

25 October 2010



Economic Commentary

Weekly Monitor

Review of 18 to 22 October and preview of 25 to 29 October 2010

- The rand remained generally strong
- This week's focus will be on the mini-budget on Wednesday
- US leading index rises for a third consecutive month
- Eurozone PMI falls to an eight-month low

Comment

The **rand** was mixed last week, losing ground against the US dollar and the euro but firming marginally against the British pound. The local unit ended at R6,93 against the US dollar on Friday from R6,83 on the previous Friday, while it fell to R9,67 against the euro from R9,49. Against the British pound it was slightly firmer at R10,86 from R10,93.

Bonds lost some of the previous week's gains, with the yields on the benchmark **R157 2015** and **R186 2025** rising slightly to 7,23% and 8,08% from 7,14% and 8,00%, respectively. Yields on the **3-, 5- and 10-year BESA actuaries** increased to 6,76%, 7,34% and 7,99% from 6,69%, 7,24% and 7,87% respectively.

Money market rates were largely steady, with the **3-, 6- and 9-month JIBAR** ending at 5,88%, 6,05% and 6,13% from 5,89%, 6,06% and 6,14% respectively, while the **12-month JIBAR** was unchanged at 6,23%.

Local equities rose marginally, with the **FTSE-JSE all share index** up by 0,2% to 30 118,2. **Industrials** and **basic materials** gained 0,6% and 0,3% to end the week at 30 427,3 and 28 578,9, respectively, while **financials** lost 1,2% to close at 21 363,9.

This week's focus will be on the **Medium-Term Budget Policy Statement**, which will be presented on Wednesday. Finance Minister Pravin Gordhan is expected to announce a revised budget deficit for 2009/10 compared with the 7,2% of gdp announced at the time of the February 2010 budget speech. The pick up in the economy during this year has resulted in improved revenue collections. Tax collections rose strongly during the first five months of the 2010/11 fiscal year, and this is likely to result in the projected budget deficit for the current fiscal year being revised downwards to around 5,9% of gdp from the 6,5% announced in February this year. We expect the budget deficits for 2011/12 and 2012/13 to be revised to -5,5% and -4,7% from -5,0% and -4,1% estimated in February 2010, respectively. There will be attention paid to any measures aimed at curtailing the rand's recent strength, with further relaxation of exchange controls likely.

Key data releases will be **consumer inflation** and **producer inflation** on Wednesday and Thursday, respectively. CPI is expected to have eased marginally to 3,4% y-o-y in September from 3,5% y-o-y in August, while PPI is projected to have risen to 8,9% y-o-y from 7,8% y-o-y. **Private sector credit extension** data will be out on Friday, with growth in credit extended to the private sector projected to have increased to 4,2% y-o-y in September from 2,98% y-o-y in the previous month. **Trade figures** for September will be released on Friday and we expect a R2,0 billion deficit for the month

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International

The **US dollar** gained slightly against the euro, rising by 0,3% to \$1,3923, following comments by US Treasury Secretary Timothy Geithner that there was no US policy to weaken the dollar deliberately. The dollar gained against the British pound, increasing by 1,8%, to close at \$1,5677 on speculation that the Bank of England would follow the US Federal Reserve in another round of quantitative easing. The dollar lost ground against the Japanese yen, which rose by 0,1%, to end at ¥81,36.

Better-than-expected quarterly results as well as continued speculation that the Federal Reserve would announce another round of quantitative easing helped US and European equities end the week higher. In the **US**, the **Dow Jones**, the **NASDAQ** and the **S&P500** rose by 0,6%, 0,4% and 0,6% respectively, to close at 1 1132,6, 2 479,4 and 1 183,1. In Europe, the **UK FTSE 100**, the **German DAX** and the **French CAC** rose by 0,7%, 1,7% and 1,1% respectively, to close at 5 741,4, 6 605,8 and 3 668,5. The **Japanese Nikkei 225** fell by 0,8%, to end at 9 426,7.

The price of **Brent crude oil** closed at \$81,55 per barrel, down by 0,8%. **Gold** and **platinum** prices also fell over the week, declining to \$1 328,2 and \$1 677 per ounce respectively, down by 3% and 1%.

The **US leading indicator index** rose for a third consecutive month in September, increasing by 0,3% m-o-m, which was in line with market expectations. This is seen as an indication that the recovery will continue into 2011. **Initial jobless claims** for the week ending 15 October fell by 23 000 to 450 000. The **Federal Reserve's Beige Book**, which provides anecdotal evidence of economic conditions in the US, suggested that companies remained reluctant to hire new workers given the subdued nature of the recovery. **Housing starts** rose by 0,3% m-o-m in September, to a five-month high, rising above market expectations. Construction of new homes rose to 610 000 units from 608 000, this was better than market expectations of a decline to 579 000. In contrast, **building permits passed**, a leading indicator of future construction activity, fell by 5,6% m-o-m to 539 000. **Industrial production** fell unexpectedly in September, declining by 0,2% m-o-m, following a 0,2% m-o-m gain in August. Lower production of automotive products, appliances, and energy offset a small gain in the production of business equipment. Output of machinery and electrical equipment also fell.

