

Economic Commentary

Weekly Monitor

Review of 9 to 13 and preview of 16 to 20 January 2012

- The rand closed the week under pressure following news that Fitch had revised South Africa's rating outlook from stable to negative.
- Manufacturing production improved to 2,6% y-o-y in November from 1,2% in October.
- Standard & Poor's revised the sovereign credit ratings of 16 Eurozone members, with Austria and France losing their AAA ratings.
- Both the BoE and the ECB left their policy interest rates unchanged.
- US data indicated that slower global growth and weak domestic sales are impacting on the economy.

Domestic

The **rand** had held relatively firmer early in the week, tracking the euro, which itself was supported by a positive eurozone bond auction. However, news that Fitch rating agency had revised its South African rating outlook from stable to negative depressed the local unit at the end of the week. The rating agency attributed the downward revision mainly to the country's slow progress in addressing structural issues, which are causing the country's performance to fall behind its peers. The rand closed at R8,12 on Friday, falling from R8,05 on Thursday, but was still firmer compared with R8,17 at the end of the previous week. Against the euro and the British pound, the rand has firmed to R10,30 and R12,45 respectively from R10,39 and R12,60 over the week.

In the **capital market**, yields on the benchmark **R157 2015** and **R186 2025** bonds fell to 6,79% and 8,55% over the week from 6,84% and 8,62% respectively, and those on the **3-, 5- and 10-year BESA actuaries** declined to 6,45%, 7,22% and 8,20% from 6,51%, 7,26% and 8,25%.

In the **money market**, the **3- and 6-month JIBAR** were unchanged at the previous week's closes of 5,53% and 5,79%, while the **9- and 12- month JIBAR** increased to 5,96% and 6,13% respectively from 5,94% and 6,08%.

Equities remained depressed by caution about global growth and continued concerns over the European debt situation. The **FTSE-JSE all-share index** increased by a marginal 0,5% over the week ending at 32 927,4 on Friday, with **financials** and **basic materials** up by 1,1% and 1,4% respectively to close at 22 939,2 and 29 537,5. **Industrials** ended 0,5% lower at 34 630,4.

Manufacturing production improved in November, rising by a seasonally adjusted 2,9% over the month and 2,6% over the year from 1,2% in October. Despite the improvement, most industries lack underlying momentum, with output mainly returning to more normal levels off last month's low base. Over the month, most industries reported higher production following sharp contractions in October. The only exception was the broader 'radio, television and professional equipment' industries, where output fell by 2,8% m-o-m, after dropping by a massive 10% in October. Over the year, the largest increases in production were recorded in the following industries: food and beverages (up 8,5% y-o-y); wood and wood products, paper, publishing and printing (up 9,1%); basic iron and steel, non-ferrous metals, metal products and machinery (up 4,6%); glass and non-metallic mineral products (up 12,7%); and electrical machinery (up 5,2%). In contrast, production of motor vehicles, parts and accessories and other transport equipment was 12,6% below levels recorded in the same month the year before.

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Total **vehicle sales** moderated in line with seasonal trends in December as buyers usually postpone sales until the new year, and because there are fewer trading days during the month. Vehicle sales fell during the month (down by 7,6%), but sales growth was up by 16,5% on a year-on-year basis following 13,8% growth in November. Passenger vehicles sales remained the main driver of annual growth, increasing by 18,1% y-o-y in December despite the 5,7% m-o-m drop. Commercial vehicle sales continued to be propped up by sales of light commercials, while sales of both medium and heavy commercials remained weak.

December's vehicle sales figures, however, exclude sales from Mercedes Benz South Africa (MBSA), which has suspended its participation in NAAMSA sales figures. This makes it very difficult to draw accurate conclusions on the overall vehicle market's performance during December. For the 12 months to November 2011, MBSA accounted for a monthly average of 6,4% of passenger vehicle sales and 5,0% of commercial vehicle sales. It is hoped that MBSA's suspension, which is related to EU competition commission issues, will be temporary. In the interim our analysis will strip out MBSA figures for historical comparisons.

In the fourth quarter, vehicle sales grew by 1,1% q-o-q, with sales for the year as a whole 17,2% higher than 2010.

Key releases and events scheduled for this week include **consumer inflation** for December, **retail sales** for November and the first **Monetary Policy Committee (MPC)** meeting for this year. We expect food and administered prices to have continued to be the main drivers of inflation over the month. We forecast general prices to have increased by 0,3% m-o-m, which, combined with the low base established this time last year, is expected to push the year-on-year inflation figure to 6,3% from 6,1% in November. Annual growth in retail sales is likely to have improved to 7,6% from 7,4% in October, supported by price discounting, low interest rates and seasonal factors. The local economy remains subdued, with substantial downside risks, while inflation is climbing higher, floating just above the Reserve Bank upper 6% limit. Despite the upside risks to inflation, posed by higher global oil prices and the surge in local maize prices, the Reserve Bank will probably continue to look for signs of secondary inflationary before adopting a more hawkish stance. We therefore expect the MPC to keep the repo rate unchanged at 5,5% at the end of its three day meeting on Thursday.

