

# Nedbank

## Economic commentary

5 March 2010

### RESERVES

*Net reserves dropped marginally as the US dollar rose further*

- Net reserves fell further, mainly on valuation adjustments
- Foreigners continued to accumulate domestic assets in February
- SA continues to tap global markets at favourable rates
- This set of data holds little implications for policy

	As at 28 February 2010 (million)	As at 31 January 2010 (million)	Change (million)	Percentage change (m-o-m)
Gold reserves	\$4 453 R34 355	\$4 355 R32 902	\$99	2,3%
SDR holdings	\$2 735 R21 101	\$2 783 R21 026	-\$49	-1,7%
Foreign exchange reserves	\$32 251 R248 816	\$32 351 R244 412	-\$100	-0,4%
<b>Gross reserves</b>	<b>\$39 439</b> R304 272	<b>\$39 489</b> R298 339	<b>-\$50</b>	<b>-0,3%</b>
<u>Less: Foreign loans</u>	-\$350 -R2 700	-\$351 -R2 652	\$1	-0,1%
Foreign deposits received	-\$808	-\$508	-\$300	
Forward position	\$0	\$0	\$0	
<b>International liquidity position (net reserves)</b>	<b>\$38 281</b>	<b>\$38 630</b>	<b>-\$350</b>	<b>-0,9%</b>

### Research

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Figure 1: Foreign Reserves



## **Comment**

The international liquidity position weakened marginally, mainly reflecting the firmer US dollar. The slightly higher gold price, which rose to \$1 109,40 from \$1 084,80, partially offset these effects.

The US dollar continued rise against both the euro and the pound during February, firming to \$1,3596 from \$1,3958 and \$1,5231 from \$1,6119, respectively. The rand weakened further, falling to R7,7150 from R7,5550 against the US dollar. The rand value of reserves rose to R304,72 billion from R298,34 billion.

Foreign portfolio inflows continued during the month. Net foreign purchases of foreign assets amounted to R9,41 billion, with net equity purchases of R2,50 billion and net bond purchases of R6,91 billion.

## **Outlook**

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

South Africa continues to take advantage of its reasonably solid fundamentals by tapping global capital markets at favourable terms. This week the National Treasury issued a \$2 billion global bond. 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 compares favourably with the risk premium of 375 basis points attached to the \$2 billion bond issued in 2009.

The current account deficit narrowed significantly during 2009, falling to 3,2% of gdp in the third quarter from 7,0% in the first quarter. We anticipate that the current account deficit will expand to around 4,5% of gdp in 2010 after improving to under 4% in 2009, but that capital inflows will continue to exceed this, leading to higher reserves.

## **Implications**

The foreign exchange data contain few surprises and will have little implication for markets. The Reserve Bank appears not to be actively targeting a weaker currency and interest rate policy is likely to remain neutral in the face of mixed economic data. The economy is gradually recovering and the risks to inflation are perceived to be rising. However, headline inflation will fall in the short term and conditions remain fragile. The prime rate is therefore expected to remain unchanged at 10,5% throughout 2010, before moving higher in 2011.

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