Eurozone manufacturing PMI fell to an eight-month low in September, declining to 53,7 from 55,1 in August, as new orders grew at the slowest pace in a year. Factory activity contracted in Spain, Ireland and Greece, while France and Austria were the only two countries to see activity levels increase.

Retail sales in the **UK** rose by 0,3% m-o-m in September, but declined by 0,2% m-o-m in volume terms. On an annual basis, sales rose by 2,4%, while volumes were up by a more modest 0,5%. The Bank of England's Trends in Lending report, showed that demand for consumer credit in September was weak, suggesting that consumers remain cautious about borrowing and spending.

The **Japanese leading index** rose by 0,4 points to 99,5 in August 2010, while the coincident index fell slightly to 103,3 in August from 103,5 in the previous month.

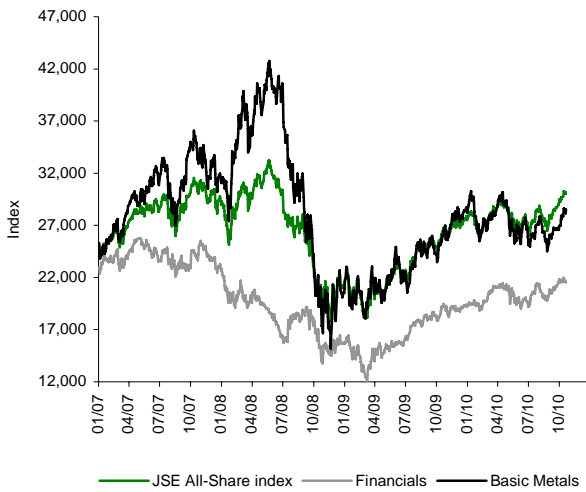
Table 1 : Economic outlook

Time	Country	Event	Period	Nebank Forecast	Bloomberg Survey	Actual	Prior	Revised
25-Oct								
01:50	JN	Merchandise Trade Balance Total	SEP	--	¥710.0B	--	¥103.2B	¥86.0B
01:50	JN	Adjusted Merchandise Trade Bal.	SEP	--	¥495.5B	--	¥589.7B	--
09:00	SA	Leading Indicator	AUG	--	--	--	130.7	--
11:00	EC	Industrial New Orders SA (YoY)	AUG	--	--	--	11.20%	11.70%
14:30	US	Chicago Fed Nat Activity Index	SEP	--	--	--	-0.53	--
16:00	US	Existing Home Sales	SEP	--	4.28M	--	4.13M	--
16:00	US	Existing Home Sales MoM	SEP	--	3.60%	--	7.60%	--
26-Oct								
10:30	UK	GDP (QoQ)	3Q A	--	0.40%	--	1.20%	--
10:30	UK	GDP (YoY)	3Q A	--	2.40%	--	1.70%	--
11:30	SA	South Africa Unemployment	3Q	--	--	--	25.30%	--
16:00	US	Consumer Confidence	OCT	--	49.5	--	48.5	--
16:00	US	House Price Index MoM	AUG	--	-0.20%	--	-0.50%	--
16:00	US	Richmond Fed Manufact. Index	OCT	--	--	--	-2	--
27-Oct								
10:00	EC	Euro-Zone M3 sa. (YoY)	SEP	--	1.40%	--	1.10%	--
11:30	SA	CPI (all items) (YoY)	SEP	3.40%	3.40%	--	3.50%	--
13:00	US	MBA Mortgage Applications	Oct-22	--	--	--	-10.50%	--
14:30	SA	Medium-Term Budget Policy Statement		--	--	--	--	--
14:30	US	Durable Goods Orders	SEP	--	2.00%	--	-1.30%	-1.50%
16:00	US	New Home Sales	SEP	--	300K	--	288K	--
16:00	US	New Home Sales MoM	SEP	--	4.00%	--	0.00%	--
28-Oct								
01:50	JN	Retail Trade YoY	SEP	--	3.20%	--	4.30%	--
	JN	BOJ Target Rate	Oct-28	--	0.10%	--	0.10%	--
08:00	UK	Nat'wide House prices nsa (YoY)	OCT	--	2.50%	--	3.10%	--
11:00	EC	Business Climate Indicator	OCT	--	--	--	0.77	--
11:00	EC	Euro-Zone Consumer Confidence	OCT F	--	--	--	-11	--
11:00	EC	Euro-Zone Economic Confidence	OCT	--	--	--	103.2	--
11:00	EC	Euro-Zone Indust. Confidence	OCT	--	--	--	-2	--
11:00	EC	Euro-zone Services Confidence	OCT	--	--	--	8	--
11:30	SA	PPI (YoY)	SEP	8.90%	8.00%	--	7.80%	--
14:30	US	Initial Jobless Claims	Oct-23	--	453K	--	452K	--
OCT	CH	Leading Index	SEP	--	--	--	101.91	--
29-Oct								
01:01	UK	GfK Consumer Confidence Survey	OCT	--	-22	--	-20	--
01:15	JN	Nomura/JMMA Manufacturing PMI	OCT	--	--	--	49.5	--
01:30	JN	Jobless Rate	SEP	--	5.10%	--	5.10%	--
01:30	JN	Overall Hhold Spending (YoY)	SEP	--	0.80%	--	1.70%	--
01:30	JN	Natl CPI (YoY)	SEP	--	-0.60%	--	--	--
01:30	JN	Natl CPI Ex Food, Energy(YoY)	SEP	--	-1.50%	--	--	--
01:50	JN	Industrial Production (YoY)	SEP P	--	12.30%	--	--	--
06:00	JN	Vehicle Production (YoY)	SEP	--	--	--	20.80%	--
07:00	JN	Housing Starts (YoY)	SEP	--	15.30%	--	--	--
08:00	SA	Private Sector Credit (YoY)	SEP	4.20%	4.00%	--	2.98%	--
08:00	SA	M3 Money Supply (YoY)	SEP	5.60%	5.19%	--	4.38%	--
10:30	UK	Net Consumer Credit	SEP	--	0.0B	--	-0.1B	--
10:30	UK	Mortgage Approvals	SEP	--	46.0K	--	47.4K	--
10:30	UK	M4 Money Supply (YoY)	SEP F	--	--	--	--	--
11:00	EC	Euro-Zone CPI Estimate (YoY)	OCT	--	--	--	1.80%	--
11:00	EC	Euro-Zone Unemployment Rate	SEP	--	--	--	10.10%	--
14:00	SA	Trade Balance (Rand)	SEP	-2.0B	-1.8B	--	-4.7B	--
14:30	SA	South Africa Budget	SEP	--	--	--	-9.41B	--
14:30	US	GDP QoQ (Annualized)	3Q A	--	2.20%	--	1.70%	--
15:45	US	Chicago Purchasing Manager	OCT	--	58	--	60.4	--
15:55	US	U. of Michigan Confidence	OCT F	--	68	--	67.9	--

