

09 January 2012

Economic Commentary

Weekly Monitor

Review of 12 December 2011 to 13 January 2012 and preview of 9 to 13 January 2012

- Global equities were generally firmer last week after ending 2011 on a weak note.
- Local consumer inflation came in below market expectations in November, increasing to 6,1% y-o-y up from 6% y-o-y in October.
- Broad money supply growth grew at an annual rate of 7,2% and by 1,5% in November. Private sector credit extension rose by 6,2% y-o-y in November from 5,5% in October.
- The trade deficit remained unexpectedly high at R8,04 billion in November following October's large shortfall of R9,58 billion.

Domestic

The **rand** was volatile during the festive season, with its movement driven by ebbs and flows in risk sentiment. The unit ended the year at R8,07 against the US dollar, down by 21,9% compared with the end of 2010. However, this was closer to the range of R8,01 to R8,45 over the festive season. Over the past week, the rand remained softer although its weakness was partly contained by the release of better than expected US employment data, which boosted sentiment. The rand closed at R8,17 against the US dollar on Friday, down from R8,09 on 9 December (the date of our last monitor). However, the unit firmed to R10,39 and R12,60 against the euro and the British pound respectively from R10,78 and R12,68 during the same period.

Bond yields have increased, with the benchmark **R157 2015** and **R186 2025** rising to 6,84% and 8,62% from 6,77% and 8,49%, and the **3-, 5- and 10-year BESA actuaries** increasing to 6,51%, 7,26% and 8,25% respectively from 6,43%, 7,16% and 8,13%.

Money market rates rose during the review period, with the **3-, 6-, 9- and 12-month JIBAR** closing at 5,53%, 5,79%, 5,94% and 6,08% respectively from 5,51%, 5,74%, 5,86% and 5,98%.

Equities were also volatile during the festive period. In line with global markets, the **FTSE-JSE all-share index** ended higher on Friday, underpinned by the release of better-than-expected US employment numbers as well as improved profit outlook. The FTSE-JSE all-share index closed at 32 749,6, up by a marginal 0,4% from 32 632,9 on 9 December, with **financials** ending at 22 686,1 (up by 2,9% during the review period) and **industrials** at 34 794,9 (up by 0,8%). In contrast, **basic materials** lost 1% over the period, ending at 29 142,4 on Friday.

Consumer inflation came in below market expectations in November, increasing to 6,1% y-o-y, up from 6% y-o-y in October. Food inflation continued to pick up, increasing to 11,1% from 11% in October and 2,9% at the start of the year. Over the month, prices rose by 0,6%, largely due to higher prices for bread (up 1,5% m-o-m), fruit (up 5,6% m-o-m) and meat (up 2% m-o-m). Rising transport costs also added to inflation pressures. Inflation in this category rose to 6,9%, up from 6,7% in the previous month, largely driven by higher fuel costs, which rose by 29,6% y-o-y. Falling vehicle prices continue to act as a damper on inflation in this category, with vehicle prices falling by 0,8% over the year. Services inflation remained unchanged at 5,5% in November. Durable goods prices continued to fall on a year-on-year basis, declining by 2,4%, largely due to lower prices of cars, furniture and appliances compared to this time last year. Semi-durable goods inflation rose slightly to 1,7% from 1,4%. In contrast, non-durable goods inflation rose to 11,1%, up from 11% in October.

Group Economic Unit

Johannes Khosa
+27 11 294 1835
JohannesKh@nedbak.co.za

Isaac Matshego
+27 11 295 6451
IsaacMat@nedbank.co.za

Dennis Dykes
+27 11 295 6435
DennisD@nedbank.co.za

Corporate Place, 135 Rivonia
Road, Sandown, 2196, South Africa

<http://nedbankgroup.co.za>

Producer inflation eased to 10,1% y-o-y in November from 10,6% y-o-y in October, still high because of increases in commodity prices and beneficiated metal products. Food prices at the agricultural level fell by 0,4% m-o-m, due to a sharp seasonal decline in the price of vegetables (off 13,9% m-o-m). However, the price of grain, fruit and nuts as well as other foods rose over the month. Manufactured food prices rose by 0,4% m-o-m, due to modest increases across the board. Food inflation at the manufactured level eased to 8,4% y-o-y, down from 9% in the previous month. Inflation in the mining and quarrying category remained elevated at 14,4% y-o-y, with the most significant contribution to the increase coming from metal ores. Over the month, this category fell by 0,5%, due to a decline in the price of coal. Inflation at the manufactured level rose to 6,8% y-o-y, up from 6,1% y-o-y in the previous month. Inflation within this category continues to be driven by food (up 8,4%), chemicals (up 9%) as well as products of petroleum and coal (up 33,1%) and metal products (up 8,4%).

