

# Nedbank

## Economic commentary

15 February 2010

### WEEKLY MONITOR

#### Review of 8 to 12 February 2010 and preview of 15 to 19 February 2010

#### DOMESTIC

Emerging market currencies remained under pressure as concerns over the state of European countries' public finance heightened risk aversion. Towards the end of the week, however, the **rand** gained some ground on the back of firmer precious metal prices. The unit ended at R7,68, R10,48 and R12,01 against the US dollar, the euro and the British pound respectively on Friday, up from R7,76, R10,63 and R12,13 at the previous week's close.

**Bonds** also firmed ahead of the release of the national budget during the course of this week and were also supported by the firmer rand. The yields on the **R157 2015** and on the **3-, 5- and 10-year BESA actuaries** ended at 8,34%, 9,08%, 8,82% and 8,63% respectively at the end of the week, down from 8,37%, 9,25%, 8,98% and 8,77% at the previous week's close.

**Money market rates** were higher last week compared with the previous week. On Friday, the **3-month JIBAR** was unchanged at 7,19%, while the **6-, 9- and 12-month JIBAR** increased to 7,59%, 7,76% and 8,03% respectively from 7,57%, 7,75% and 7,97% a week earlier.

**Local equities** ended higher on Friday compared with the previous week's close. This was despite lingering concerns over the European markets and news that China would raise its reserve requirements. The **FTSE/JSE all share index** gained 1,8% to close the week at 26 262,4, with **basic materials** rising by 3% to end at 26 248,1, while **industrials** and **financials** gained 1,6% and 0,7% respectively to close at 25 141,0 and 18 964,6.

**Mining production** fell by 2,5% y-o-y in December following a 2,6% decline in November. Over the month, mining output contracted marginally, falling by a seasonally adjusted 0,6% after two months of expansion as output of almost all mining products fell during the month. On a quarterly basis, mining production showed a 0,6% expansion on the back of higher output of platinum (up by 10,9% q-o-q), iron ore (4,1% q-o-q), chrome (12,2% q-o-q), manganese ore (22,3% q-o-q) and diamonds (6,1% q-o-q), while output of gold (down by 0,6% q-o-q), coal (-5,8% q-o-q), copper (-35%), nickel (-2,5% q-o-q) and other non-metallic minerals (-17,7% q-o-q) fell. For the year as a whole mining output contracted by 6,7%, the fourth consecutive yearly decline, with output of platinum, gold and coal down by 1,6%, 7,6% and 1,2%, respectively.

**Manufacturing production** increased by 3,2% y-o-y in December, its first annual increase since September 2008 following a 4,5% drop in November. Over the month, manufacturing output rose by 3%, with output in the motor vehicles and parts industry rising by 11,3% (up by 34,6% y-o-y), not only the fourth consecutive monthly increase but also the strongest rise since April 2008. Production in the 'glass and non-metallic mineral products' and 'other manufacturing' industries also increased strongly, rising by 7,7% m-o-m and 7,6% m-o-m, while production of 'radio and television' and 'food and beverages'

#### Research

##### Group Economic Unit

Johannes Khosa  
011 294 1835  
JohannesKh@nedbank.co.za

Carmen Altenkirch  
011 295 9878  
CarmenAl@nedbank.co.za

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

rebounded over the month, growing by 3,2% and 2,5% respectively from 0,1% and -1,4% in November. Overall, seven out of ten major categories recorded growth in December, offsetting the declines in the 'basic iron and steel' and 'electrical machinery' industries, where output fell 1,7% and 1,4% respectively following 4,8% and 1,4% growth in November. The strong increase in production in December boosted the output figures for the fourth quarter, which increased by a seasonally adjusted 3,4% q-o-q, up from 2,8% in the third quarter and a decline of 2,9% in the second quarter. For 2009 as a whole, total manufacturing production fell by 12,5%, with all the major industries, besides food and beverages, recording sharp drops as the effect of the recession weighed down on global demand.

**Employment** stabilised during the final quarter of 2009 as economic conditions started to improve gradually. The unemployment rate eased to 24,3% from 24,5% in the third quarter. Over the quarter, a total of 89 000 (or 0,7%) jobs were created following a 484 000 (or 3,6%) loss in the third quarter. The sector breakdown shows that seven out of the ten major sectors recorded gains. Strong improvements were recorded in utilities (up by 21% q-o-q following a 12,9% drop in the third quarter) and finance industries (up by 4,6% q-o-q following a 1,6% drop) during the period. Employment in the manufacturing sector also improved in the last quarter of the year, up by 1,1% following three successive quarters of declines. Job losses in the agricultural and mining sectors continued, with employment falling by 5,8% q-o-q and 1,0% respectively, but the pace of decline slowed from 8% q-o-q and 6,3% in the third quarter. Over the year total employment fell by 6,3%, with employment contracting in all sectors apart from utilities and finance.

