing, foreign direct investment with large public entities here in South Africa, make a very strong sense from my perspective and it may allow chances to be the basis for becoming bigger international firms providing opportunities for many people throughout not just South Africa but also possibly the rest of Africa which indeed is the sixth point. And then lastly again specifically foreign exchange controls, seems to me against that background, the events of late last year suggested with foreign exchange controls, you either have none or you have complete controls but if you have partial controls, it is taken, it is confusing and very hard for people to understand except those very close to monitoring them and implementing them and it is also often taken as a sign of lack of confidence in other targets and in particular if there is an inflation targeting regime in place, it is not that obvious to me as to what purpose foreign exchange controls serve.

What do you advocate, a big bang approach or a stepped dismantling of controls? --- A big bang approach to me, given what has happened, a big bang approach to me would have some risks more (indistinct) but it will have to be done in the context of the policies. If foreign exchange controls were just completely dismantled and there were no other policy initiatives either, that would run the risk of the remaining capital outflows individuals (indistinct) but I believe and this is in contrast and a more conservative thing, but if it was done in a context of specifically target more foreign direct investments and enhancing a greater broadening of the understanding of the inflating targeting regime, I think the more likely result would be a significant inflow and strengthening of the rand and some of the fears which I frequently read about from residents here, was to what will happen, I do not share those concerns.

Thank you, Mr Chairman. No further questions for this witness.

CHAIRPERSON: Any questions?

MR GANTSHO: Just one clarification question, Mr O'Neill. One of the earlier witnesses said that economics everything depends on everything else and that you cannot have a fixation on only one factor and that the Reserve Bank does not have direct control on prices and it cannot just have a fixation on inflation and if no money supply, liquidity in the bank sector and so on and so forth. What is your view on that? --- I am going to say I agree but I really disagree. If South Africa has chosen to adopt inflation targeting as its prime roll of monetary policy of the central bank, everything else should be supplementary to achieving that goal especially because there is pretty strong evidence that by creating low and predictably low inflation through time, that is a major assistance in helping to raise countries long term economic bonds. I would suggest for example that the (indistinct) keeping inflation low, has been an important contributory factor in probably raising the growth potential of the United States. Looking at South Africa's economic and social challenges, raising the potential growth rate in order that unemployment can drop, is probably rightly the underlying economic goal. The best way monetary policy can work to help to achieve that goal is by following and succeeding with the successful inflation target. Therefore particularly because of the change in the transmission mechanism for the past 20 years throughout the world, trying to focus through things like money supply, is inappropriate. Money supply and like a number of other indicators including the exchange rate, should be monitored as potential relevant impulses as to what will happen to the future inflation rate. But those whether it be the exchange rate or the money supply or anything else, they should be given a very small relevance in the context of what the main goal policy is.

CHAIRPERSON: Fine. Thank you very much, Dr O'Neill and thank you for coming to us. --- Thank you very much for the opportunity.

NO FURTHER QUESTIONS

MR NAIDU: Mr Chairman, the next category would be Deutsche Bank, the category of authorised dealers.

CHAIRPERSON: Yes.

MR NAIDU: Mr Chairman, there is just one witness, Mr Neil Gordon Morrison who will testify.

NEIL GORDON MORRISON: d.s.s.

CHAIRPERSON: Thank you, Mr Morrison. Please be seated.

EXAMINATION BY MR NAIDU: Mr Morrison, you are the managing director of Deutsche Bank Johannesburg which will hereinafter be referred to as DBJ and your responsibility is to manage the global markets division within DBJ. --- That is correct.

You have prepared a statement which includes your *curriculum vitae* on page 14 and do you confirm and adhere to the contents of this statement? --- I do with some very minor changes that I will make as we go along.

As you are going on. --- Some technical changes.

And subject to those changes, do you adhere to the contents of the statement? --- I do.

You appreciate that the statement and its annexures will constitute evidence before this Commission? --- I understand that.

The facts contained in this statement and in the evidence you are about to give, does it constitute matters within your own peculiar knowledge, matters about which you gained information from other employees in DBJ and from documents in DBJ? --- That is correct.