Broad money supply growth (M3) grew at an annual rate of 7,2% and by 1,5% m-o-m in November. The main driver in the month was a large R14,8 billion rise in net foreign assets, while net claims on the government sector fell by R4,0 billion. Net claims on the private sector increased by R9,9 billion. **Private sector credit extension** (up by 6,2% y-o-y in November from 5,5% in October) continues to grow roughly in line with inflation and at rates that are relatively modest for this stage of the business cycle. Household demand for credit is lagging corporate demand, with household balance sheets still under strain. Credit extended to households rose by 5,4% y-o-y from 5,3%, while credit extended to companies eased to 6,8% from 7,0%. The **other loans and advances category**, which comprises unsecured credit to consumers and corporate loans, maintained its relatively strong growth rate during November, up by 12,6% y-o-y and 0,5% m-o-m. Growth in **asset-backed credit** remained weak, held back mainly by mortgage advances, which increased by 1,9% y-o-y, with the growth rate moderating from 2,1% in October. These continue to reflect the subdued housing market as well as uncertainty about the cost of future regulatory requirements. Growth in **instalment sales and leasing finance** has picked up over the past few months, perhaps suggesting slightly improved consumer demand.

The **international liquidity position** declined to \$47867 million in December from \$48633 million in November, dragged down by the firmer US dollar and lower gold price. Gross reserves fell to \$48860 million from \$49650 million, with the value of gold holdings down by \$615 million while that of foreign exchange reserves fell by \$132 million. The forward position was down by \$49 million to \$6534 million.

The **trade deficit** remained unexpectedly high at R8,04 billion in November following October's large shortfall of R9,58 billion. Normally by November imports are starting to ease from pre-festive season stocking up and exports are behaving more consistently. However, imports instead rose strongly in the month, mainly due to a massive 21% increase in mineral products. This category includes oil and makes up over a fifth of imports so alone was responsible for over half the increase in imports in the month. The other large contributor to the rise on imports was in the machinery and electrical appliance category, which mainly contains capital goods. Overall the sharp rise in imports should therefore not be too concerning from a policy or sustainability point of view as it does not suggest a rebound in consumer spending. Export performance was quite strong at 11,9 m-o-m following a 9,7% contraction in October. There was little unusual in the breakdown, with minerals and metals doing well. The one area of potential concern is the slowdown in the vehicles category, suggesting that the slowdown in European growth may be starting to have a negative impact.

In addition to **foreign exchange reserves** numbers for December released this morning, other key releases coming out this week are **vehicle sales** for December, **manufacturing production and sales** for November as well as the **Kagiso Purchasing Managers Index** for December. We forecast annual growth in manufacturing production to have remained weaker at around 1,3% in November as global demand conditions remained fragile.

International

Global equity markets rose last week after falling in the final week of 2011. The **US's Dow Jones, NASDAQ** and **S&P500** gained 1,2%, 2,7% and 1,6% to end the week at 12 359,9, 2 674,2 and 1 277,8, respectively. The indices had ended the year at 12 217,6, 2 605,2 and 1 257,6, with the Dow Jones recording gains of 5,5%, while the Nasdaq shed 1,8% and the S&P 500 was flat for the year. European markets were generally firmer last week. The **UK FTSE 100** and the **German DAX** rose by 1,4% and 2,7% to 5 649,7 and 6 057,9 respectively, while the **French CAC** fell by 0,7% to 3 137,4. In 2011 the key European equity indices plunged by 6,7%, 14,7% and 17,0%, respectively. The Japanese **Nikkei 225** fell by 0,8% to 8390,4 last week, adding to its 17,3% loss in 2011.