#### Preview of the week: 15 to 19 February 2010

Country	Release	Period	Consensus forecasts (Bloomberg)	Nedbank forecast	Previous
<b>South Africa</b>					
<b>Monday</b>	-	-	-	-	-
<b>Tuesday</b>	-	-	-	-	-
<b>Wednesday</b>	Retail sales	Dec-09	-5,6% y-o-y	-7,8% y-o-y	-6,6% y-o-y
	Budget				
	Budget deficit % of gdp	2009/10	7,7%	6,5%	7,6%
		2010/11	6,5%	5,6%	6,2%
<b>Thursday</b>	-	-	-	-	-
<b>Friday</b>	-	-	-	-	-

Key economic releases and events scheduled for this week include **retail sales** for December and the **national budget** for the fiscal year 2010/11. Retail sales are expected to have remained weak in December. The consolidated budget deficit for 2010/11 is expected to increase to 6,5% from 6,2% announced in October's Medium Term Budget Policy Statement.

#### INTERNATIONAL

Better-than expected US corporate profits and employment data lifted market sentiment last week. In the US, the **Dow Jones**, the **NASDAQ** and the **S&P500** rose by 0,9%, 2% and 0,9% respectively, to end the week at 10 009,1, 2 183,5 and 1 075,3. In Europe, the **UK FTSE 100**, the **German DAX** and the **French CAC** closed the week at 5 142,3, 5 500,4 and 3 599,1, up by 1,6%, 1,2% and 1,1% respectively. In Japan, the **Nikkei 225** rose by 0,3%, to end at 10 092,2.

The **dollar** ended stronger against the euro at \$1,3629, up from \$1,3675, as the Eurozone's recovery lagged that of the US. Concerns about the sustainability of some southern European countries' public finances also continued to weigh on the euro. The US unit closed up against the British pound, ending at \$1,3701 from \$1,5649. The yen ended weaker against the dollar, declining to ¥89,93 from ¥89,2.

The price of **Brent crude oil** rose by 2,3%, to close at \$72,13 per barrel, while **gold** and **platinum** also ended higher, ending at \$1 093,3 and \$1 515,3, up by 2,5% and 2,3% respectively.

In the **US**, **initial jobless claims** declined to 440 000 for the first week of February from 483 000 at the end of the previous week. The market had expected a more modest decline to 465 000. The **University of Michigan consumer sentiment** index fell slightly to 73,7 in February from 74,4 in January. **Retail sales** rose by more than expected in January, increasing by 0,5% m-o-m, following a 0,1% m-o-m decline in December. Over the year, sales rose by 4,7%.

In the **Eurozone**, **industrial production** fell by 1,7% m-o-m in December, following a 1,4% m-o-m gain in November. The market had expected production to fall by 0,1% m-o-m. Over the year, output fell by 5%, following a 6,9% decline in November. For 2009 as a whole, production declined by 14,9%. The **Eurozone's** economic recovery lost some momentum in the fourth quarter, growing by 0,1% q-o-q, following a 0,4% q-o-q gain in the third quarter. During 2009, the economy contracted by 4%. Germany, the Eurozone's largest economy, stagnated in the third quarter, while France grew by 0,6% q-o-q.

In the **UK**, **manufacturing production** rose by 0,9% m-o-m in December, following a 0,2% m-o-m gain in November. The broader measure of industrial production, which accounts for 17% of the economy, rose by 0,5% m-o-m, up from a 0,2% m-o-m in the previous month. The **trade balance** recorded its largest deficit since January 2009, rising to £7,3 billion from £6,8 billion in November. This was due to a sharper-than-expected increase in imports, particularly of crude oil and aircraft. Exports fell by 9,5% in 2009, while imports declined by 10,3% over the same period.

### Preview of the week: 15 to 19 February

Country	Release	Period	Forecast	Previous
<b>United States</b>				
<b>Monday</b>				
<b>Tuesday</b>				
<b>Wednesday</b>	Housing starts	January	580 000	557 000
	Industrial production	January	0,8% m-o-m	0,6% m-o-m
<b>Thursday</b>	Initial jobless claims	Week ending 13 February		440 000
	Producer inflation	January	4,4% y-o-y	4,4% y-o-y
<b>Friday</b>	Consumer inflation	January	2,8% y-o-y	2,7% y-o-y
<b>Eurozone</b>				
<b>Monday</b>				
<b>Tuesday</b>				
<b>Wednesday</b>				
<b>Thursday</b>				
<b>Friday</b>	PMI - manufacturing	February	52,8	52,4
<b>United Kingdom</b>				
<b>Monday</b>				
<b>Tuesday</b>	Consumer inflation	January	3,5% y-o-y	2,9% y-o-y
<b>Wednesday</b>				
<b>Thursday</b>				
<b>Friday</b>	Retail sales	January	1% y-o-y	2,1% y-o-y
<b>Japan</b>				
<b>Monday</b>	Gdp - estimate	2009 Q4	0,9% q-o-q	0,3% q-o-q
<b>Tuesday</b>				
<b>Wednesday</b>				
<b>Thursday</b>	Leading economic indicator	December		94
<b>Friday</b>				