You deal with the structure in paragraph 2 and identified in a diagram in annexure 2 on page 15 of the document? --- That is correct, ja.

And do you identify the markets, products and services in paragraph 3 of your statement? --- I do. That is correct.

And in paragraph 3.3 you make the point that DBJ has not entered into any unsecured rand denominated loans with non-residents during the period under review. --- That is correct.

Also in 3.4 you make the point that DBJ does not trade commodity or equity markets and does not offer securities custody services. --- That is correct.

In paragraph 4 you deal with market-making and proprietary trading. Is there anything that you would like to add? --- No, I think maybe just to add that our business model is a client focused model. It is not designed to take proprietary positions against the rand.

In paragraph 5 you deal with transactions that could affect the rand and in paragraph 6 you make the statement that DBJ enters into foreign exchange transactions with local clients, local authorised dealers and non-resident banks. --- Ja, both of those are correct.

Paragraph 7 you deal with your risk management, internal control and compliance and in paragraph 7.4 you deal specifically with the matter of ethics and you would like to speak to what is contained in paragraph 7.4.5 of your statement. --- That is correct. In 7.4.5 maybe I should just read it or I can just summarise the point.

As you please. --- Basically as introduction certain media reports indicated that Deutsche Bank by purchasing National Treasury on the issue of euro bond for Sasol was attempting to circumvent exchange control regulations or the authority of the exchange control regulations in the Reserve Bank. What we indicate here is that that is incorrect. We indicate why we did it and I also indicate that because one is asking for a slight change in policy, that it is appropriate to go to the National Treasury. In fact that is the only course open to you if you are asking for a change in policy as everyone knows the Reserve Bank implements exchange controls under the authorities that are delegated to them.
Can I just point out that if one moves to the last paragraph starting with the sentence that begins after National Treasury .. (intervenes)

CHAIRPERSON: Which last paragraph, sorry? --- Of 7.4, page 10. The sentence beginning "It is also significant that the administration of capital issues ..." I think probably that sentence obscures something. So I want to delete that and I want to add a sentence at the end of that paragraph. This was done with the prior knowledge of the Reserve Bank" because to convey the point we are making in the sentence I am deleting, we would have needed to go into a lot more detail about section 16 and so it is probably best to remove it.

The concern that you address in this paragraph, was not a concern of either National Treasury or Reserve Bank. Was it? This is something that the media raised. --- Exactly.

Yes. --- I think that we are just setting the record straight. We misunderstood the first and National Treasury.

Fine let us move on.

MR NAIDU: 7.5 Procedures to monitor exchange control compliance and in 7.5.5 you say that you through the knowledge that you obtained after queries, are not aware of any transactions that contravened exchange controls during this period. --- That is correct.

In paragraph 8 you deal with the impact on the bank's results and activities. --- Right.

And in paragraph 9, you deal with the bank's perspectives. Is there anything you would like to add to what is contained in paragraph, something supplementary or explain? --- Ja, I think, you know, a lot of the points that I covered here, have been fleshed out by the people who have given testimony. There is no merit in me coming forward and repeating those but perhaps one of the points that requires a little bit of fleshing out is 9.3. It does link quite nicely, I think, to the previous witness's testimony, Mr Jim O'Neill, and let me read it if I may:

"Criticism, frequently unfair, has been levelled at the Reserve Bank, both as a result of the size of the NOFP going into 2001, and the rapidly and manner in which the NOFP was reduced. But it is important to examine the circumstances prior to 2001 that led to the creation of the NOFP or the rapid increase in size of the NOFP. In fact, looking at the period prior to 1998, the Reserve Bank had a policy of reducing the NOFP. In 1998, because of speculative attacks on the rand by hedge funds, the Reserve Bank rapidly increased the forward book believing that this would obviate the collapse of the rand. This resulted in an asymmetric risk profile for the rand extending to 2001."