International

Global equity markets were generally firmer last week. The **US's Dow Jones, NASDAQ and S&P500** rose by 0,5%, 1,4% and 0,9% to 12 422,1, 2 710,7 and 1 289,1, respectively. The **UK FTSE 100 fell by 0,2% to 5 636,6**, while the **German DAX** and the **French CAC** gained 1,4% and 1,9% to 6 143,1 and 3 196,5, respectively. The Japanese **Nikkei 225** gained 1,3% to 8 500,0.

The **US dollar** fell against the euro on the back of disappointing US economic data, with successful Spanish and Italian bond auctions on Thursday boosting the euro further. The dollar closed at \$1,2678 against the euro on Friday from \$1,2715 in the previous week, while it fell to \$1,5316 against the British pound from \$1,5516. The **Japanese yen** was steady at ¥76,95 against the dollar from ¥76,96.

Commodity prices were mixed, reflecting concerns about global growth. The price of **Brent crude oil** fell by 2,0% to \$110,0 per barrel. The **gold** price gained 1,4% to \$1 639,70 per ounce, while **platinum** rose by 6,4% to \$1 492,50 per ounce.

Standard & Poor's has reviewed long-term sovereign credit ratings of the 16 Eurozone members after warning in late 2011 that it was placing the ratings under review with a negative watch. Nine of the sovereigns had their long-term ratings lowered, while the other seven ratings were affirmed. The agency highlighted that it believes that "initiatives that have been taken by European policymakers in recent weeks may be insufficient to fully address ongoing systemic stresses in the Eurozone". 14 of the sovereigns are on a 'negative' outlook, indicating that there is a one-in-three chance that the rating will be lowered within the next two years, with only Germany and Slovakia on a 'stable' outlook. Two sovereigns lost their AAA rating, while another two were lowered to junk status. Cyprus, Italy, Portugal and Spain were downgraded by two notches, with Cyprus and Portugal being lowered to non-investment grade; Austria, France, Malta, Slovakia and Slovenia were lowered by one notch, while the long-term ratings of Belgium, Estonia, Finland, Germany, Ireland, Luxembourg and the Netherlands were affirmed. **Finland, Germany, Luxembourg** and the **Netherlands** retain their AAA ratings. **Austria** and **France** have both lost their AAA ratings, being downgraded to AA. **Italy** is downgraded further to BBB+ (from A+) **Malta** to A- (from A),

Slovak Republic to A (from A+), **Slovenia** to A+ (from AA-) and **Spain** to A- (from AA). **Cyprus** and **Portugal** were lowered to BB+ and BB from BBB and BBB+ respectively, with each assigned a recovery rating of '4', which, according to S&P's, indicates 'an expected recovery of 30% to 50% should a default occur in future'. The 17th Eurozone member, **Greece**, was downgraded to CC (negative outlook) in July 2011, with that sovereign having lost its investment grade as far back as April 2010. Greece was also assigned a recovery rating of '4' when it was downgraded to junk status.

Both the **Bank of England** (BoE) and the **European Central Bank** (ECB) left their key interest rates unchanged at their policy meetings last week at 0,5% and 1% respectively. The BoE maintained its asset purchase programme at £275 billion, but with that programme set to be completed in early February, and with the likelihood of a UK recession having risen there are expectations that the programme could be expanded at the next MPC meeting. **ECB Governor Mario Draghi** cited early signs of stabilisation in the debt-crisis engulfed Eurozone economies, although the real economy still faces downside risks emanating from the risk of the intensification of the credit crisis, slower global growth, fiscal consolidation and elevated inflationary pressures.

In the **US**, **retails sales** rose by 0,1% m-o-m and 6,5% y-o-y in December after rising by 0,4% m-o-m and 7,0% y-o-y in November. Excluding autos, sales dropped by 0,2% m-o-m after rising by 0,3% in November, the first drop since May 2010. The numbers were disappointing, with total sales coming in lower than the market consensus of 0,3% m-o-m. The **University of Michigan's Consumer Sentiment Index** rose to 74,0 in January – its highest level in eight month - from 69,9 in December and more than the market consensus of 71,5. The outlook index rose to 68,4 from 63,6, while the current conditions index increased to 82,6 from 79,6. **Initial jobless claims** increased to 399 000 for the week ending 7 January from 375 000 in the previous week. The **trade deficit** widened to \$47,8 billion in November from \$43,3 billion as exports dropped by 0,9% m-o-m to \$177,8 billion while imports rose by 1,3% m-o-m to \$225,6 billion.

