

23 January 2012



Economic Commentary

Weekly Monitor

Review of 16 to 20 and preview of 23 to 27 January 2012

- Equity markets were firmer on positive earnings reports and increased optimism about the Eurozone.
- Chinese economic growth slowed in the fourth quarter, tempering worries about a possible hard landing for the world's second largest economy.
- The rand remained firmer on low risk aversion.
- The MPC kept the repo rate unchanged at 5,5%
- Consumer inflation was steady at 6,1% in December 2011.

Domestic

The **rand** remained firm last week, supported by lower risk aversion, a firmer euro as well as the South African Reserve Bank Monetary Policy Committee (MPC's) decision to keep interest rates unchanged, with the governor indicating that the committee did not discuss cutting rates. For the first time since mid November 2011, the local unit breached the R7 level against the US dollar on Wednesday and ended the week at R7,94, up from R8,12 at the previous week's close. The unit also strengthened to R10,27 and R12,37 against the euro and the British pound respectively from R10,30 and R12,45 over the week.

Bonds consolidated further, with yields on the benchmark **R157 2015** and **R186 2025** easing to 6,70% and 8,34% respectively on Friday from 6,79% and 8,55% a week earlier, and the **3-, 5- and 10-year BESA actuaries** fell to 6,42%, 7,14% and 8,03% from 6,45%, 7,22% and 8,20%.

Money market rates were generally steady, with the **3- and 6-month JIBAR** closing at 5,53% and 5,79% respectively on Friday, unchanged from the previous week's closes, while the **9- and 12-month JIBAR** edged up only slightly to 5,97% and 6,15% from 5,96% and 6,13%.

Local equities were boosted by firmer global markets and lessened worries about global growth. The **FTSE-JSE all-share index** closed at a record high of 33 703,4 on Friday, up by 2,4% from the previous week's close, with **industrials, financials** and **basic materials** up by 1,8%, 3,1% and 2,3% respectively to end at 35 243,1, 23 654,7 and 30 218,4

As expected, the **Reserve Bank's MPC** has left the repo rate unchanged at 5,5% on Thursday, adding that the current monetary policy stance is "accommodative and supportive of the real economy". Growth prospects have weakened, the outlook for inflation has deteriorated since the last MPC meeting and risks to the domestic economy are evenly balanced. The Governor spoke at length about the uncertain outlook, with the risk of higher inflation counterbalanced by less favourable domestic growth prospects. While the global economy poses significant risks to local growth, the MPC is concerned that a persistent upward trend and a prolonged breach of the inflation target band could raise inflation expectations, reinforcing the rising inflation dynamics. Inflation has breached the 6% level and the Bank now expects it to peak at a higher rate and remain outside the target band for longer. Inflation forecasts were driven higher by the expected weaker rand exchange rate trajectory. CPI inflation is projected to peak at 6,6% in the second quarter of this year (previously 6,3% in the first quarter) and remain outside the 3% to 6% target band for the whole of 2012, returning to below 6% only in the first quarter of 2013 (previously the fourth quarter of 2012).

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Inflation is projected to drop to 5,5% in the fourth quarter of 2013 (previously 5,4% in the fourth quarter of 2013). Excluding food, petrol and electricity prices inflation is still expected to remain moderate, peaking at 5,5% in early 2013. Gdp growth forecasts have been downgraded for the next two years, with projected growth revised to 2,8% in 2012 (from 3,0%) and 3,8% in 2013 (from 4,2%). The economy is estimated to have grown by 3,1% in 2011.

Other key points highlighted by the MPC were:

- International economic prospects remain uncertain, with downside risks posed by the European debt crisis.
- Cost-push factors, mainly administered prices, remain the main threat to the inflation outlook.
- The rand exchange rate is the main source of uncertainty in inflation projections.

In a separate release, Statistics South Africa showed that headline **consumer inflation** was steady at 6,1% in December 2011. The prices of goods and services remained relatively contained over the month. The 0,2% m-o-m increase was mainly due to 0,3% increase in the prices of food and beverages and a 0,5% increase in the costs of housing and utilities. Over the year, the main drivers remained largely unchanged, with food and beverages inflation at 11,1% from 10,7% the month before, and transport cost inflation at 7% from 6,9% in November due to a sharp jump in the cost of public transport. Most other categories either remained steady or eased slightly over the year.

Retail sales growth momentum remained firm in November, with total sales rising by 6,8% y-o-y from a revised 7,5% (previously 7,4%) in October. Sales growth has remained above 5% y-o-y on a monthly basis since June 2010, although that partly reflected the low base of 2009. All categories of retail sales recorded positive growth during November. Key drivers of sales growth remained 'household furniture, appliances and equipment', which increased by 10,4% y-o-y from 15,4%, 'hardware, paint and glass', up by 17,6% from 15,5%, as well as 'textiles, clothing, footwear and leather goods', which rose by 7,9% from 10,6%. Sales by 'general dealers' increased by 5,5% from 4,0%. These categories benefited from early festive season shopping. On a seasonally adjusted basis total sales fell by 0,3% m-o-m.