The **US dollar** firmed further last week after gaining ground against the euro in the final weeks of 2011. It rose to \$1,2715 against the euro last week from \$1,2957 on 30 December, while it closed at \$1,5516 against the British pound from 1,5521. The **Japanese yen** ended last week at ¥76,96 against the US unit from ¥76,90 and after gaining ground for most of December.

The price of **Brent crude oil** has receded after reaching \$113,60 per barrel on Thursday on geopolitical factors. Iran, the world's fifth largest oil producer, has threatened to block the Strait of Hormuz, through which a fifth of the world's oil trade passes, in retaliation for US-led economic sanctions imposed on it. The oil price closed at \$112,24 on Friday, having risen from \$107,22 per on 30 December. It was up by 13,2% in 2011.

Gold and **platinum** prices were firmer last week, gaining 3,4% and 0,6% to \$1 617,10 per ounce and \$1 403,00 per ounce respectively. The gold gained 10,1% in 2011, while platinum plunged by 21,2% for the year as a whole.

In the **US, minutes of the Federal Open Market Committee's 13 December meeting** indicated that there was no discussion of further quantitative easing following the Fed's decision to extend the maturity profile of its security holdings in September last year. The Fed, however, will start to release its own forecasts of short-term interest rates in a further bid to stimulate credit. Economic data releases indicated that both manufacturing activity and the labour market continued to improve. **Non-farm payrolls** increased by 200 000 in December, well above the market consensus of a 150 000 rise. Private sector payrolls rose by 212 000, while the government cut another 12 000 jobs during the month. Job gains for the previous two months were revised upwards, raising private payroll increases to 1,9 million for 2011 as whole, while government jobs were down by 280 000. The **unemployment rate** dropped to 8,5% from 8,7%, its lowest level since February 2009. **Durable goods' orders** rose by 3,7% m-o-m after remaining flat in November and were higher than the market consensus of 2,2%. Excluding transportation goods orders rose by 0,3% m-o-m from 1,5% in the previous month.

Global manufacturing activity remained depressed but showed some signs of recovery, albeit from depressed levels, in the final month of 2011. The **JP Morgan Global PMI** rose to 50,8 in December after four months of below 50 readings, which indicate a contraction. The **US ISM** increased to 53,9 in December from 52,7 in November - better than market expectations of 53,2 - while the **Chinese PMI** increased to 50,3 from 49,0 in November and against the market consensus of 49,1. European manufacturing activity remained depressed although there were signs of the contraction slowing. The **UK PMI** rose to 49,6 from 47,7. The **Eurozone PMI** increased marginally to 46,9 in December from a 28-month low of 46,4 in November.

In the **UK, third quarter gdp growth** was revised to 0,6% q-o-q (0,5% y-o-y) from 0,5%, while second quarter growth was revised to 0,0% (0,6% y-o-y) from the preliminary 0,1%. Third quarter growth was boosted by a 1,3% rise in investment expenditure, while household spending was flat after contracting by 0,4% in the previous quarter. Government expenditure rose by 0,2% q-o-q from 0,4%. Exports contracted by 0,8% in the third quarter, while imports rose by 0,6%. These figures indicate that the UK economy remains under pressure. **Minutes of the Bank of England's MPC meeting** in December indicated that some MPC members believed that "a further expansion of the asset purchase programme might well become warranted in due course." This followed the November *Inflation Report* which suggested that inflation is likely to fall sharply in the coming months while growth will remain lacklustre.

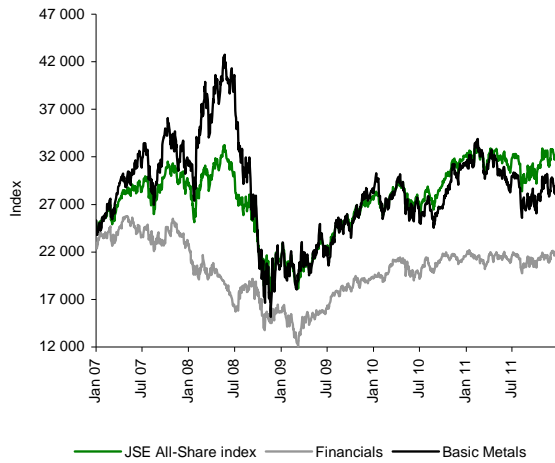
Germany's Ifo index, a gauge of business sentiment in the Eurozone's largest economy, increased to 107,2 from 106,6 in November and against the market consensus of 106.

