

Nedbank

Economic commentary

1 February 2010

WEEKLY MONITOR

Review of 25 to 29 January and preview of 1 to 5 February 2010

DOMESTIC

The **rand** was volatile during the week due to weaker precious metal prices and risk aversion. The local unit, however, gained some ground at the end of the week, helped by the release of a bigger-than-expected trade surplus as well as improved risk appetite in global markets following news that the US Federal Reserve Chairman Ben Bernanke's second term will be confirmed by the Senate. The unit ended at R7,62, R10,56 and R12,17 against the US dollar, the euro and the British pound on Friday, up from R7,63, R10,78 and R12,28 at the end of the previous week.

Bond yields closed the week mixed, following the MPC's decision to leave interest rates unchanged. The yield on the **R157 2015** declined to 8,38% on Friday from 8,56% at the previous week's close, while the **3-, 5- and 10-year BESA actuaries** increased to 9,16%, 8,89% and 8,62% respectively from 9,04%, 8,61% and 8,24%.

Money market rates eased further, with the **3-, 6-, 9- and 12-month JIBAR** ending the week at 7,19%, 7,56%, 7,75% and 7,99% respectively, down from 7,23%, 7,69%, 7,98% and 8,14%.

Local equities remained under pressure in line with weaker global markets, while weaker resource stocks also contributed. The **FTSE/JSE all share index** was down by 1,4% to end the week at 26 676,0, with **basic materials** dropping by 4,4% to close at 26 637,1 as both the gold and platinum indices fell by 3,9%, while **financials** and **industrials** lost 0,9% and 0,6% respectively to end at 19 566,4 and 25 238,2.

As expected, the **Monetary Policy Committee (MPC)** left the repo rate unchanged at 7% on Tuesday, stating that economic data released since the last meeting in November 2009 pointed towards tentative signs of economic recovery while inflation fell further, albeit moderately. The MPC's inflation outlook has remained unchanged since the November meeting, with CPI expected to return to within the 3% to 6% target band in March 2010, remaining below 6% over the forecast period and averaging 5,4% (revised from 5,5%) in the final quarter of 2011. These forecasts, however, are based on electricity-tariff increases of 25%, which is lower than Eskom's proposed 35% per annum over the next three years. The MPC expects the economy to expand by 2,0% and 3,0% in 2010 and 2011, respectively. Consumption expenditure remains under pressure and there are no risks to inflation from this factor. Wage pressures have moderated somewhat despite remaining above inflation, with the risk from this source subsiding slightly. Inflation expectations as indicated by the BER's inflation expectation survey, remained mostly unchanged in the fourth quarter of 2009 compared to the third quarter, with CPI expected to average 7,5% in 2010 and 7,7% in 2011. The rand has remained a positive factor on the inflation front, although this has had an adverse impact on export-dependent sectors.

Research

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Consumer inflation for December came in below market expectations, increasing to 6,3% y-o-y (up by 0,3% m-o-m) from 5,8% y-o-y in November. The temporary spike in inflation was due to the low fuel price base established in December 2008, following the financial crisis. Weak household demand, combined with the current strength of the rand, continued to put downward pressure on durable and semi-durable goods. The price of furniture and appliances fell by 0,4% and 0,5% over the month respectively, following declines of 0,5% and 1% in the previous month. Christmas discounting may also have been a contributing factor. New vehicle prices also fell over the month, declining by 0,2%, following a decline of a similar magnitude in the previous month. Food inflation moderated further to 2,8% from 4% in November, due to a 0,3% decline in food prices over the month. The fall was attributed to lower prices of grain, fish, vegetables as well as sugar, sweets and deserts. Some upward pressure came from higher petrol prices, which rose by 3,7% m-o-m as well as owner's equivalent and housing rentals, which increased by 0,8% and 1% m-o-m respectively.

For the first time since April 2009 **producer price inflation** returned due to higher commodity prices, which have been rising steadily since February 2009. PPI increased to 0,7% y-o-y in December from -1,2% y-o-y in November. *The Economist* commodity price index has risen by 40% since December 2008, when commodity prices were nearly at record lows. The full impact of higher commodity prices on South African producer inflation has been muted to some extent by the strength of the rand. Food prices at the agricultural level rose by 3,5% m-o-m in December, but are still 2,3% lower than this time last year. Sharply higher prices of vegetables and oil seeds were the main reason behind the monthly increase. The mining and quarrying category rose by 3,6% y-o-y from -0,7% in the previous month. Food prices at the manufacturing level declined by 0,5% m-o-m following a 0,2% m-o-m gain in the previous month.

