Nedbank
Economic commentary

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WEEKLY MONITOR

Research

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Review of 1 to 5 February 2010 and preview of 8 to 12 February 2010

DOMESTIC

Reduced risk appetite and weaker precious metal prices continued to weigh down on the **rand** last week. The local unit closed at R7,76, R10,63 and R12,13 against the US dollar, the euro and the British pound on Friday respectively, down from R7,62, R10,56 and R12,17 at the end of the previous week. **Bond** yields ended mixed, with the yield on the **R157 2015** edging down marginally to 8,37% from 8,38% at the previous week's close, while the **3-, 5-** and **10-year BESA actuaries** increased to 9,29%, 8,98% and 8,77% respectively from 9,16%, 8,89% and 8,62%.

Money market rates also ended mixed on Friday, with the **3-** and **9-month JIBAR** unchanged at the previous week's closes of 7,19% and 7,75% respectively, the **6-month JIBAR** edged up to 7,57% from 7,56%, while the **12-month JIBAR** declined to 7,97% from 7,99%.

Local equities were depressed by lower commodity stocks and weaker international markets. The **FTSE/JSE all share index** ended at 25 793,1 on Friday, down by 3,3% from the previous week's close, with **basic materials**, **financials** and **industrials** dropping by 4,4%, 3,7% and 1,9% respectively to end at 25 476,8, 18 842,0 and 24 747,7.

Vehicle sales increased sharply in January, rising by 12% y-o-y (up by 26,6% m-o-m) following a 13,1% y-o-y drop in December, reflecting base effects and the usual seasonal factors. Consumers prefer to postpone purchases until the new year in order to improve resale values. Some improvement in consumer confidence - on the back of some consolidation in general economic conditions coupled with lower interest rates - might have also contributed to the improvement in passenger vehicle sales, which rose by 15,3% y-o-y (up by 47,9% m-o-m) in January. In contrast, sales of commercial vehicles were disappointing in January, falling by 4,9% over the month following an improvement in December. All three major categories recorded lower sales, with medium commercial vehicles down by 18% m-o-m, while sales of light and heavy commercial fell by 3,7% m-o-m and 9,4% m-o-m respectively. On an annual, basis sales of commercial vehicles came off the low base established in January 2009, increasing by 5%.

The **international liquidity position** dropped marginally to $38,6 billion in January from $39,0 billion in December, mainly due to valuation adjustments. The US dollar was generally firmer, while the gold price fell, dragging down the value of **gross reserves** to $39,6 billion from $39,7 billion. The US dollar strengthened to $1,3958 against the euro from $1,4425 in December, while it was $1,6119 against the British pound from $1,6494. The rand softened to R7,5550 against the US dollar from R7,3800, with the rand value of gross reserves rising to R298,34 billion from R293,03 billion. The gold price fell to $1 084,80 per ounce from $1 105,60 in December. Foreigners were net buyers of domestic assets during January. **Net foreign purchases** of domestic assets increased to R4,78 billion from R3,77 billion in December, with net equity purchases of R3,997 billion and net bond purchases of R779,2 million.

The **Kagiso purchasing manager's index (PMI)** remained above the critical 50 level which divides expansion and contraction for the third successive month in January. The leading indicator for manufacturing activity increased to a seasonally adjusted 53,6 in January from 52,5 in December. The business activity, new sales orders and employment indices increased to 56, 55 and 52 respectively from 55, 55 and 48 in December. However, the inventories index declined to 52 from 57 and backlog of sales orders fell to 30 from 44.

Preview of the week: 8 to 12 February 2010

Country	Release	Period	Consensus forecast (Bloomburg)	Nedbank forecast	Previous
South Africa					
Monday	-	-	-	-	-
Tuesday	Quartely Labour Force Survey	Q4-09	-	-	-
Wednesday	-	-	-	-	-
Thursday	Mining production	Dec-09	-	-	-
	Manufacturing production	Dec-09	0,1% y-o-y	0,1% y-o-y	-4,7% y-o-y
	State of the nation's adress	-	-	-	-
Friday	-	-	-	-	-

Key economic releases are scheduled for this week include **manufacturing** and **mining production**, both for December 2009. The releases are expected to show improvement in production as the global economy continued to recover from the recession. President Jacob Zuma will also deliver the **state of the nation** address at the opening of the parliament on Thursday.