So what one is saying here is that the conditions for the depreciation of the currency, were if you like, created partially in 1998 as a result of then massive speculative attack on the part of hedge funds, many of which no longer exist. They are closed for business. But those transactions were huge in scale running into billions of dollars by single entitles, particular hedge funds, and they were facilitated at that time by various authorised dealers in the ... necessarily in the South African market. So if you like the rand probably would have depreciated quite significantly then in line with the emerging markets contagion that was prevalent at that time but possibly did not as a result of actions by the Reserve Bank at that moment but those very actions almost postponed a later depreciation in the currency as a result of that asymmetric risk profile. Just to clarify, when I talk about an asymmetric risk profile, what I am suggesting here is that necessarily the rand, if the Reserve Bank has an oversold forward book, necessarily it would have to sell rand and buy dollars to neutralise that position over time or you could do that through the market or you could do it off the market as it had done with certain transactions in 2001. I think it is an important intertemporal point to make.

Paragraph 10 you record certain recommendations and in paragraph 11 your conclusions.

CHAIRPERSON: Can we just pause on 10, I have some questions here. Mr Morrison, when you talk about a fully convertible currency, are you advocating the abolition of exchange controls? --- Correct. What I would recommend is a movement away from capital controls on residents and to the extent that there are still *de facto* controls on non-residents, I would advocate that one moves away from that regime towards a prudential regulatory regime. Certainly you do need some legislation governing the actions for example fund managers. You would not want fund managers to invest all of the policy hold the funds offshore into euro denominated assets where they are receiving premiums in rand. It just does not make sense. So you regulate that sort of activity and other activities.

CHAIRPERSON: So you are very much in line with National Treasury before the Commission. Is that not so? I mean you are pretty much so that the regulation must be prudential and not by way of exchange control? --- Correct.

Thank you. I understand that. Anything else?

MR NAIDU: Mr Morrison, do you have any specific view regarding the participation of non-residents in the market? --- Well, my understanding of efficient markets is that the more participants you have in the market with different views, the more efficient that market is and the smoother the price movements in the market, the less volatile the market would be if large transactions go through the market. The market would then absorb those of more participants. So I would very much favour maximum participation in that market.

In paragraph 11 you record your conclusions. Thank you, Mr chairman. I have no further questions.

CHAIRPERSON: Yes. --- If I could just take you back to page 10 at the bottom, section 7.5.4 and there is a word, the third last word from the end of the page "specified by" and I think it would be more precise to say approved by the Reserve Bank" because in fact the ACI had assisted in the compilation of that.

MR NAIDU: Thank you, Mr Chairman.

CHAIRPERSON: Any questions? Any questions from the Commission? Christine would you like to ask questions?

MS QUNTA: Mr Morrison, you indicated on paragraph, your participation in the foreign exchange market in paragraph 4 on page 5. You indicated there that you are a leading market maker and both spot and forward foreign exchange markets. Are you able to tell the Commission, and if you feel that the information that I am asking for now is confidential, I think you can say so and you can provide it at a different forum from this. Are you able to explain in relation to the other market makers and to the other authorised dealers who are active in foreign exchange markets, what the volumes of your trading were in the last three months of last year? --- I actually do not have those figures in my head off-hand. I may be incorrect but I think those have been submitted, those figures have been submitted to the forensic auditors, Deloitte & Touche but they certainly are figures that are submitted to the Reserve Bank and have been discussed those numbers not in this forum.

CHAIRPERSON: Excuse me. It might be halfway but when you talk about being a leading market maker, where do you rank in the South African market? --- Well, in terms of turnover?

Yes, in turnover. --- Those figures are not publicly available. So we know just from the turnover figures that we would be amongst the leading market makers. Leading in this context also means that we are always there when a price is needed, whether that is a bid or an offer and when I spoke about us designing a business model around the customer focused business, we try and distinguish ourselves from our competitives by not bearing a fair weather market maker because basically when the market is moving rapidly, a market maker needs to be a buyer when everyone else wants to sell and *vice versa*. Our clients do not like it if you withdraw and the going gets tough and we have chosen not to withdraw. So in that context we are a leading market markets.