Source: Bloomberg, Stats SA, SA National Treasury

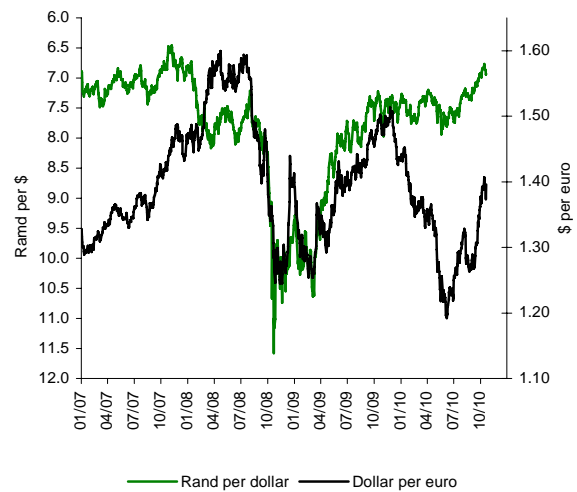
Overview of the week: 18 to 22 October 2010

Chart 1 : JSE indices



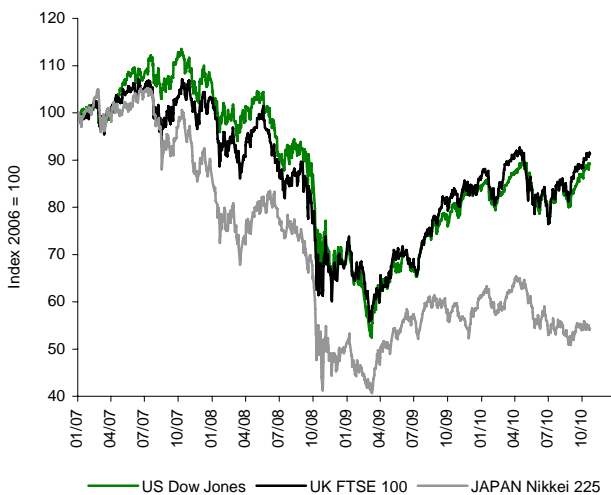
Source: Reuters

Chart 2 : Currency markets



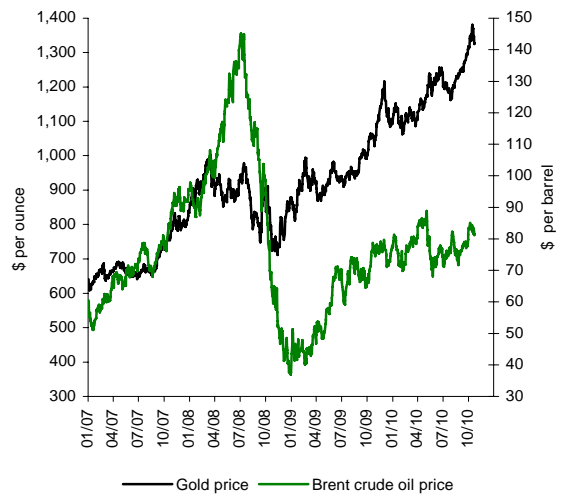
Source: Reuters

Chart 3 : International equity markets



Source: Reuters

Chart 4 : Commodity prices



Source: Reuters

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