The key US release this week is the **Federal Reserve's Beige Book**, which will give further anecdotal evidence on the health of the US economy. Monetary policy meetings will be held by

both the **European Central Bank** and the **Bank of England** on Thursday and no major changes are expected.

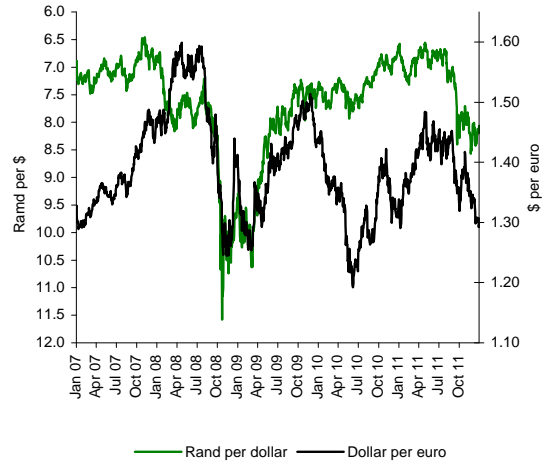
Overview of: 12 December 2011 to 13 January 2012

Chart 1 : JSE indices



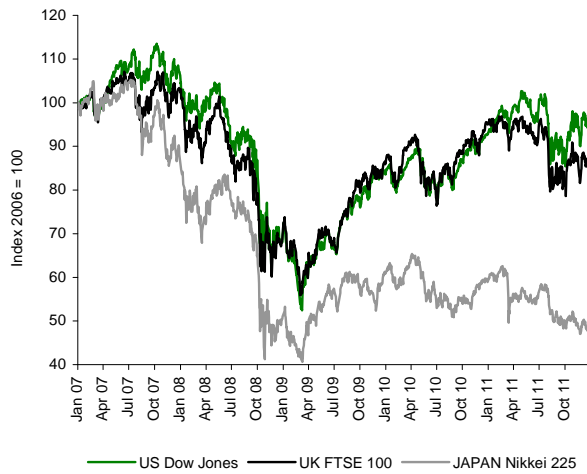
Source: Inet

Chart 2 : Currency markets



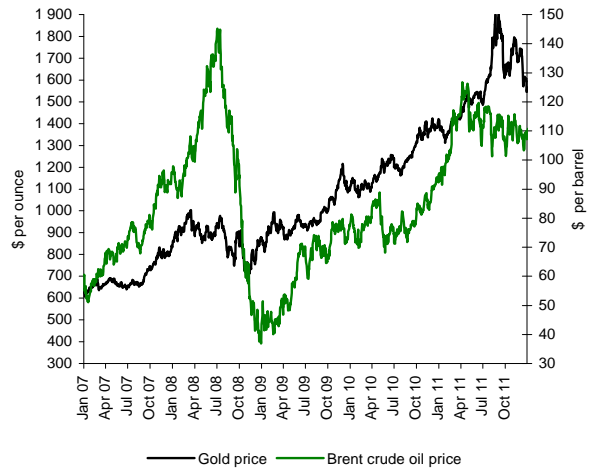
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Chart 3 : International equity markets