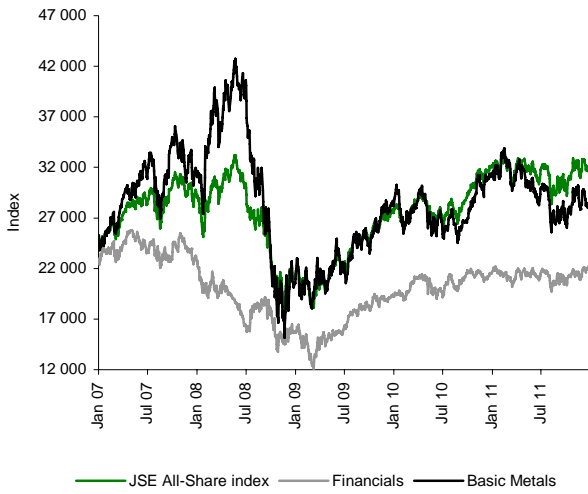
UK industrial production fell by 0,6% m-o-m after contracting by 1,0% in October.

Eurozone industrial production fell by 0,1% m-o-m and by 0,3% y-o-y in November after dropping by 0,3% m-o-m (up 1,0% y-o-y) in the previous month, marking the third consecutive monthly decline. The **trade surplus** widened to 6,9 billion in November from 1,0 billion in October. Exports rose by a seasonally adjusted 3,9% m-o-m, while imports were unchanged during the month.

In **Japan**, the **trade deficit** widened to ¥585,1 billion in November from ¥206,1 billion in October as exports fell on weak global growth and the import bill was pushed higher by internal oil prices. The current account surplus fell to ¥135,5 billion from ¥562,4 billion as the income account surplus declined to ¥934,0 billion from ¥1 121,5 billion.

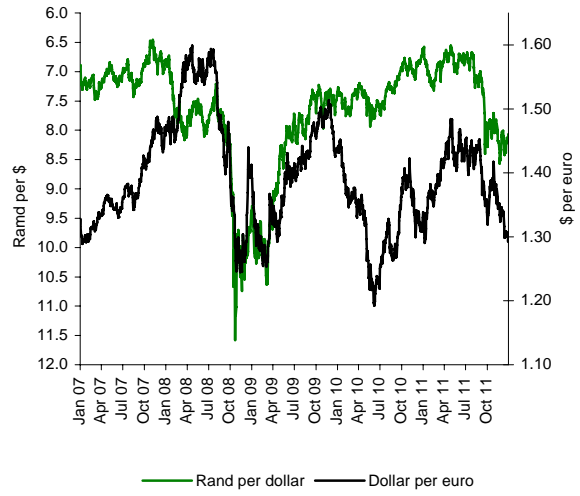
Overview of: 12 December 2011 to 13 January 2012