Money supply grew by 1,6% y-o-y in December, up from 0,6% y-o-y in November. The data, however, continued to reflect weak economic conditions in both the household and corporate sectors. Over the month, unadjusted M3 fell by R7,9 billion or 0,4%. Claims on the private sector also declined (down R3,2 billion after a R1,4 billion rise in November) as did net foreign assets (down R7,6 billion after a R3,9 billion rise in November), while the net other assets and liabilities category rose by R2,3 billion after falling by R7,7 billion in November. Annual growth in **private sector credit extension** fell at a slower pace in December, declining by 0,8%, following declines of 0,4% and 1,6% in October and November respectively. **Instalment and leasing finance** fell by 6% y-o-y in December, after a 6,1% in November. However, there has been a small improvement in instalment-sales advances over the past three months, perhaps reflecting some bottoming out in sales of durable goods to households. Annual growth in mortgage advances moderated further to 2,9% despite some improvement over the month. High unemployment and debt levels as well as weak confidence continued to offset improved affordability in the household sector. Other loans and advances contracted further on a monthly and annual basis. The category eased by 0,7% over the month, bringing the annual decline to 5%.

The **trade account** recorded a surplus of R3,7 billion in December following a R2,6 billion deficit in November as exports (down by 0,8% m-o-m and 6,4% y-o-y) fell at a slower pace than imports (down by 13,7% m-o-m and 16,9% y-o-y). The deficit narrowed significantly during 2009. Both exports and imports improved during the second half of the year, after falling sharply in the first half, rising by average monthly rates of 1,1% and 1,4% respectively. The trend in the first half of the year, when imports fell at a faster pace than exports, ensured that the trade deficit narrowed significantly for the year as a whole.

Preview of the week: 1 to 5 February 2010

Country	Release	Period	Consensus forecast (Bloomberg)	Nedbank forecast	Previous
South Africa					
Monday	Kagiso PMI	Jan-10	53,4	-	52,5
Tuesday	Vehicle sales	Jan-10	-	-	-22,4%
Wednesday	-	-	-	-	-
Thursday	-	-	-	-	-
Friday	Gross reserves	Jan-10	\$39,7 billion	-	\$39,7 billion
	Net reserves	Jan-10	\$39,5 billion	-	\$39,0 billion

Key economic releases scheduled for this week include **vehicle sales** for January 2010. Sales are expected to improve slightly over the month, helped by the usual increase in purchases for the new year registrations. This will help the annual rate of decline in total sales to ease.

INTERNATIONAL

US markets shrugged off better-than-expected gdp data, as investors rather focused on more subdued longer-term growth prospects. Increasing concerns about the state of Greece's public finances also added to negative sentiment. In the US, the **Dow Jones**, the **NASDAQ** and the **S&P500** fell by 1%, 2,6% and 1,6% respectively, to end the week at 10 067,3, 2 147,4 and 1 073,9. In **Europe**, the **FTSE 100**, the **German DAX** and the **French CAC** fell by 2,2%, 2,3% and 2,1% respectively, to close at 5 188,5, 5 608,8 and 3 739,5. In Japan, the **Nikkei 225** closed at 10 198, down by 3,7%.

The **US dollar** ended 2% and 0,7% stronger against the euro and the British pound, ending the week at \$1,3861 and \$1,5990. The US unit also closed stronger against the yen, closing at ¥90,27 from ¥89,84.

Concerns about the possible impact that tighter Chinese monetary policy might have on global growth prospects continued to weigh on commodity markets. The price of **Brent crude oil** fell by 0,8%, to end the week at \$71,1 per barrel. **Gold** and **platinum** also ended lower, falling by 1,2% and 3% respectively, to close at \$1 081,1 and \$1 505,5 per ounce.

