Nedbank
Economic commentary

1 March 2010

WEEKLY MONITOR

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

Review of 22 to 26 February 2010 and preview of 1 to 5 March 2010

DOMESTIC

The **rand** weakened against major currencies last week pressured by a combination of low risk appetite, a weaker euro and a lower gold price. The unit closed the week R7,69 and R10,49 against the US dollar and the euro respectively, down from R7,65 and R10,40 at the end of the previous week, but firmed to R11,73 from R11,82 against the British pound.

Bonds ended mixed on Friday, with the yields on the **R157 2015** falling to 8,17% from 8,25% a week earlier, while those on the **3-, 5-** and **10-year BESA actuaries** rose to 9,29%, 9,01% and 8,84% respectively from 9,13%, 8,88% and 8,74%.

Money market rates also ended the week mixed, with the **3-** and **6-month JIBAR** steady at 7,19% and 7,60% respectively, while the **9-** and **12-month JIBAR** increased further to 7,84% and 8,10% from 7,80% and 8,08%.

Local equities were dragged down by lower resource stocks and weaker global markets. The **FTSE/JSE all share index** ended 1,1% lower at 26 764,6 on Friday, with **basic materials** down by 2,7% to close at 26 511,3, while **industrials** lost 0,2% to end at 25 591,7. **Financials**, however, gained a marginal 0,6% to close at 19 755,4.

Consumer inflation came in below market expectations at 6,2% y-o-y in January, down from 6,3% in December. Some upward pressure over the month came from services inflation particularly, insurance, financial and funeral services which rose by 0,9% m-o-m, 3,1% m-o-m and 2,7% respectively. The annual pace of decline in all three categories continued to moderate, as companies pushed through lower price increases this year in comparison with last year. Weak household demand, combined with the previous rand strength, continued to put downward pressure on prices of durable and semi-durable goods. New vehicle prices fell over the month, declining by 0,4%, following a 0,2% m-o-m decrease in the previous month.

Sharply higher commodity prices were the main culprits behind January's higher-than-expected **producer inflation** figure, which came out at 2,7% y-o-y from 0,7% y-o-y in December. The mining and quarrying category jumped 8,2% m-o-m (up by 16,8% y-o-y), adding 1,5 percentage points to the monthly increase, due to a 16% increase in coal prices and a 4,5% gain in the cost of metal ores. In contrast, price increases for beneficiated metals remain muted on a monthly basis and continued to decline over the year. Downward pressure came from food prices at the agricultural level, which fell by 1,4% m-o-m, mainly due to a 10,2% drop in grain prices. Over the year, prices were 18,7% lower, but this was mainly due to base effects, due to the sharp rise in food prices this time last year. At the manufacturing level, food prices also declined over the month, falling by 0,3%, taking the annual decline to 1,8%.

Demand for consumer credit remained weak in January. Over the month **private sector credit extension** recorded no growth and declined by 1,1% on an annual basis after the rate of decline moderated to 0,6% in December from 1,5% in the previous month. However, there were early signs of life in **asset-based credit**, which increased by 0,2% m-o-m and 1,2% y-o-y. Demand for **mortgage finance** increased by 0,3% on a monthly basis in January, which could be attributed to some stabilisation in the real estate sector. Over the year, demand for mortgage finance increased by 3,1%. Although that remains weak by historical standards, it is an improvement from the 2,8% y-o-y growth recorded in December. **Instalment and leasing finance** fell by 5,9% y-o-y in January following a 6,0% y-o-y drop in December. **Money supply** fell sharply in January, down by a seasonally adjusted 1% following a strong 3,1% increase in December. Over the year, money supply increased by 0,6% following a 1,6% rise in December.

The **trade account** recorded a R3 244,0 million deficit in January following a R3 630,7 million surplus in December as exports fell faster than imports. As is usual for January, exports fell sharply by 19% over the month while imports declined by 4,2%. Only three major categories of exports, namely 'stones and glass' (up by 14,7% m-o-m and 43% y-o-y), 'articles of stone, ceramic and cement products' (up by 14,4% m-o-m and 134,3% y-o-y)' and 'miscellaneous' (up by 6,2% m-o-m but down by 0,2% y-o-y) rose during the month. All the other sectors showed declines, with significant drops in the 'textile sector' (down by 43,7% m-o-m and 14,1% y-o-y), footwear (down by 53,5% m-o-m and 26,3% y-o-y) as well as 'leather and skin products' (down by 22,5% m-o-m and 4,9% y-o-y), while 'animal products' fell by 22% m-o-m and 7,8% y-o-y. Exports of vehicles and equipment fell by 40,5% m-o-m and dropped by 7,9% over the year. Imports were mainly dragged down by mineral products which fell by 44,4% m-o-m (down by 45,5% y-o-y) as well as vehicles and equipment (down by 21,5% m-o-m and 12,1% y-o-y). However, imports of base metals increased over the month, up by 27,4% (down by 24,7% y-o-y), while that of textile products rose by 22,1% (down by 29,5% y-o-y).

