

Nedbank

Economic commentary

22 February 2010

WEEKLY MONITOR

Review of 15 to 19 February 2010 and preview of 22 to 26 February 2010

DOMESTIC

The **rand** was strong during the week, mainly helped by the release of the national budget which showed higher growth forecasts and a lower-than-expected budget deficit for 2009/10. Later in the week, however, the local unit came under pressure against the US dollar, which surged following news that the Federal Reserve would increase the discount rate. The local unit closed the week at R7,65, R10,40 and R11,82 against the US dollar, the euro and the British pound, up from R7,68, R10,48 and R12,01 at the end of the previous week.

Bonds also rallied following the release of the budget before retreating later in the week and ending mixed on Friday. The yields on the **R157 2015** closed at 8,25%, down from 8,34% at the previous week's close, while the yields on the **3-**, **5-** and **10-year BESA actuaries** increased to 9,13%, 8,88% and 8,74% respectively from 9,08%, 8,82% and 8,63%.

Money market rates were broadly steady during the week. On Friday, the **3-month JIBAR** ended at 7,19%, unchanged from the previous week's close, the **6-month JIBAR** edged up to 7,60% from 6,59%, while the **9-** and **12-month JIBAR** increased to 7,80% and 8,08% respectively from 7,76% and 8,03%.

Local equities were higher in line with firmer global markets. This was despite the firmer rand and the Federal Reserve's interest rate decision. The **FTSE/JSE all share index** closed at 27 069,1 on Friday, up by 3,1% from the previous week's close, with all the major indices recording gains. **Financials**, **basic materials** and **industrials** gained 3,5%, 3,8% and 2,0% respectively to end at 19 632,4, 27 255,6 and 25 651,1 at the end of the week.

Finance Minister Pravin Gordhan delivered the **2010/11 National Budget** to parliament on Wednesday. The budget plotted the course back to fiscal sustainability without sacrificing important government programmes and derailing the economic recovery. **Main budget expenditure in 2009/10** rose by 17,7%, above the 16,5% increase envisaged in the 2009 National Budget, but below the upwardly revised 18,3% expected in October's MTBPS. Considerable restraint is planned for **2010/11**, with **expenditure** budgeted to increase by a more moderate 9,3% this fiscal year and at an annual average of only 8,8% over the three-year period. Expenditure at the consolidated level is expected to increase by 8% in 2010/11 and at an annual average rate of 8,4% over the three-year period. Social services remain a key priority, with spending set to increase by a more restrained 9,7% in 2010/11 (down from 16,3% growth in 2009/10). **Housing** will receive much of the increase in social services. This category is budgeted to rise by 12,4% in 2010/11. **Welfare services** is set to increase by a modest 9,1% in 2010/11 compared with 15% growth in 2009/10. The increase mainly reflects the extension of the child support grant to include children up to the age of 18 from 15. **Education spending** increases by 11% in

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2010/11, while growth in **health spending** is forecast to moderate to 6,7% in 2010/11 from 19,6% in 2009/10. Spending on **economic services** continues to feature strongly, but the pace of spending will be far more modest, with the expected increase contained to 9,7% in 2010/11, down from 16,3% in 2009/10. **Protection services** will increase by 7,0% in 2010/11.

On the **taxation side, revenue** is projected to undershoot the February 2009 budget by 10,5% in **2009/10**. The projection, however, is R1,4 billion more than the revised estimate in the MTBPS presented in October 2009. Budget proposals for 2010/11 result in a R450 million revenue loss to the fiscus. Tax relief for individuals amounts to R6,5 billion in 2010/11, with most of the benefit accruing to low income earners. The income tax threshold rises to R57 000 from R54 200 for taxpayers under 65 and to R88 528 from R84 200 for taxpayers over 65. The top marginal tax rate remains unchanged at 40%, while the top marginal tax rate threshold increases to R552 000 from R525 000. The Standard Income Tax on Employees (SITE) will be repealed with effect from 1 March 2011, as the personal income tax threshold for taxpayers younger than 65 years is close to the SITE ceiling of R60 000. No changes to the capital gains tax regime. The VAT rate remains unchanged at 14%. Excise duties on alcoholic beverages and tobacco products rise by between 8,2% and 16,1% in nominal terms. General fuel levies rise by 25,5c per litre. No further measures to bail out distressed companies, and the headline corporate tax rate remains at 28%. A number of tax measures will be reviewed during 2010 with the intention of introducing new tax proposals in 2011 and 2012.

