

# Nedbank

## Economic commentary

7 December 2009

### RESERVES

#### *Firmer gold price and SDR holdings boost reserves*

- A higher gold price and an increase in SDR holdings boosted net reserves
- Foreigners were net buyers of domestic equities and bonds during November
- The data hold little implications for policy

	As at 30 November 2009 (million)	As at 31 October 2009 (million)	Change (million)	Percentage change (m-o-m)
Gold reserves	\$4 695 R34 884	\$4 187 R32 282	\$509	12%
SDR holdings	\$2 880 R21 398	\$2 838 R21 881	\$42	1,5%
Foreign exchange reserves	\$32 914 R244 551	\$32 763 R252 603	\$150	0,5%
<b>Gross reserves</b>	<b>\$40 489</b> R300 833	<b>\$39 788</b> R306 765	<b>\$701</b>	1,8%
<u>Less:</u> Foreign loans	-\$350 -R2 601	-\$350 -R2 699	\$0	0%
Foreign deposits received	-\$491	-\$655	\$164	
Forward position	-\$60	\$1	-\$61	
<b>International liquidity position (net reserves)</b>	<b>\$39 581</b>	<b>\$38 784</b>	<b>\$804</b>	2,1%

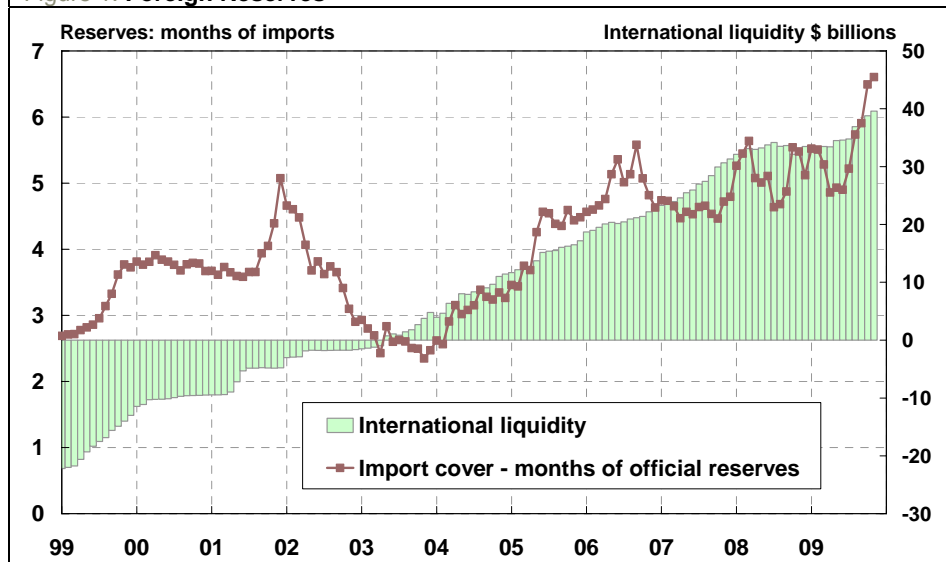
### Research

#### Group Economic Unit

Isaac Matshego  
011 295 6451  
IsaacMat@nedbank.co.za

Dennis Dykes  
011 295 6435  
DennisD@nedbank.co.za

Figure 1: Foreign Reserves



## **Comment**

The international liquidity position reached yet another all-time high in November, boosted by a firmer gold price and an increase of \$42 million in Special Drawing Right (SDR) holdings. The gold price surged by 12% during the month to \$1 169,70 per ounce and it has since set a new record high of \$1 218,25 on 3 December. The steady increase in foreign exchange holdings suggests that the Reserve Bank continues to follow a generally non-interventionist policy.

The US dollar fell to \$1,5029 against the euro from \$1,4812 in October. However, it firmed slightly against the British pound to \$1,6494 from \$1,6538, while the rand rose to R7,4300 against the dollar from R7,7100. The rand value of gross reserves dropped by R5,93 billion to R300,83 billion.

Foreigners were net buyers of domestic assets during the month, with the net purchases of R12,58 billion made up of net equity purchases of R3,10 billion and net bond purchases of R9,47 billion. Cumulative inflows for the year to date rose to R65,98 billion from R53,40 billion in the previous month.

## **Outlook**

Indications are that the Reserve Bank has accumulated reserves actively over the past few months despite fragile global conditions and an uncertain outlook. South Africa's reasonably solid fundamentals have enabled the country not only to attract foreign capital inflows, but also to tap global capital markets at favourable rates. The Bank has also started diversifying its foreign currency holdings into euros and sterling from the US dollar over the past few months as confirmed by the Monetary Policy Committee at the Monetary Policy Forum on 18 November 2009.

Although the current account deficit narrowed significantly in the second quarter of this year, South Africa's external position remains vulnerable. The current account deficit narrowed to 3,2% of gdp in the second quarter from 7,0% in the first quarter.

## **Implications**

The foreign exchange data contain few surprises and will have little implication for the markets. The Reserve Bank is clearly not targeting a weaker currency and interest rates policy is likely to remain neutral in the face of mixed economic data.

### **Nedbank Head Office**

NEDBANK GROUP ECONOMIC UNIT  
135 Rivonia Road Sandown 2196  
PO Box 1144 Johannesburg 2000  
Tel +27 (0)11 295 6363  
Fax +27 (0)11 294 6363  
Email [EstelleO@nedbank.co.za](mailto:EstelleO@nedbank.co.za)

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