On Wednesday, the **National Energy Regulator of South Africa (NERSA)** announced that it has approved Eskom's application for electricity tariff hikes over the next three years. This will result in a 24,8% increase on the average standard electricity tariff from 1 April 2010 followed by another 25,8 % and 25,9 % on 1 April 2011 and 1 April 2012 respectively. However, these increases will be lower than the 35% per annum which Eskom had applied for.

Preview of the week: 1 to 5 March 2010

Country	Release	Period	Consensus forecasts	Nedbank forecast	Previous
South Africa					
Monday	Kagiso PMI	Feb-10	-	-	53,6
	RMB/BER CCI	Q1 2010	-	-	6
Tuesday	Vehicle sales	Feb-10	-	-	12,0% y-o-y
Wednesday	-	-	-	-	-
Thursday	-	-	-	-	-
Friday	Reserves	Feb-10			
	Gross reserves		-	-	$39,5 billion
	Net reserves		-	-	$38,6 billion

Key economic releases scheduled for this week include **vehicle sales** and **Kagiso PMI** for February. The vehicle sales numbers will confirm if consumer spending has gained upward momentum, or whether the January sales number reflected only seasonal factors. We expect vehicle sales to have picked up on an annual basis, reflecting the low base established in February 2009 and partly some modest improvement in consumer confidence compared with the same period last year. The PMI - a leading indicator of the manufacturing sector is expected to show that conditions in the sector will continue to improve in the months ahead on the back of the recovery in the global economy.

INTERNATIONAL

US equities ended the week lower, following a slew of economic data, which suggested that the US consumer continued to struggle and the labour market remains weak. The **Dow Jones**, the **NASDAQ** and the **S&P500** fell by 0,7%, 0,5% and 0,4% respectively, to end the week at 10 325,3, 2 238,3 and 1 104,5. In **Europe**, the **UK FTSE 100**, the **German DAX** and the **French CAC** closed at 5 354,5, 5 598,5 and 3 708,8, down by 0,1%, 2,2% and 1,6% respectively, In **Japan**, the **Nikkei 225** fell by 0,1%, to end the week at 5 354,5.

The **dollar** ended stronger against the euro and the British pound, ending at $1,3628 and $1,5234, up from $1,3612 and $1,5459. The yen ended up against the dollar at ¥77,94 from ¥91,54.

The price of **Brent crude oil** fell by 1,1%, to close at $76,68 per barrel. **Gold** closed 0,2% lower, at $1 116,5, while **platinum** ended at $1 542, up by 0,6%.

In the US, **new home sales** tumbled by 11,2% m-o-m in January, following a 7,6% decline in December, taking new home sales to a new record low of 309 000. New home sales peaked at 1,39 million in 2005. The median home price declined further to $203 500 from $208 000, while the supply of homes increased from 8 months to 9,1 months. **Existing home sales** also fell sharply in January to a 7-month low, falling by 7,2%, following a 16,2% drop in the previous month. The **Conference Board's consumer confidence index** fell to a ten-month low in February, plummeting from 56,5 in January to 46 in February. This was mainly due to a deterioration in the outlook for employment prospects and business conditions over the next six months. The **University of Michigan Consumer Sentiment index** also declined in February, easing to 73,6 from 74,4 in January. The **Chicago PMI index** rose slightly to 62,6 in February, up from 61,5 in January, despite a decline in the new orders and employment subindices. The **annualised estimate of fourth quarter gdp** was revised up slightly to 5,9% q-o-q from the preliminary estimate of 5,7% q-o-q, due to higher-than-expected business investment and a greater contribution from inventories. **Initial jobless claims** for the week ending 20 February rose by 22 000 to 496 000, the highest level in three months. The market had expected claims to fall. **Durable goods orders** rose by 3% m-o-m, due to a 15,6% spike in orders of new transportation equipment, particularly civilian aircraft, which rose by 126%. Excluding transportation equipment, which can be extremely volatile, orders declined by 0,6%. This was the first monthly decline since October 2009.

The **German Ifo business confidence index** fell slightly for the first time in 11 months in January, mainly due to weaker sentiment in the retail sector. **Inflation** rose by 1% in January, up from a 0,9% and 0,5% increase in December and November respectively.