The main **budget deficit** for 2009/10 is estimated at a relatively large R748,8 billion or 7,2% of gdp, slightly below the MTBPS estimate of R181,6 billion or 7,6% of gdp, but sharply higher than the original target of R95,6 billion or 3,9% of gdp. The deficit will remain at high levels for this fiscal year, but has been trimmed down to 6,5% of gdp, only slightly up from the deficit of 6,4% of gdp envisaged in the MTBPS. Treasury plans to slowly reduce the deficit to a more manageable R156,4 billion or 4,1% of gdp by 2012/13. In 2010/11, the net financing requirement will increase to R174,9 billion. Of this, government will raise R22 billion in short-term loans, R137,7 billion in the local bond market and R11,5 billion in foreign loans. The finance minister hinted that there would be further relaxation of **exchange control** and that the move towards prudential requirements for financial institutions and away from controls would continue. The inflation target remains the same at 3% to 6% and there will be no change in the foreign exchange regime.

Retail sales increased sharply during December, boosted by the usual surge in spending over the festive season. This helped the annual rate of decline in total sales to moderate to 3,7% from 6,6% in November. A significant improvement was recorded in sales of furniture and appliances, which increased by 2,3% y-o-y following persistent declines throughout 2009, while sales of 'pharmaceutical and medical goods, cosmetics and toiletries' rose by 1,1% y-o-y. Although sales in the other areas contacted in December, the pace of decline moderated. Sales of hardware fell by a modest 8,7% y-o-y, following a decline of 22,3% in November, while sales of 'clothing and footwear' as well as 'food and beverages' declined by 2,3% y-o-y and 0,6% y-o-y respectively following 9,3% and 3,2% drops in November.

Minister of Trade and Industry Rob Davies launched the government's **Industrial Policy Action Plan (IPAP)** on Thursday. The programme, which runs from 2010 to 2013, is aimed primarily at boosting South Africa's industrial sector and improving the country's long-term manufacturing capacity. The target is to reduce the country's reliance on its traditional mineral exports and non-tradable services, with 2,5 million jobs created over the next 10 years. The focus will be on increasing the availability of funding to the sector by improving concessional funding by local finance development agencies, introducing new procurement policies and targeting anti-competitive practices. All key manufacturing sectors will be targeted in this programme.

Preview of the week: 22 to 26 February 2010

Country	Release	Period	Consensus	Nedbank forecast	Previous
South Africa					
Monday	-	-	-	-	-
Tuesday	gdp	Q4 2009	2,5% q-o-q -1,7% y-o-y	2,6% q-o-q -1,7% y-o-y	0,9% q-o-q -2,1% y-o-y
Wednesday	CPI	Jan-10	0,4% m-o-m 6,4% y-o-y	0,2% m-o-m 6,2% y-o-y	0,3% m-o-m 6,3% y-o-y
Thursday	PPI	Jan-10	0,8% m-o-m 1,9% y-o-y	0,8% m-o-m 2,2% y-o-y	0,7% m-o-m 0,7% y-o-y
Friday	RMB/BER BCI	Q1 2010	-	-	28
	Money supply	Jan-10	1,9% y-o-y	1,9% y-o-y	1,6% y-o-y
	PSCE	Jan-10	-1,2% y-o-y	-1,0% y-o-y	-0,8% y-o-y
	Trade	Jan-10	-R2,2 billion	-R2,5 billion	R3,7 billion

Key economic releases scheduled for this week include **gdp** numbers for the last quarter of 2009 as well as **inflation** and **credit** numbers for January 2010. We forecast the economy to have grown by 2,6% over the quarter, helped mainly by the strong rebound in manufacturing production and retail sales during the period. We expect **consumer inflation** to come out at 6,2% y-o-y in January. **Private sector credit extension** is starting to bottom out but will remain weak on a year on year basis.

