

Nedbank

Economic commentary

7 June 2010

RESERVES

A stronger US dollar weakens the net reserves position

- The US dollar firmed further during May, dragging the international liquidity position lower
- Net portfolio inflows slowed, but remained positive
- This set of data holds little implications for monetary policy

	As at 31 May 2010 (million)	As at 30 April 2010 (million)	Change (million)	Percentage change (m-o-m)
Gold reserves	\$4 881 R37 462	\$4 714 R34 554	\$167	3,5%
SDR holdings	\$2 636 R20 231	\$2 719 R19 930	-\$83	-3,1%
Foreign exchange reserves	\$34 083 R261 587	\$34 908 R255 876	-\$825	-2,4%
Gross reserves	\$41 600 R319 28	\$42 341 R310 360	-\$740	-1,8%
<u>Less: Foreign loans</u>	<u>-\$350</u> <u>-R2 686</u>	<u>-\$351</u> <u>-R2 573</u>	<u>\$1</u>	<u>-0,3%</u>
Foreign deposits received	-\$3 354	-\$3 495	\$141	
Forward position	\$32	\$1	\$31	
International liquidity position (net reserves)	\$37 928	\$38 496	-\$567	-1,5%

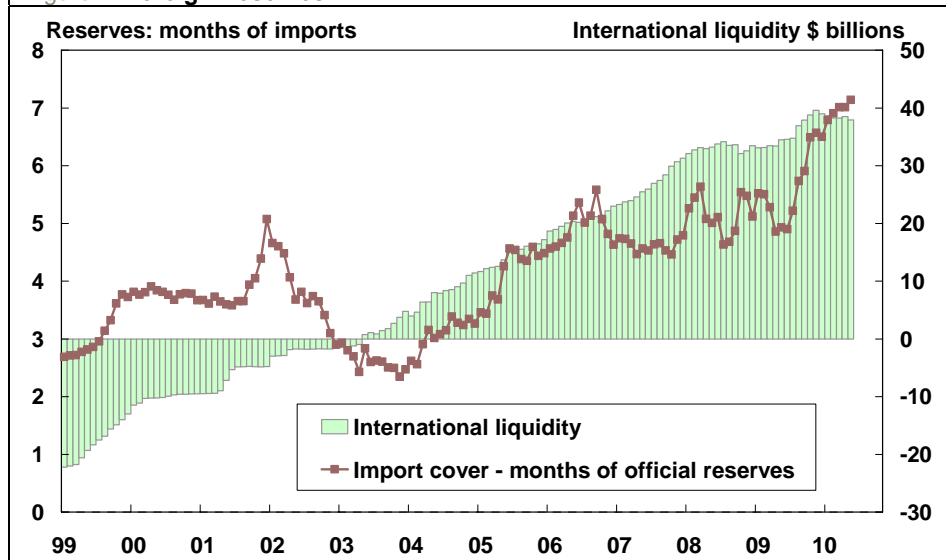
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Figure 1: Foreign Reserves



Comment

The international liquidity position was weakened by a significant decline in foreign exchange holdings, which more than offset the slight increase in the value of gold holdings. The value of foreign exchange holdings was dragged down mainly by a stronger US dollar.

The US dollar rose to its highest level in more than a year, firming to \$1,2312 against the euro from \$1,3316, while it rose to \$1,4512 against the pound from \$1,5305. The rand fell to R7,675 against the US dollar from R7,3330, with the rand value of reserves rising to R319,28 billion from R310,36 billion.

The gold price rose by 3,5% to \$1 215,80 per ounce from \$1 174,25.

Foreign portfolio inflows rose only slightly during May, increasing by R1,28 billion, with net foreign equity inflows of R3,92 billion coupled with net bond sales of R2,64 billion. This was significantly lower than the net inflows in the first four months of this year, when inflows of between R5 billion and R17 billion were recorded during each of the months. However, net inflows for the year to date increased to R42,66 billion, significantly higher than the R10,41 billion recorded during the same period last year.

Outlook

We expect the Reserve Bank to continue accumulating reserves gradually during this year, taking advantage of favourable market conditions.

South Africa's reasonably solid fundamentals enabled the National Treasury to tap global capital markets at favourable terms, issuing a \$2 billion global bond in March. The issue was oversubscribed at \$6,7 billion and was priced at 197 basis points above comparable US bonds, at a record low coupon of 5,5%. This compared favourably with the risk premium of 375 basis points attached to the \$2 billion bond issued in 2009.

The current account deficit fell to 2,8% of gdp in the fourth quarter - its lowest level since the second quarter of 2005 - from 3,1% in the third quarter, with the deficit for 2009 as a whole falling to 4,0%, significantly down from 7,1% in 2008. We expect the deficit to rise to around 4,5% of gdp in 2010.

Implications

The foreign exchange data have few implications for markets. We expect interest rates to remain unchanged until the third quarter of 2011, but if growth disappoints or inflation undershoots the SARB's inflation forecast over the next few months, a further rate cut could be on the cards.

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