In **Japan**, **industrial production** rose by 2,5% m-o-m, following a 1,9% m-o-m gain in December. January's increase was higher than market expectations of a 1% m-o-m gain. **Core consumer prices**, which excludes volatile food and energy costs, fell by 1,3% y-o-y. This was the eleventh consecutive month of annual declines.

Preview of the week: 1 to 5 March 2010

Country	Release	Period	Forecast	Previous
United States				
Monday	Personal spending	January	0,4% m-o-m	0,4% m-o-m
	Personal income	January	0,4% m-o-m	0,2% m-o-m
	ISM manufacturing	February	58	58,4
Tuesday				
Wednesday				
Thursday	Initial jobless claims	Week ending 26 February		496 000
	Factory orders	January	1,2% m-o-m	1% m-o-m
Friday	Non-farm payrolls	January	-20 000	-20 000
	Unemployment	January	9,8%	9,7%
Eurozone				
Monday	Unemployment	January	10,1%	10%
Tuesday	Consumer inflation	February	1% y-o-y	1% y-o-y
	Producer inflation	February		-2,9% y-o-y
Wednesday	Retail sales	January	-1,7% y-o-y	-1,4% y-o-y
Thursday	GDP - estimate	2009 Q4	0,1% q-o-q	0,1% q-o-q
Friday				
United Kingdom				
Monday	PMI - manufacturing	January	57	56,7
Tuesday				
Wednesday				
Thursday				
Friday	Producer price inflation	February	4% y-o-y	3,8% y-o-y
Japan				
Monday				
Tuesday	Household spending	January	2,5% y-o-y	2,1% y-o-y
	Unemployment	January	5,1%	5,1%
Wednesday				
Thursday				
Friday				

Overview: 22 to 26 February 2010

Figure 1: JSE All-share index

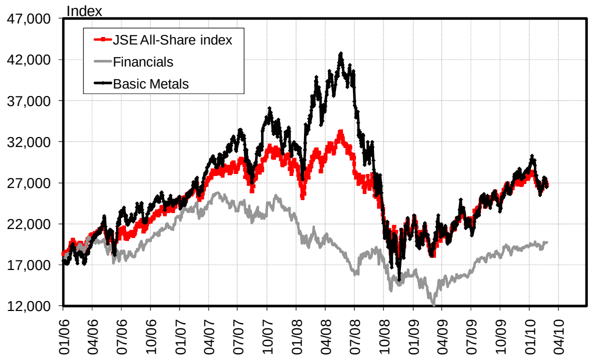


Figure 2: Currency markets

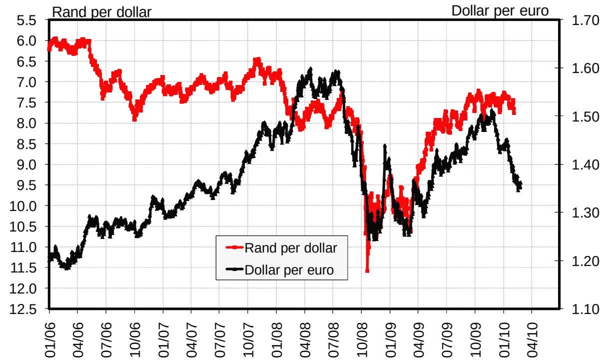


Figure 3: International equity markets

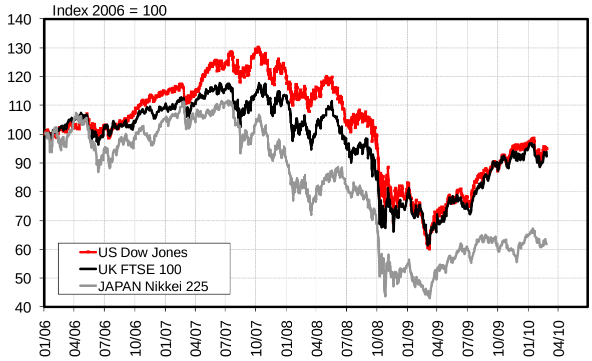
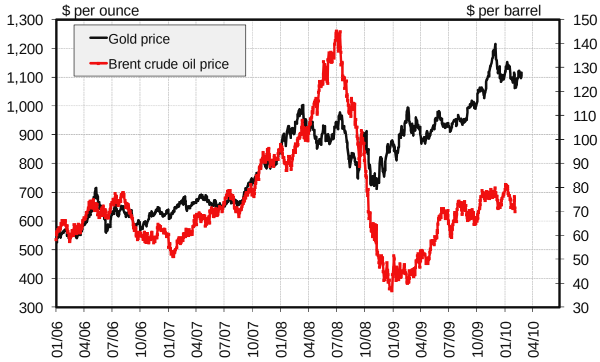


Figure 4: Commodity prices



(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

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