INTERNATIONAL

Better-than-expected US economic data and corporate earnings, helped US equities to end the week in positive territory. In the US, the **Dow Jones**, the **NASDAQ** and the **S&P500** rose by 3%, 2% and 3,1% respectively, to end at 10 402,4, 2 243,9 and 1 109,2. In Europe, the **UK FTSE 100**, the **German DAX** and the **French CAC** rose by 4,2%, 4% and 4,7% respectively, to close at 5 358,2, 5 722,1 and 3 769,3. The **Japanese Nikkei 225** ended at 10 1489,93. 8,8, up by 0,6%.

The **dollar** closed the week slightly weaker against the euro and the British pound, closing at \$1,3612 and \$1,5459 from \$1,3629 and \$1,5701. The dollar ended higher against the yen, at ¥91,54 from ¥89,93.

The price of **Brent crude oil** rose by 8% to end the week at \$77,91 per barrel, on more upbeat market sentiment. The price of **gold** rose by 2,3% to close at \$1 118,6, while the price of **platinum** rose to \$1 532,5 per ounce, up by 1,1%.

In the **US**, **consumer prices** rose slightly by 0,2% m-o-m, below market expectations of a 0,3% gain, due to higher petrol prices. On an annual basis, prices rose by 2,6%. Core consumer prices declined for the first time in 27 years, falling by 0,1% m-o-m. The **leading indicator index** rose for the tenth consecutive month in January, suggesting that the recovery is likely to gain further traction in the months ahead. The index rose by 0,3% m-o-m in January, following a 1,2% m-o-m and 1,1% m-o-m gain in the two previous months. **Initial jobless claims** rose unexpectedly for the week ending 13 February, increasing to 473 000 from 442 000 at the end of the previous week. **Producer prices** rose sharply in January, increasing by 1,4% m-o-m, following a 0,4% m-o-m gain in the previous month. The monthly gain was mainly attributed to an 11,5% m-o-m increase in petrol prices. Over the year producer prices increased by 4,6%. **Industrial production** rose for the tenth consecutive month increasing by 0,9% m-o-m in January, following a 0,7% m-o-m gain in December. **Housing starts** rose to a sixth-month high in January, increasing by 2,8% m-o-m to 591 000. This largely offsets December's weather induced decline. The **Federal Reserve** increased the discount rate, the rate at which banks lend money from the Fed, to 0,75% from 0,5%. This is the Fed's first step towards restoring some normality to the financial system, while quantitative easing is expected to come to an end in March.

In the **UK**, **retail sales** fell by more than market expectations, declining by 1,8% m-o-m in January, the sharpest decline in 18 months. This was due to a combination of factors, including poor weather, the increase in the VAT rate back to 17,5% as well as the inclusion of petrol into the retail sales index. **Consumer inflation** rose to 3,5% in January, up from 2,9% in December, due to an increase in VAT as well as higher energy costs. The number of people claiming **jobless benefits** rose to its highest level since 1997, increasing by 23 5000 to 1,64 million.