Mining production recovered in November following a sharp decline in the previous month, with total output rising by 11,2% m-o-m on a seasonally adjusted basis. This was mainly attributed to base effects, with production of platinum group metals jumping by 23,4% m-o-m following a 19,4% drop in October, while coal production rose by 8% m-o-m following a 5,2% drop. On an annual basis, total production continued to contract, albeit at a slower pace. Total output fell by 4,6% y-o-y, with the rate of decline moderating compared with the 12% drop in October, mainly helped by high production of nickel, iron ore and other metallic minerals, which increased by 17,3% y-o-y, 16,4% and 12,1% respectively. Platinum group metals, coal and copper production were down by 15,1% y-o-y, 2,5% and 4,1% respectively, with the rate of decline moderating from 27,3%, 8,2% and 19,5% recorded in October. Gold production also remained weak, dropping by 4,5% y-o-y in November, the seventh annual contraction.

The **Kagiso Purchasing Managers Index (PMI)** dropped below the critical 50 level, which divides expansion and contraction in December, suggesting that manufacturing conditions are likely to remain weak in the months ahead. The index fell to 49,4 from 51,6 in November on a seasonally adjusted basis, with all the sub-indices, except the 'expected business conditions' index declining over the month. The indices of business activity, new sales orders, inventories and employment, amongst others, fell to 50, 48, 51 and 45 respectively from 52, 51, 54 and 47.

Producer inflation for December is the only key release scheduled for this week. We forecast producer prices to have increased by about 0,3% over the month, which will push the annual figure slightly up to 10,2% from 10,1% in November.

International

Global equity markets rose further during the week, buoyed by better than expected earnings reports and some optimism over the Eurozone and hopes of a soft landing in China. The **US's Dow Jones, NASDAQ** and **S&P500** gained 2,4%, 2,8% and 2,0% to

12 720,5, 2 786,7 and 1 315,4 respectively. The **UK FTSE 100**, the **German DAX** and the **French CAC** rose by 1,6%, 4,3% and 3,9% to 5 728,6, 6 404,4 and 3 321,5, respectively. The Japanese **Nikkei 225** gained 3,1% to 8 766,4.

The **US dollar** lost ground against the euro, with the latter boosted by hopes of an imminent Greek debt deal with private bondholders. The dollar ended at \$1,2929 against the euro on Friday from \$1,2678 in the previous week, while it fell to \$1,5579 against the British pound from \$1,5316. The **Japanese yen** was marginally weaker at ¥77,01 against the dollar from ¥76,95.

The price of **Brent crude oil** lost another 0,7% to \$109,28 per barrel, while gold and platinum prices gained 1,7% and 2,8% to \$1 666,90 per ounce and \$1 534,50 per ounce, respectively.

In the **US**, **existing home sales** rose by 5,0% m-o-m in December to a 4,61 million annual rate from 4,39 million in November, and slightly lower than the market forecast of a rise to 4,65 million. **Consumer prices** were unchanged on a m-o-m basis but were up by 3,0% y-o-y in December, easing from 3,4% y-o-y in November. The market consensus was for a 0,1% m-o-m rise. Excluding food and energy goods, prices increased by 0,1% m-o-m and 2,2% y-o-y, in line with the market consensus and after increasing at the same annual rate in November. **Producer prices** fell by 0,1% m-o-m and 4,8% y-o-y in December, with the annual producer inflation rate dropping from 5,7% in November. Core producer prices, which exclude food and energy prices, increased by 0,3% m-o-m and 3,0% y-o-y from 2,9% y-o-y. **Industrial production** expanded by 0,4% m-o-m after contracting by 0,3% in November. For the fourth quarter industrial production rose by an annualised 3,1%, marking the tenth consecutive quarterly increase. **Capacity utilisation** increased to 78,1% in December from 77,8% in the previous month.

UK retail sales rose by a seasonally adjusted 0,6% m-o-m and 2,6% y-o-y in December after contracting by 0,5% m-o-m (0,4% y-o-y) in November. The figures were in line with the market consensus of 0,6% m-o-m and 2,4% y-o-y. Excluding fuel, sales increased by 0,6% m-o-m and 1,7% y-o-y. **Consumer prices** rose by 0,4% m-o-m and 4,2% y-o-y in December, with the annual inflation rate easing from 4,8% in November. The **unemployment rate** rose to 8,4% from 8,1%, its highest rate in almost 16 years.

