

# Nedbank

## Economic commentary

8 March 2010

### WEEKLY MONITOR

#### Review of 1 to 5 March and preview of 8 to 12 March 2010

#### DOMESTIC

The **rand** gained significant ground last week, helped by a combination of firmer precious metal prices, news that the South Africa National Treasury issued a \$2 billion global bond at favourable terms and improved risk sentiment following news that Greece is less likely to default on its debt and on positive US employment news. The local unit ended the week at R7,40 against the US dollar - its strongest levels since 19 January, at R10,09 against the euro and at R11,15 against the British pound, up from R7,69, R10,49 and R11,73 respectively at the end of the previous week.

**Bonds** were generally steady, with the yields on the **R157 2015** and on the **3-year BESA actuaries** ending at 8,17% and 7,91% respectively on Friday, unchanged from the previous week's closes, while the yields on the **5-** and **10-year BESA actuaries** edged down marginally to 8,24% and 8,85% from 8,25% and 8,88%.

**Money market rates** ended the week slightly lower, with the **3-, 6-, 9-** and **12-month JIBAR** easing to 7,07%, 7,48%, 7,66% and 7,93% respectively from 7,10%, 7,51%, 7,76% and 8,02%.

**Local equities** closed higher on Friday in line with stronger world markets that were boosted by lower perceptions of risk and a better growth outlook. The **FTSE/JSE all share index** closed at 27 904,7, up by 4,3% from the week earlier closes, with **basic materials**, **industrials** and **financials** rising by 4,9%, 3,6% and 4,1% respectively to close at 27 820,0, 26 509,5 and 20 572,3.

Total **vehicle sales** increased further in February, rising by 16,2% y-o-y following a 12,0% y-o-y increase in January, boosted by strong growth in sales of commercial vehicles. Over the month, commercial vehicle sales rose by 18,7% following disappointing sales in January, with all the major categories reporting growth. Heavy commercials recorded the strongest growth, with sales increasing by 45% over the month, while sales of light and medium commercials increased by 15,9% m-o-m and 29,4% m-o-m respectively. Over the year, commercial vehicle sales increased by 8,1% reflecting some improvement in general economic conditions. Passenger car sales were easier in February, falling by 7,3% m-o-m following a seasonal jump in January. On an annual basis, passenger sales recorded its strongest growth since March 2006, rising by 21,4%. Although this is coming off a low base, the numbers show that consumer spending is picking up on the back of low interest rates, some consolidation in household finances and better confidence. Total exports fell by 51% on a year-on-year basis, but this is a significant improvement after the massive contraction that took place in the middle of 2009.

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 to rise against

#### 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

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. Gross foreign exchange reserves fell by 0,4% to \$32,3 billion in February from \$32,4 billion in January. South Africa continues to take advantage of its reasonably solid fundamentals by tapping global capital markets at favourable terms. 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 **Kagiso PMI**, a leading indicator of the South African manufacturing sector, rose sharply to 60,4 in February from 53,6 in January, remaining above the critical 50 level which divides expansion and contraction for the fourth consecutive month. All the sub indices, except 'suppliers' performance', which slipped to 48,1 from 49,2 recorded improvement during the month. Business activity, new sales orders and inventories increased to 65, 69 and 59 respectively from 56, 55 and 52 in January, while employment edged up marginally 52,1 from 51,9.

#### Preview of the week: 8 to 12 March 2010

Country	Release	Period	Consensus forecasts (Bloomberg)	Nedbank forecast	Previous
<b>South Africa</b>					
<b>Monday</b>	RMB/BER BCI	Q1 2010	32,5	-	28,0
<b>Tuesday</b>	-	-	-	-	-
<b>Wednesday</b>	-	-	-	-	-
<b>Thursday</b>	Mining production and sales	Jan-10	-	-	-2,5% y-o-y
	Manufacturing production and sales	Jan-10	5,6% y-o-y	-	3,2% y-o-y
<b>Friday</b>	-	-	-	-	-

**Manufacturing and mining production**, both for January, are among the key economic releases scheduled for this week. Manufacturing production is expected to increase strongly over the month boosted by both seasonal factors and improvement in global demand conditions.