Source: Inet

Chart 4 : Commodity prices



Source: Inet

Table 1 : Economic Calendar

Time	Country	Event	Period	Nedbank Forecast	Bloomberg Survey	Actual	Prior	Revised
09-Jan								
08:00	SA	Net Reserves	DEC	--	--	--	\$48.63B	\$48.60B
08:00	SA	Gross Reserves	DEC	--	\$48.82B	--	\$49.65B	--
11:30	EC	Sentix Investor Confidence	JAN	--	--	--	-24	--
12:00	SA	NAAMSA vehicle sales (YoY)	DEC	--	8.50%	--	11.70%	--
22:00	US	Consumer credit	NOV	--	\$7.000B	--	\$7.645B	\$7.646B
10-Jan								
04:00	CH	Trade Balance (USD)	DEC	--	\$9.45B	--	\$14.53B	--
04:00	CH	Exports YoY%	DEC	--	13.50%	--	13.80%	--
04:00	CH	Imports YoY%	DEC	--	18.00%	--	22.10%	--
11:30	SA	SACCI Business confidence index	DEC	--	--	--	97.4	--
12:00	SA	NAAMSA vehicle sales (YoY)	DEC	8.50%	8.50%	--	11.70%	--
11-Jan								
01:50	JN	Official Reserve Assets	DEC	--	--	--	-\$1304.8B	--
07:00	JN	Leading Index CI	NOV P	--	92.9	--	92.0	--
11:30	UK	Total Trade Balance (GBP/Min)	NOV	--	--	--	-£1552	--
14:00	US	MBA Mortgage Applications	Jan-06	--	--	--	-4.10%	--
21:00	US	Fed Beige Book		--	--	--	--	--
12-Jan								
01:50	JN	Current Account Total	NOV	--	¥241.1B	--	¥562.4B	--
01:50	JN	Adjusted Current Account Total	NOV	--	¥357.1B	--	¥518.6B	--
01:50	JN	Current Account Balance YOY%	NOV	--	-74.80%	--	-62.40%	--
01:50	JN	Trade Balance - BOP Basis	NOV	--	-¥600.0B	--	-¥206.1B	--
08:00	JN	Machine Tool orders (YoY)	DEC P	--	--	--	15.80%	--
11:30	UK	Industrial Production (YoY)	NOV	--	-2.20%	--	-1.70%	--
11:30	UK	Manufacturing Production (YoY)	NOV	--	-0.40%	--	0.30%	--
12:00	EC	Euro-Zone Ind. Prod. wda (YoY)	NOV	--	--	--	1.30%	--
12:00	EC	Euro-Zone Ind. Prod. sa (MoM)	NOV	--	--	--	-0.10%	--
13:00	SA	Manufacturing Prod. sa. (MoM)	NOV	2.20%	2.40%	--	-3.60%	--
13:00	SA	Manufacturing Prod. nsa. (YoY)	NOV	1.30%	1.30%	--	1.00%	--
14:00	UK	BOE announce rates		--	0.50%	--	0.50%	--
14:45	EC	ECB announce rates		--	1.00%	--	1.00%	--
15:30	US	Advance Retail Sales	DEC	--	0.20%	--	0.20%	--
15:30	US	Retail Sales Less Autos	DEC	--	0.30%	--	0.20%	--
15:30	US	Retail Sales Ex Auto & Gas	DEC	--	0.30%	--	0.20%	--
15:30	US	Initial Jobless Claims	Jan-07	--	--	--	--	--
15:30	US	Continuing Claims	Dec-31	--	--	--	--	--
17:00	US	Business Inventories	NOV	--	0.40%	--	0.80%	--
21:00	US	Monthly Budget Statement	DEC	--	-\$79.0B	--	--	--
13-Jan								
11:30	UK	PPI Input NSA (MoM)	DEC	--	0.50%	--	0.10%	--
11:30	UK	PPI Input NSA (YoY)	DEC	--	9.70%	--	13.40%	--
11:30	UK	PPI Output n.s.a (MoM)	DEC	--	0.20%	--	0.20%	--
11:30	UK	PPI Output n.s.a (YoY)	DEC	--	5.10%	--	5.40%	--
12:00	EC	Trade balance sa	NOV	--	--	--	0.3B	--
12:00	EC	Trade balance	NOV	--	--	--	1.1B	--
15:30	US	Import price index (MoM)	DEC	--	-0.10%	--	0.70%	--
15:30	US	Import price index (YoY)	DEC	--	--	--	9.90%	--
15:30	US	Trade Balance	NOV	--	-\$45.0B	--	-\$43.5B	--
15:30	US	U. of Michigan Confidence	JAN P	--	70.3	--	69.9	--

Source: Bloomberg

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