Overview: 8 to 12 February

Figure 1: JSE All-share index

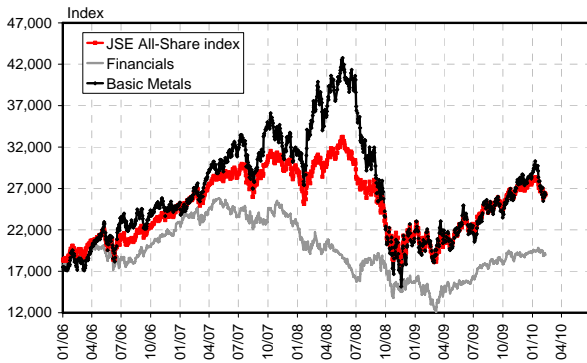


Figure 2: Currency markets

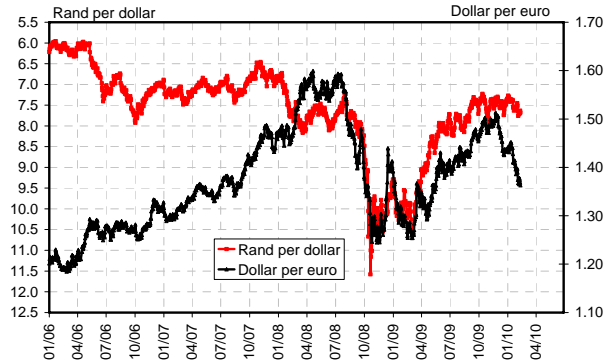


Figure 3: International equity markets

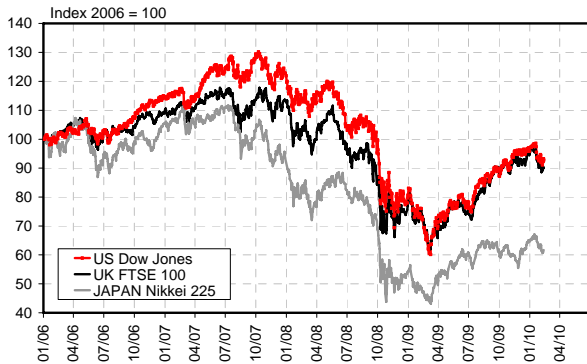


Figure 4: Commodity prices

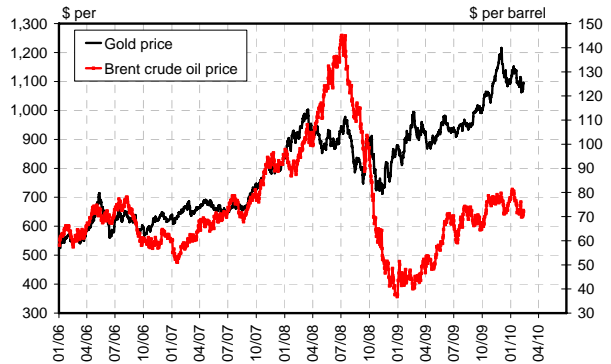


Figure 5: UK industrial production

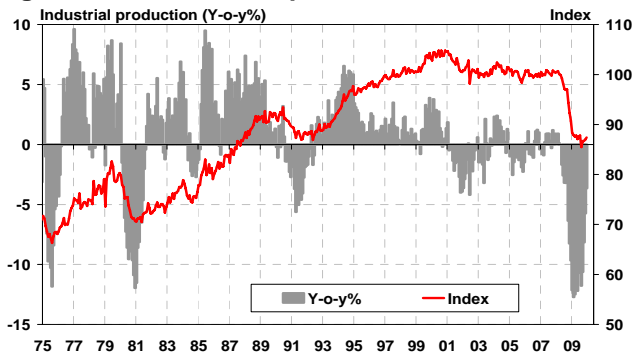
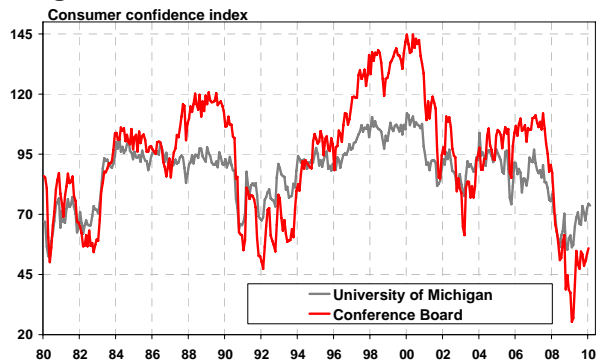


Figure 6: US consumer confidence



(Source: Datastream, I-NET)

**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)

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.