#### INTERNATIONAL

Improving global sentiment boosted global equity markets last week. Greece's successful bond issue eased concerns about the possibility of a bailout from either the IMF or EU, which also added to positive sentiment. The **Dow Jones**, the **NASDAQ** and the **S&P500** rose by 2,3%, 3,9% and 3,1% to 10 566,20, 2 326,35 and 1 138,69, respectively. European equities were strong, with the **UK FTSE 100**, the **German DAX** and the **French CAC** gaining 4,6%, 5,0% and 5,4% to 5 599,76, 5 877,36 and 3 910,42, respectively. In contrast, the Japanese **Nikkei 225** ended the week 2,4% lower at 10 368,96.

The **dollar** remained firm against the other major currencies, partly boosted by better-than-expected US labour market data on Friday. The greenback ended the week at \$1,3623 against the euro from \$1,3628 and \$1,5130 against the British pound from \$1,5234. The yen fell to ¥90,28 against the dollar from ¥88,94.

Commodity prices were generally firmer, supported by speculation that improving global sentiment will boost demand for commodities. The price of **Brent crude oil** rose to \$79,03 per barrel from \$76,68. **Gold** closed higher, gaining 1,5% to \$1 133,43 per ounce, while **platinum** closed 2,3% firmer at \$1 578,00 per ounce.

In the US, **nominal personal income** increased by 0,1% m-o-m in January, less than market expectations of a 0,4% m-o-m gain. Wage and salary income increased by 0,4% m-o-m, but the overall figure was dragged down by lower dividend and interest payments and reduced receipts from rental properties. Personal consumption expenditure increased by 0,5% m-o-m, while the savings rate declined to 3,3% from 4,2% in December. The **ISM manufacturing index** declined to 56,5 in February from 58,4 in January, as a result of a decline in new orders and lower output figures. **Non-farm payrolls** fell less than expected in February, declining by 35 000, slightly higher than the 26 000 jobs that were lost in January. The number of unemployed people remained roughly unchanged at 14,9 million, while the unemployment rate also held steady at 9,7%.

In **Europe**, the **unemployment rate** remained unchanged at 9,9%, The lowest unemployment rate was recorded by the Netherlands at 4,2%, while unemployment in Latvia and Spain currently stands at 22,9% and 18,8% respectively. **Retail sales** declined in line with market expectations, falling by 0,3% m-o-m in January, following a 0,5% gain in December, due to a fall in non-food sales. Over the year, sales are still down by 1,3%. **Inflation** eased slightly to 0,9% in January from 1% in December. **Gdp** expanded by 0,1% q-o-q in the fourth quarter, following growth of 0,4% q-o-q in the third quarter. Corporate investment spending dropped by 0,8%, while household spending remained unchanged. Exports rose by 1,7%, compared with a much stronger third quarter increase of 3,1%. The German economy stagnated in the fourth quarter, while France recorded growth of 0,6% over the same period. The largest quarterly gain was registered in Slovakia, which grew by 2%.

In the **UK**, the **manufacturing PMI** fell to 56,6 in February from 56,7 in January, but this was slightly better than market expectations of a decline to 56,4.

In **Japan**, the **unemployment rate** dropped by 4,9% in January from 5,1% in December. The number of unemployed people has risen by 460 000 to 3,23 million over the past year.