The **US economy** grew at its fastest pace in six years in the fourth quarter of last year, helped by a massive fiscal stimulus package, extremely loose monetary policy and the turn in the inventory cycle. The economy expanded at a seasonally adjusted annualised rate of 5,7% in the final quarter, which was above market expectations of 4,7% and an improvement from the 2,2% growth recorded in the third quarter. Rebuilding inventories contributed 3,4 percentage points to the quarterly gain in gdp. For 2009 as a whole, the economy shrank by 2,4%, the worst performance since 1946. **Durable goods** orders rose by 0,3% m-o-m in December, following a 0,4% m-o-m decline in November. Durable goods orders, excluding transportation equipment, rose by 0,9% m-o-m. **Initial jobless claims** declined by 8 000 to 470 000 for the week ending 23 January. This was worse than market expectations of 450 000. The **Federal Open Market Committee** kept interest rates unchanged at last week's meeting, noting that rates would be kept low for an extended period of time. However, the Committee did announce that the programme to purchase mortgage-backed securities would come to an end in March. **New home sales** fell by 7,6% m-o-m in December to an annualised 342 000, probably reflecting the scheduled end of the first-time homebuyers tax credit, which caused many to bring forward their decision to purchase a new home in previous months. The tax credit has now been extended until April 2010. New home sales rose to a peak of 419 000 in July 2009, but are now only 13 000 higher than the trough reached in January 2009.

The **German Ifo business climate** index rose by more than expected in January, increasing to 95,8 from 94,6 in December. In the **Eurozone**, **inflation** rose to 1% in January, up from 0,9% in December, but was below market expectations of 1,2%.

The **UK economy** exited recession in the final quarter of 2009, growing by a modest 0,1% q-o-q (-3% y-o-y), which was below market expectations of 0,4% q-o-q. In the third quarter, the economy contracted by 0,2%. The manufacturing sector rose by 0,4% q-o-y, while the service sector grew by 0,1% over the quarter.

In **Japan**, **factory** output rose by 2,2% m-o-m in December, which was below market expectations and unchanged from the previous month. December's figure was in line with market expectations. The Bank of Japan forecasts that prices will continue to fall until March 2012, albeit at a more moderate pace due to higher oil prices. **Unemployment** declined to 5,1% in December, down from 5,2% in the previous month. **Consumer prices** fell for the tenth consecutive month in December, falling by 1,3% y-o-y, following a 1,7% decline in November. **Retail sales** declined on an annual basis for the sixteenth consecutive month, falling by 0,3%, following a 1% decline in the previous month. The **Bank of Japan** kept interest rates unchanged at 0,1% last week.

In the **US**, **non-farm payrolls** data are due out on Friday, with the economy expected to have added 20 000 jobs in January.

Preview of the week: 1 to 5 February 2010

Country	Release	Period	Forecast	Previous
United States				
Monday	Personal income	December	0,3%	0,4%
	Personal spending	December	0,3%	0,5%
	ISM manufacturing	January	55,6	55,9
Tuesday				
Wednesday				
Thursday	Initial jobless claims	Week ending 30 January		470 000
	Factory orders	December	0,5% m-o-m	1,1% m-o-m
Friday	Non-farm payrolls	January	20 000	-85 000
Eurozone				
Monday	PMI - manufacturing	January	52	52
Tuesday	Producer price inflation	December	-3,1%	-4,4%
Wednesday	Retail sales	December	-2,4% y-o-y	-4% y-o-y
Thursday				
Friday				
United Kingdom				
Monday				
Tuesday				
Wednesday				
Thursday				
Friday	Producer price inflation	December	3,7% y-o-y	3,5% y-o-y
Japan				
Monday				
Tuesday				
Wednesday				
Thursday				
Friday	Leading economic index	December	93,5	90,7
China				
Monday	PMI - manufacturing	January	56,5	56,6
Tuesday				
Wednesday				
Thursday				
Friday				