MS QUNTA: Can I just have a follow-up to that question and we will probably follow it up with Deloitte & Touche. You say they do have .. (intervenes) --- I think so yes. You know, we submitted that quite some time back and that may have been one of the questions.

If they do not have it, would you be willing to make those figures available to the Commission? --- Ja, *in camera* I have no objection to make them available.

So you want it to be treated in a confidential manner? --- Absolutely.

You say in paragraph 5 that you were not involved for the period under review in any transactions that significantly affected the rand. Now subject to whatever information will come that has been available to the Commission either in public or out of the public and what will still come, you know at the moment let us leave that aside but I want to find out from you whether the term "significantly affected" does that have any meaning because if you remove the word significant, are you saying that the were transactions that you were involved in that affected the rand but that effect was not significant? --- Ja, the point about of putting the word "significantly" into the sentence, is that every single foreign exchange transaction affects the rand but it is not a significant effect that it has on the rand. So it is trying to be precise with language. We were probably engaged in, I do not know the figure off-hand, but probably, I do not know, 100 000 of transactions, all of those theoretically affect the rand.

CHAIRPERSON: Well not theoretically. They practically affect the rand. --- Practically, ja because you know .. (intervenes)

It is a market in which transactions impact the rand. --- Ja.

MS QUNTA: I have no further questions.

MR GANTSHO: Yes, just one question, Mr Morrison. On page 12 you provide us with your perspectives as to what could have contributed to the rapid depreciation of the rand. Do you have any specific knowledge or factor in 9.1.4 and 9.1.5 - leads and lags and dividend outflows? Would you be able to give us more information as to the size of this leads and lags? What are you basing your belief on? --- Well, I think it is common knowledge that when the currency moves that the importers and exporters .. (intervenes)

I understand but I am looking for factual backup of this statement. Is there specific knowledge of the sizes? --- Not provided at this point. I could research that and get back to you. Similarly with dividend flows I think that the figures had been made public and had been at your disposal. We do not have anything to add.

And with respect to 9.1.7 foreign investors hedging of rand-denominated assets. Did your group or DBJ or DBL hedge specifically its exposures against the rand? --- Well, I think you had testimony from my colleague in Deutsche Securities about specific Deutsche Bank London hedging but obviously what we are saying here really refers I think to the period in the forth quarter which is significant from a perspective in terms of reference of the Commission. We are saying that a natural reaction function for an investor holding a rand asset in a market which is moving very rapidly and moving downwards, they would hedge and they would do that through all of the banks at their disposal, all of the market markers offshore/onshore, authorised dealers and non-authorised dealers and they did.

And it is your evidence that that could have participated the rapid depreciation of the rand? --- I am saying that that is a factor that you need to consider in any examination of the forces for the depreciation of the currency.

Your statement says that you believe that a combination of factors and events contributed to the depreciation. But I get your point. Thanks very much. --- Possibly 9.1.8 where I talk about net equity outflows, there are also bond outflows during the course of 2001 as a contributing factor.

Thank you.

CHAIRPERSON: Thank you, Mr Morrison. You are excused.

MR BEZUIDENHOUT: May I ask one question?

CHAIRPERSON: Yes.

MR BEZUIDENHOUT: In regard to paragraph 9.1.7 you referred to the testimony of Mr Smith on the three asset swap transactions arranged by Deutsche Securities namely for Sasol, Nampak, and M-Cell. Do you believe that those Transactions or the hedging that was done in consequence of those by Deutsche Bank London contributed in any way to the depreciation of the rand in the latter part of 2001? --- Well, it was quite clear that those

transactions fell outside of the window that you are talking about in the latter part of 2001 and the size of those transactions and the state of the market, they would execute but they certainly did not. But that is obvious.
Thank you.
CHAIRPERSON: Any questions arising?
MR NAIDU: No further questions, thank you. That concludes the evidence for Deutsche Bank.
CHAIRPERSON: The Commission then adjourns until next Thursday, 2 May at 10:00.
PROCEEDINGS ADJOURN