INTERNATIONAL

Concerns about the state of some European countries' public finances as well as a weak US non-farm payrolls number resulted in key global equity markets ending lower for a fourth consecutive week. In the US, the **Dow Jones**, the **NASDAQ** and the **S&P500** fell by 0,5%, 0,3% and 0,7 % respectively, to end the week at 10 012,2, 2 141,1 and 1 066,2. In Europe, the **UK FTSE 100**, the **German DAX** and the **French CAC** closed at 5 060,9, 5 434,3 and 3 563,8, down by 2,5%, 3,1% and 4,7% respectively. In Japan, the **Nikkei 225** fell by 1,4%, to end the week at 10 057,1.

Risk aversion continued to boost demand for the **US dollar**, which ended higher against both the euro and the British pound. The US unit ended at $1,3675 and $1,5649 against the euro and the British pound, up from $1,3861 and $1,5990. The dollar lost ground against the Japanese yen, which closed at ¥89,2 from ¥90,29.

The price of **Brent crude oil** ended below $70 a barrel for the first time since October 2009, closing at $69,84 per barrel, down by 1,7%. **Gold** and **platinum** also ended the week lower, falling by 1,4% and 1,5% respectively, to end the week at $1 066,3 and $1 481 per ounce.

In the US, **initial jobless claims** rose to 480 000 for the week ending 30 January, up from 472 000 at the end of the previous week. This was above market expectations of an improvement to 455 000. The four-week moving average, which provides a less volatile picture of conditions in the labour market, rose to 469 000 from 457 000. **Factory orders** rose by 1% m-o-m in December, which was above market expectations of 0,5% m-o-m. Both durable and non-durable goods rose by 1% m-o-m. Shipments from factories also increased, rising by 1,9%, suggesting stronger final demand and perhaps some further inventory accumulation. The inventory to shipment ratio also continued to decline, falling from 1,37 in August to 1,32 in November and 1,29 in December. The **ISM manufacturing** index rose to its highest level since 2004, jumping to 58,4 in January from 54,9 in December. The gain was mainly due to a sharp increase in production in January as well as an increase in employment. The price sub-index rose by 10 points to 70, suggesting some upward pressure on producer inflation in the coming months. **Personal disposable income** rose by 0,4% m-o-m in January, helped by government transfers, particularly unemployment benefits. This helped to offset weakness in labour income, which rose by a more modest 0,1% m-o-m. Real consumer spending increased by 0,1% m-o-m, up by an annualised 2,7% over the past three months. The core personal consumption expenditure (PCE) deflation, the Federal Reserve's preferred gauge of inflation, rose by 0,1% m-o-m to 1,5% y-o-y. **Non-farm payrolls** fell by 20 000 in January, due to 75 000 jobs being lost in the construction industry, which offset some gains in employment in the manufacturing sector. 48 000 jobs were created in the service industry, mainly due to an improvement in retail employment. December's non-farm payrolls were revised upwards sharply to -150 000 from -85 000. The unemployment rate fell to 9,7% in January from 10% in December. In addition to this, the -6 jobless rate, which includes discouraged workers, fell to 16,5% from 17,3%. The average duration of joblessness rose to a record 30,2 weeks, with more than 41,2% of unemployed workers being unemployed for more than six months.