#### Preview: 8 to 12 March 2010

Country	Release	Month	Forecast	Previous
<b>United States</b>				
<b>Monday</b>				
<b>Tuesday</b>				
<b>Wednesday</b>				
<b>Thursday</b>	Trade balance	January	-\$41 billion	-\$40,2 billion
	Initial jobless claims	Week ending 5 March		469 000
<b>Friday</b>	Retail sales	February	-0,2% m-o-m	0,5% m-o-m
	University of Michigan consumer sentiment index	March		73,6
<b>Eurozone</b>				
<b>Monday</b>				
<b>Tuesday</b>				
<b>Wednesday</b>				
<b>Thursday</b>				
<b>Friday</b>				
<b>United Kingdom</b>				
<b>Monday</b>				
<b>Tuesday</b>	Trade balance	January	£7 billion	£7,3 billion
<b>Wednesday</b>	Industrial production	January	-0,9% y-o-y	-3,6% y-o-y
<b>Thursday</b>				
<b>Friday</b>				
<b>Japan</b>				
<b>Monday</b>				
<b>Tuesday</b>	Leading economic indicator	January	96,7	94,3
	Machine tool orders	February		189,4% y-o-y
<b>Wednesday</b>				
<b>Thursday</b>	Gross domestic product	2010 Q4	1% q-o-q	1,1% q-o-q
<b>Friday</b>	Industrial production	January		5,1% y-o-y

Overview: 1 to 5 March 2010

Figure 1: JSE All-share index

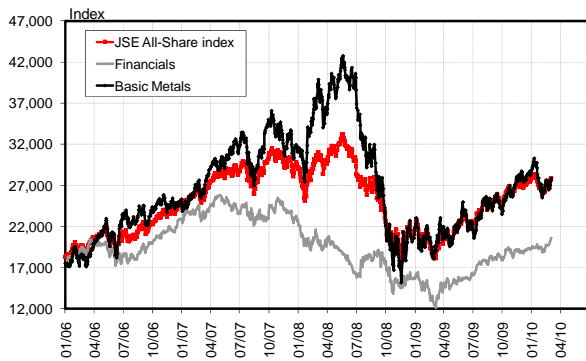


Figure 2: Currency markets

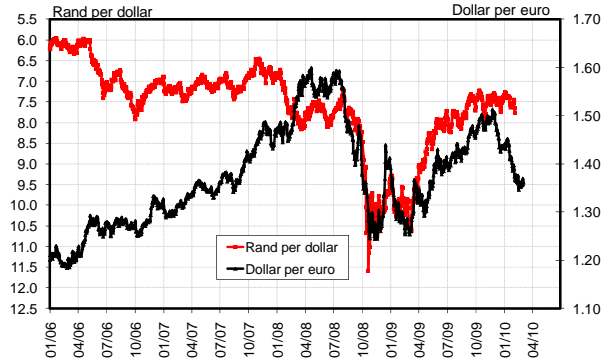


Figure 3: International equity markets

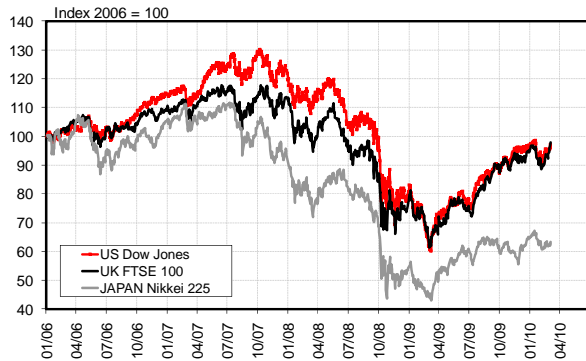
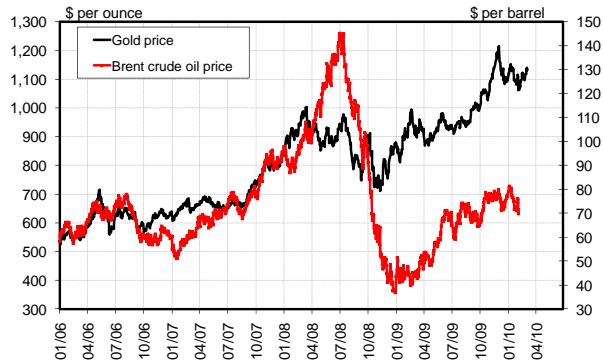


Figure 4: Commodity prices



(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](mailto:EstelleO@nedbank.co.za)

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