Preview of the week: 22 to 26 February 2010

Country	Release	Month	Forecast	Previous
United States				
Monday				
Tuesday	Conference Board's consumer confidence index	February	54,8	55,9
Wednesday	New home sales	January	2,6% m-o-m	-7,6%
Thursday	Durable goods orders	January	1,4% m-o-m	1% m-o-m
	Initial jobless claims	Week ending 19 February		473 000
Friday	Gross domestic product - annualised	2009 Q4	5,6% q-o-q	5,7% q-o-q
	Chicago PMI	February	59	61,5
Eurozone				
Monday				
Tuesday				
Wednesday				
Thursday	Economic confidence	February	96,7	95,7
Friday	Consumer price index	January	1% y-o-y	0,9% y-o-y
United Kingdom				
Monday				
Tuesday				
Wednesday				
Thursday				
Friday	Gross domestic product	2009 Q4	0,2% q-o-q	0,1% q-o-q
Japan				
Monday				
Tuesday				
Wednesday				
Thursday				
Friday	Consumer price index	January	-1,4% y-o-y	-1,7% y-o-y
	Industrial production	January	-1,3% y-o-y	-1,3% y-o-y
	Retail sales	January	-0,2% y-o-y	-0,2% y-o-y

Overview: 15 to 19 February 2010

Figure 1: JSE All-share index

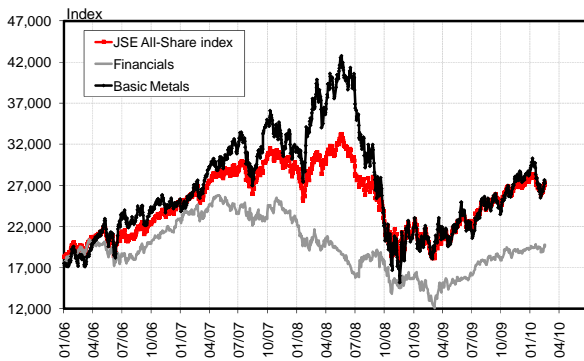


Figure 2: Currency markets

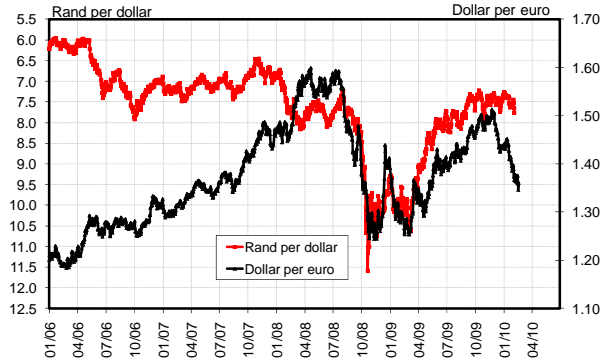


Figure 3: International equity markets

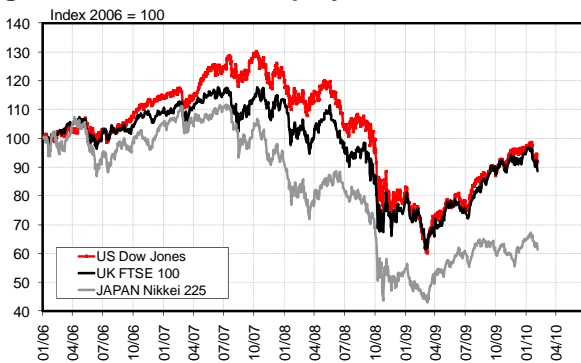
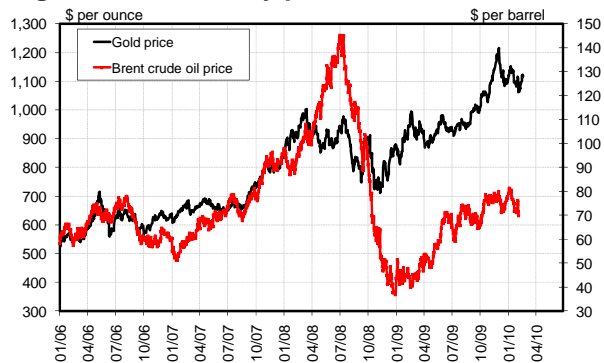


Figure 4: Commodity prices



(Source: Datastream, I-NET)

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