The **Bank of England** voted to keep interest rates unchanged and not to increase the £200 billion quantitative easing programme. However, the members highlighted the fact that if the recovery lost momentum, they would be willing to re-introduce quantitative easing. Overall, the committee believes that the recovery in the level of economic activity is likely to be gradual. The committee noted that the considerable stimulus from easing monetary policy, the lower level of sterling as well as the recovery in the UK's export markets should together support domestic activity. Although the short-term inflation outlook is expected to be revised upwards in the March inflation report, excess spare capacity in the economy should ensure that the medium-term outlook for inflation remains subdued. The **PMI** rose to 56,7 in January, up from 54,6 in December and well above the consensus forecast of 53,9. This data suggest that the recovery in the manufacturing sector is expected to gain further momentum in the first quarter, following a 0,4% gain in the final quarter. Among the sub components, exports jumped by 6 points to 58, suggesting that the weak pound may be starting boost export demand.

The **European Central Bank (ECB)** kept the reference rate unchanged at 1% last week. Jean-Claude Trichet noted that inflation is expected to remain subdued. Medium to longer-term inflation expectations remain well anchored in line with the Governing Council's aim of keeping inflation rates below, but close to, 2% over the medium term. Looking ahead, the Eurozone economy is expected to grow at a moderate pace in 2010, but the recovery is likely to be uneven across countries, with significant downside risks. The ECB noted that it will continue with its liquidity support of the banking system. However, the committee said that it will decide next month on how it should move ahead with phasing out measures that are no longer required. The **PMI** rose to 52,4 in January, up from 51,6 in December. Although the overall index improved, the divergence between the healthier "core" members such as France and Germany and their more sickly neighbours such as Ireland, Spain, Greece and Portugal, continued to widen, as these countries struggle with a lack of competitiveness. **Producer prices** fell by 2,9% y-o-y in December, following a 4,4% y-o-y decline in November. **Retail sales** fell by 1,6% y-o-y in December, much more than market expectations of a 0,5% y-o-y decline and November's 0,5% y-o-y drop.

Data released this week in the **US** are expected to show that **retail sales** recorded a slight improvement in January, while **consumer sentiment** is also forecast to have risen slightly. In the **Eurozone**, fourth quarter **gdp** is expected to be revised down modestly to 0,3% q-o-q from 0,4% q-o-q. In the **UK**, the **Bank of England** will release their quarterly inflation forecast, which is expected to show that the short-term outlook for inflation deteriorated slightly.

Preview of the week: 8 to 12 February

Country	Release	Month	Forecast	Previous
United States				
Monday				
Tuesday				
Wednesday	Trade balance	December	-$35,5 billion	-$36,4 billion
Thursday	Retail sales	January	0,3% m-o-m	-0,3% m-o-m
	Initial jobless claims	Week ending 8 February		472 000
Friday	University of Michigan consumer sentiment index	February	75	74,4
Eurozone				
Monday				
Tuesday				
Wednesday				
Thursday				
Friday	Gdp - estimate	2009 Q4	0,3% q-o-q	0,4% q-o-q
	Industrial production	December	-1,6% y-o-y	-7,1% y-o-y
United Kingdom				
Monday				
Tuesday	Trade balance	January	-£6,7 billion	-£6,8 billion
Wednesday	Industrial production	January	-4,1% y-o-y	-6% y-o-y
	BOE releases quarterly inflation report			
Thursday				
Friday				
Japan				
Monday				
Tuesday	Machine tool orders	January		-11,3% y-o-y
Wednesday				
Thursday				
Friday				

