

Nedbank

Economic commentary

8 January 2010

RESERVES

Net reserves fell slightly in December but rose strongly during 2009

- The international liquidity position improved strongly during 2009
- Foreigners were net buyers of domestic equities but net sellers of bonds during 2009
- The foreign reserves data hold little implications for policy

	As at 31 December 2009 (million)	As at 30 November 2009 (million)	Change (million)	Percentage change (m-o-m)
Gold reserves	\$4 438 R32 752	\$4 695 R34 884	-\$257	-5,5%
SDR holdings	\$2 793 R20 612	\$2 880 R21 398	-\$87	-3,0%
Foreign exchange reserves	\$32 475 R239 666	\$32 914 R244 551	-\$439	-1,3%
Gross reserves	\$39 706 R293 030	\$40 489 R300 833	-\$783	-1,9%
<u>Less: Foreign loans</u>	-\$350 -R2 583	-\$350 -R2 601	\$0	0%
Foreign deposits received	-\$396	-\$491	\$96	
Forward position	\$0	-\$60	\$60	
International liquidity position (net reserves)	\$38 960	\$39 581	-\$627	-1,6%

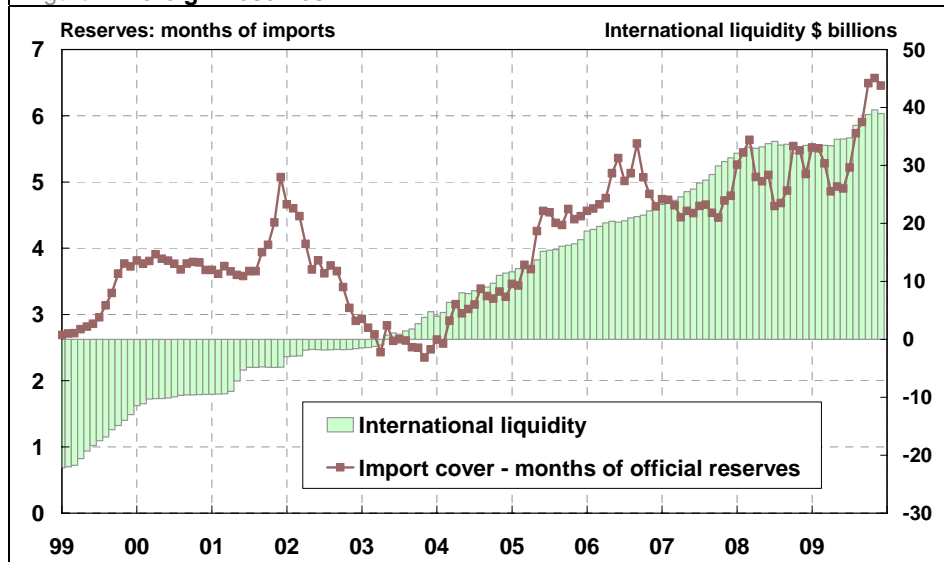
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Figure 1: Foreign Reserves



Comment

Net reserves declined slightly in December after rising for most of 2009, dragged down by a lower gold price and a firmer US dollar during the month. The gold price fell by 5,5% to \$1 105,60.

The international liquidity position improved by 16,5% during 2009, boosted by the South African Reserve Bank's accumulation of foreign exchange reserves, the \$2,45 billion Special Drawing Right allocation from the International Monetary Fund as well as higher valuations, mainly the stronger gold price (up 27,2% during the year). Gold holdings remained at 4 million ounces, a level that has been maintained since mid-2003. Import cover improved to 5,9 months from 5,0 months in December 2008.

The US dollar was slightly firmer in December, rising to \$1,4425 against the euro from \$1,5029 in November but was 2,3% weaker compared with its level in December 2008. Against the British pound it rose to \$1,6151 from \$1,6494, 11,8% softer than its level a year ago.

The rand rose to R7,3800 against the US dollar in December from R7,4300, 26,1% firmer than its level of R9,3050 in December 2008. Consequently, the rand value of gross reserves decreased to R293,03 billion from R317,29 billion in December 2008.

Net foreign purchases of domestic assets amounted to R3,77 billion in December from R12,58 billion in November, with net equity and bond purchases of R1,61 billion and R2,16 billion, respectively. For the quarter, net foreign purchases were R23,69 billion, while net purchases for the year totalled R71,75 billion, reversing most of 2008's R93,16 billion outflow. Net equity purchases amounted to R72,17 billion but net bond sales of R2,42 billion were recorded during 2009.

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. This is in line with global trends. The International Monetary Fund's Currency Composition of Foreign Exchange Reserves (COFER) indicates that there was a global shift in reserve holdings away from the US dollar to other major currencies during the first three quarters of last year.

The current account deficit narrowed significantly during 2009, falling to 3,2% of gdp in the third quarter from 7,0% in the first quarter. We anticipate that the current account deficit will improve to just over 4% of gdp in 2009, but that there will be some deterioration to around 4,5% of gdp in 2010.

Implications

The foreign exchange data contain few surprises and will have little implication for markets. The Reserve Bank is clearly not targeting a weaker currency and interest rate policy is likely to remain neutral in the face of mixed economic data. The economy is gradually recovering and the risks to inflation are perceived to be rising. The prime rate is therefore expected to remain unchanged at 10,5% throughout 2010, before moving higher in 2011.

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