Chart 1 : JSE indices



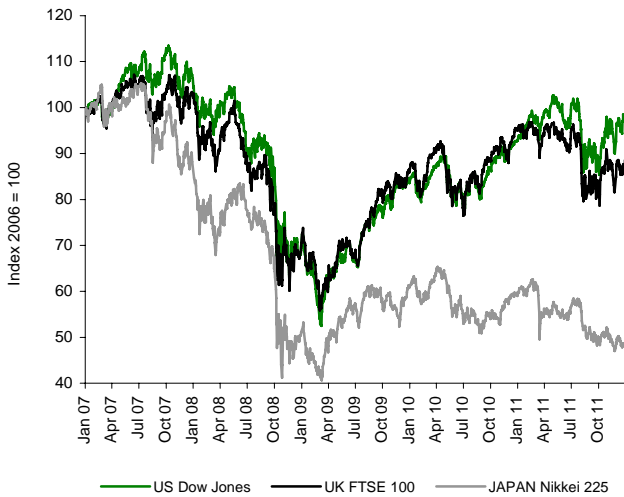
Source: Inet

Chart 2 : Currency markets



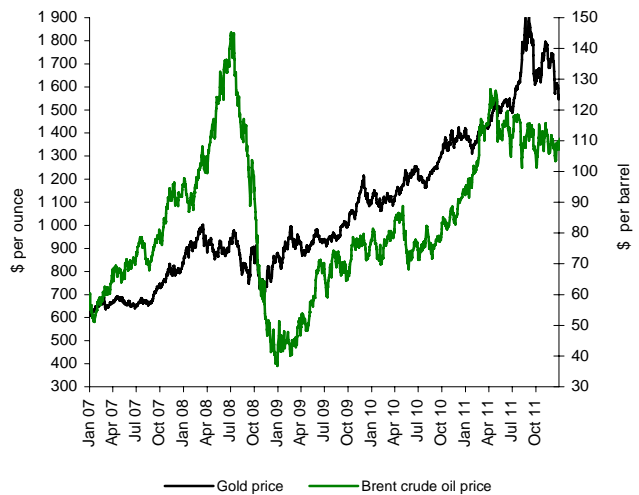
Source: Inet

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
17-Jan								
04:00	CH	Industrial Production (YoY)	DEC	--	12.3%	--	12.4%	--
04:00	CH	Real GDP YTD (YoY)	4Q	--	9.2%	--	9.4%	--
04:00	CH	Real GDP (QoQ)	4Q	--	--	--	2.3%	--
04:00	CH	Real GDP (YoY)	4Q	--	8.7%	--	9.1%	--
04:00	CH	Retail Sales YTD YoY	DEC	--	17.0%	--	17.0%	--
04:00	CH	Retail Sales (YoY)	DEC	--	17.2%	--	17.3%	--
08:00	JN	Machine Tool Orders (YoY)	DEC F	--	--	--	17.4%	--
11:30	SA	Gold Production YoY	NOV	--	--	--	-3.3%	--
11:30	SA	Mining Production YoY	NOV	--	-9.0%	--	-12.7%	--
11:30	UK	CPI (YoY)	DEC	--	4.2%	--	4.8%	--
12:00	EC	Euro-Zone CPI (YoY)	DEC	--	2.8%	--	3.0%	--
15:30	US	Empire Manufacturing	JAN	--	10.5	--	9.53	--
	JN	Cabinet Office Monthly Economic Report		--				
18-Jan								
06:30	JN	Industrial Production YOY%	NOV F	--	--	--	-4.0%	--
06:30	JN	Capacity Utilization (MoM)	NOV F	--	--	--	4.1%	--
10:00	SA	CPI (all items) (YoY)	DEC	6.2%	6.3%	--	6.1%	--
11:00	SA	Kagiso PMI	DEC	51.5	51.6	--	51.6	--
11:30	UK	Claimant Count Rate	DEC	--	5.0%	--	5.0%	--
11:30	UK	Jobless Claims Change	DEC	--	8.0K	--	3.0K	--
11:30	UK	ILO Unemployment Rate (3mths)	NOV	--	8.3%	--	8.3%	--
12:00	EC	Construction Output WDA YoY	NOV	--	--	--	-2.8%	--
13:00	SA	Retail Sales Constant (YoY)	NOV	7.6%	7.5%	--	7.4%	--
14:00	US	MBA Mortgage Applications	Jan-13	--	--	--	4.5%	--
15:30	US	Producer Price Index (YoY)	DEC	--	5.1%	--	5.7%	--
16:00	US	Net Long-term TIC Flows	NOV	--	--	--	\$4.8B	--
16:15	US	Industrial Production	DEC	--	0.5%	--	-0.2%	--
16:15	US	Capacity Utilization	DEC	--	78.1%	--	77.8%	--
17:00	US	NAHB Housing Market Index	JAN	--	22	--	21	--
19-Jan								
04:00	CH	Conference Board China November Leading Economic Index		--				
11:00	EC	ECB Publishes Jan. Monthly Report		--				
11:00	EC	Euro-Zone Current Account nsa	NOV	--	--	--	1.7B	--
11:00	EC	ECB Euro-Zone Current Account SA	NOV	--	--	--	-7.5B	--
15:30	US	Consumer Price Index (YoY)	DEC	--	3.1%	--	3.4%	--
15:30	US	Housing Starts	DEC	--	685K	--	685K	--
15:30	US	Building Permits MOM%	DEC	--	-0.7%	--	5.7%	--
15:30	US	Building Permits	DEC	--	675K	--	681K	680K
15:30	US	Housing Starts MOM%	DEC	--	0.0%	--	9.3%	--
15:30	US	Initial Jobless Claims	Jan-14	--	--	--	399K	--
16:45	US	Bloomberg Consumer Comfort	Jan-15	--	--	--	-44.7	--
16:45	US	Bloomberg Economic Expectations	JAN	--	--	--	-17	--
	SA	SARB Announce Interest Rate	Jan-19	5.5%	5.5%	--	5.5%	--
20-Jan								
07:00	JN	Coincident Index CI	NOV F	--	--	--	90.3	--
07:00	JN	Leading Index CI	NOV F	--	--	--	92.9	--
11:30	UK	Retail Sales w/Auto Fuel (YoY)	DEC	--	2.3%	--	0.7%	--
17:00	US	Existing Home Sales MoM	DEC	--	5.2%	--	4.0%	--
17:00	US	Existing Home Sales	DEC	--	4.65M	--	4.42M	--

Source: Bloomberg

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