Overview: 25 to 29 January 2010

Figure 1: JSE All-share index

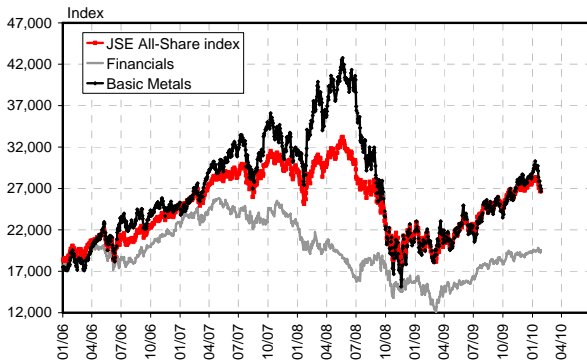


Figure 2: Currency markets

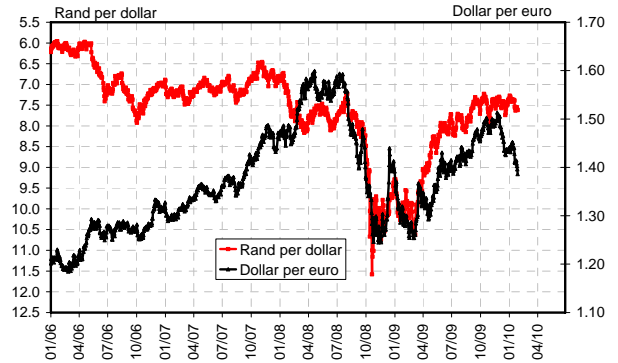


Figure 3: International equity markets

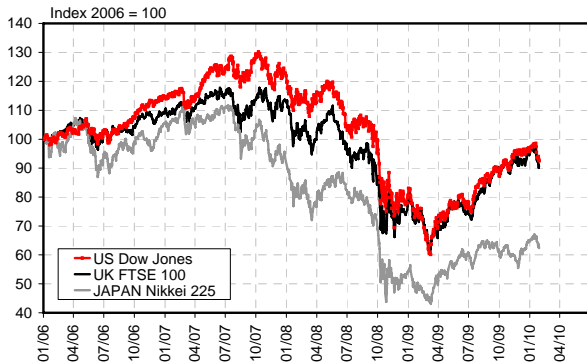


Figure 4: Commodity prices

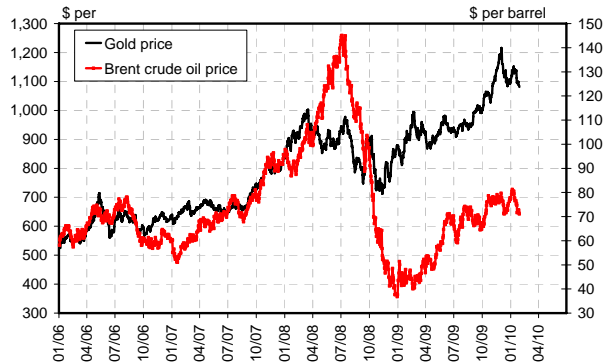


Figure 5: US gdp

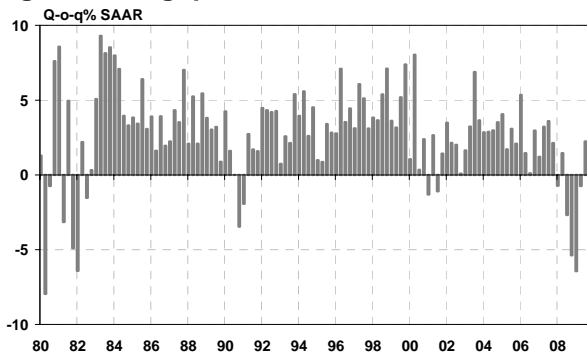
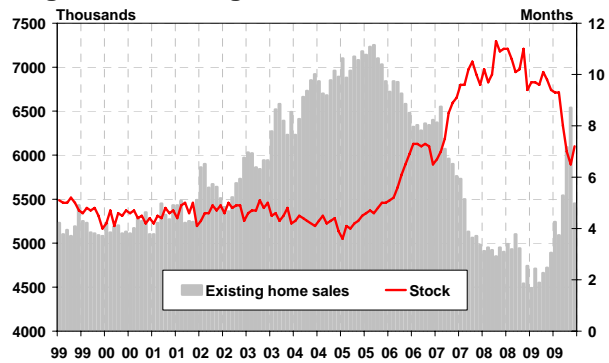


Figure 6: Existing home sales



(Source: Datastream, I-NET)

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