Overview: 1 to 5 February

Figure 1: JSE All-share index

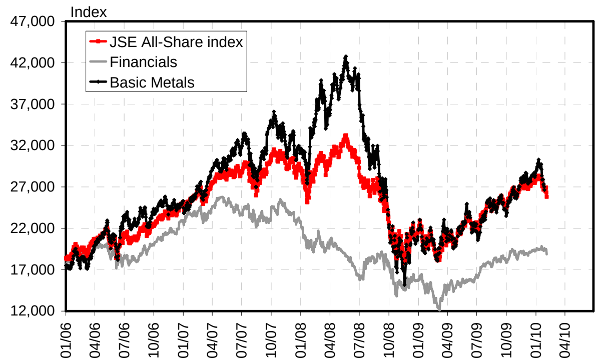


Figure 2: Currency markets

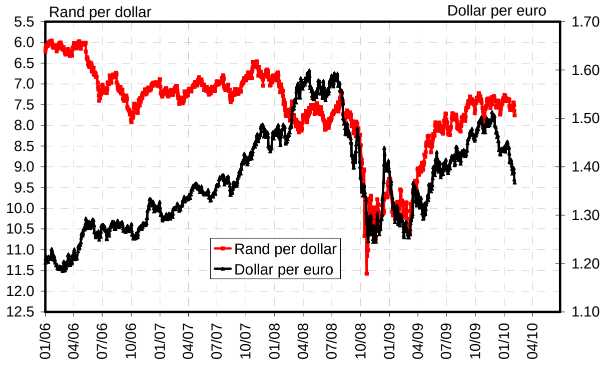


Figure 3: International equity markets

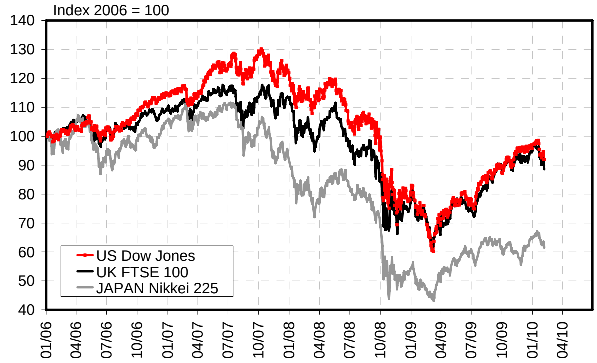


Figure 4: Commodity prices

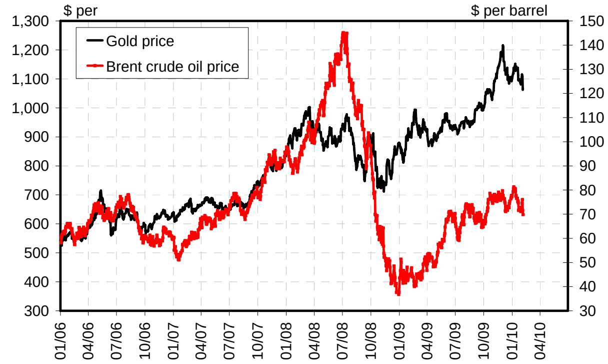


Figure 5: US non-farm payrolls

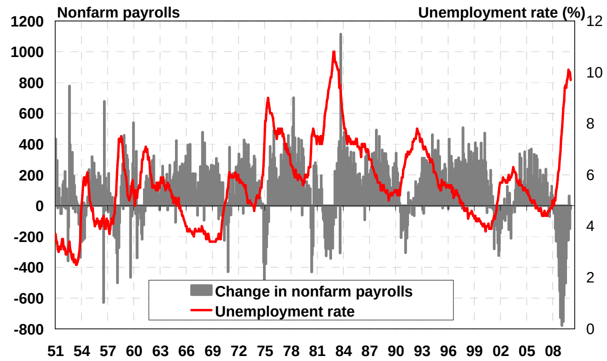
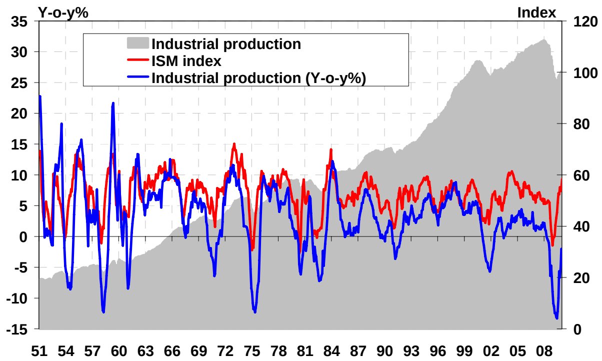


Figure 6: US ISM manufacturing



(Source: Datastream, I-NET)

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