

05 November 2010

# Economic Commentary

## Reserves

### Net reserves continue to rise strongly on SARB activity

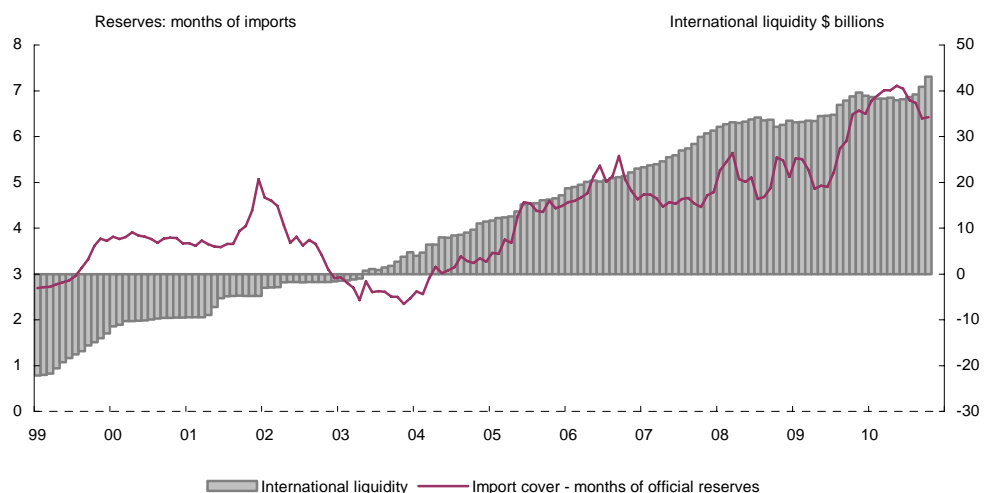
- The international liquidity position increased by a significant \$2 258 million to \$43 112 million in October.
- The higher gold price, a weaker US dollar and the Reserve Bank's operations were behind the strong increase.
- The Reserve Bank remained active in the market, with the forward position jumping to \$3 124 million from \$1 122 million in September.
- Foreign investors remained net buyers of domestic securities.
- These figures have little direct implication for monetary policy. However, strong capital inflows have boosted the rand and kept inflation in check. We still feel that there will be no change in interest rates at the next meeting but that there is still a possibility of one last cut in early 2011.

### Comment

The international liquidity position increased by another large amount in October, mainly reflecting the Reserve Bank's activity in the market. Valuation adjustments - the higher gold price and a weaker US dollar - also contributed to the increase. The strong increase in the forward position largely reflected inflows from the NTT/Didata transaction.

The gold price rose to \$1 348,35 per ounce from \$1 312,08 in September, while the US dollar weakened to \$1,3877 and \$1,5966 from \$1,3651 and \$1,5806 against the euro and British pound, respectively. The rand was slightly firmer at R6,9650 per dollar from R6,9800.

Chart 1 : Reserves and import cover



#### Group Economic Unit

Isaac Matshego  
+27 11 295 6451  
IsaacMat@nedbank.co.za

Dennis Dykes  
+27 11 295 6435  
DennisD@nedbank.co.za

Corporate Place, 135 Rivonia Road,  
Johannesburg, 2196, South Africa

<http://nedbankgroup.co.za>

Source: SARB, Nedbank

Important disclosures can be found in the Disclosures Appendix.

**Table 1: Reserves**

	As at 31 October 2010 (m)	As at 30 Sept 2010 (m)	Change (m)	% change (m-o-m)	Nedbank forecast (m)	Market forecast (m)
Gold reserves	\$5 414	\$5 268	\$146	2,8%		
	R37 709	R36 771				
SDR holdings	\$2 803	\$2 776	\$27	1,0%		
	R19 523	R19 376				
Foreign exchange reserves	\$35 983	\$36 025	-\$42	-0,1%		
	R250 622	R251 455				
<b>Gross reserves</b>	<b>\$44 200</b>	<b>\$44 069</b>	<b>\$131</b>	0,3%		
	R307 853	R307 602				
Foreign deposits received	-\$4 212	-\$4 337	\$125			
Forward position	\$3 124	\$1 122	\$2 002			
<b>International liquidity position (net reserves)</b>	<b>\$43 112</b>	<b>\$40 854</b>	<b>\$2 258</b>	5,5%	n/a	n/a

Source: SARB

Foreign investors were net buyers of domestic securities to the value of R443,62 million during October, with net equity purchases of R2 194 million partly offset by net bond sales of R1 751 million. Cumulative purchases for the year to date reached R88 584 million compared to R53 397 million over the same period in 2009, with net bond and equity inflows of R66 910 million and R21 675 million, respectively.

## Outlook

The Reserve Bank is likely to continue accumulating foreign currency reserves while strong capital inflows persist, in order to reduce some of the upward pressure on the rand.

## Implications

These figures have little direct implication for monetary policy. However, strong capital inflows have boosted the rand and kept inflation in check. We still feel that there will be no change in interest rates at the next meeting but that there is still a possibility of one last cut in early 2011.

Regular economic analysis is available on the Nedbank Group's internet site, <http://www.nedbankgroup.co.za>

Copyright Nedbank Limited 1997, updated 2008. Nedbank Limited, 135 Rivonia Road, Sandown, 2196. The information furnished in this report (the 'report'), which information may include opinions, estimates, indicative rates, terms, price quotations and projections, reflects the existing judgement of the author(s) and current market conditions, which judgement and conditions are subject to change without notice, modification or amendment. This report does not necessarily reflect the opinion of Nedbank Limited ('Nedbank'). The information herein has been obtained from various sources, the accuracy and/or completeness of which Nedbank does not guarantee. Nedbank recommends that independent tax, accounting, legal and financial advice be sought should any party seek to place any reliance on the information contained herein. This report has been prepared for general dissemination and information purposes only and may not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. Any additional information relative to any financial instruments and/or financial products reviewed in this report is available on request. All rights reserved. Any unauthorised use or disclosure of this report.