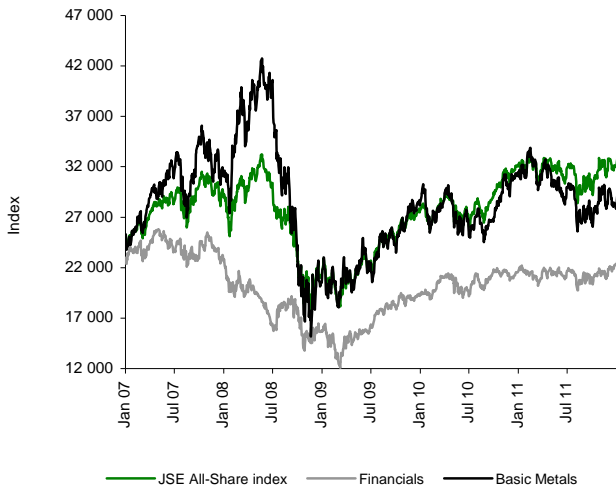
Eurozone consumer prices rose by 0,3% m-o-m in December, with the annual inflation rate easing to 2,7% from 3,0% in November.

The **Chinese economy** grew by 8,9% y-o-y in the fourth quarter from 9,1% in the fourth quarter.

The **Bank of Japan's Policy Board** meets this week and no major change in Japanese interest rates is expected. The focus will be on the Board's gdp and inflation forecasts for the world's third largest economy. Markets await the finalisation of the **Greek debt restructuring** and will pay attention to the size of the "hair cut" that will be borne by private sector bondholders, which is expected to be between 50% and 70%.

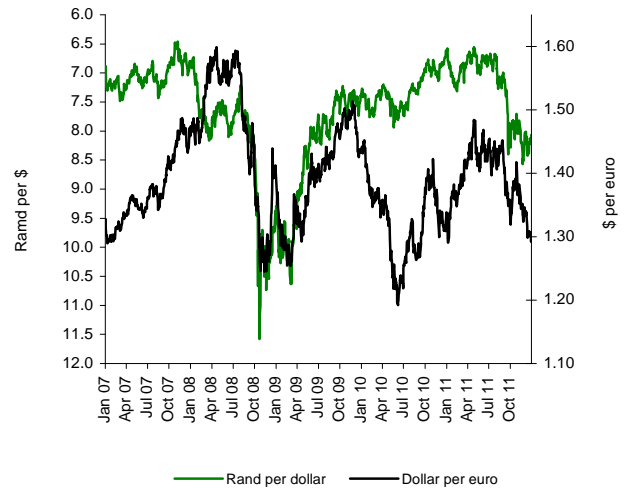
Overview of: 16 to 20 January 2012

Chart 1 : JSE indices



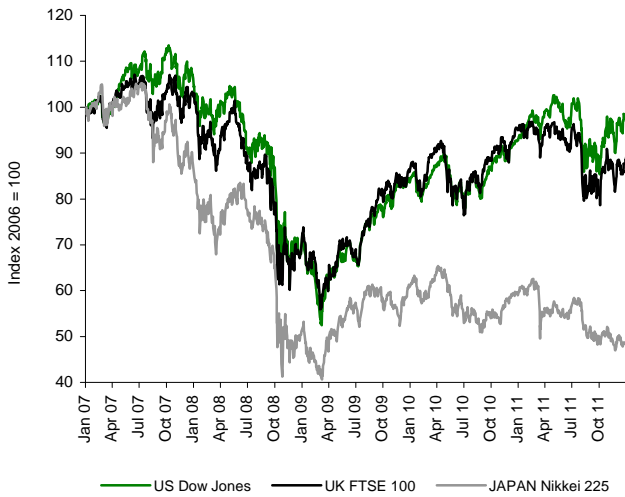
Source: Inet

Chart 2 : Currency markets



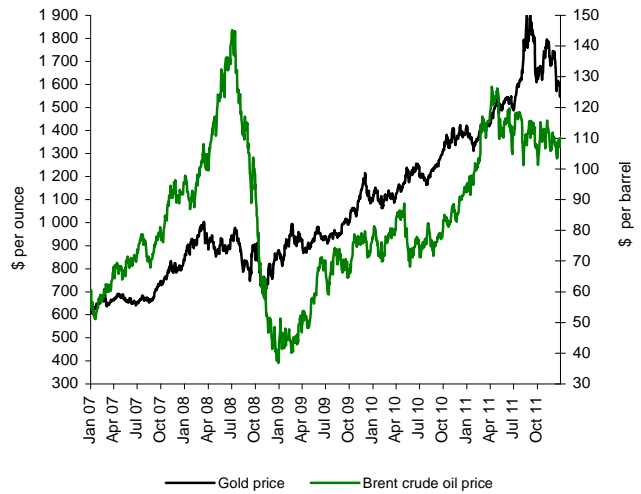
Source: Inet

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
23-Jan								
17:00	EC	Euro-Zone Consumer Confidence	JAN A	--	--	--	-21.1	--
24-Jan								
09:00	SA	Leading Indicator	NOV	--	--	--	131.4	--
11:00	EC	PMI Composite	JAN A	--	48.5	--	48.3	--
11:00	EC	PMI Manufacturing	JAN A	--	47.4	--	46.9	--
11:00	EC	PMI Services	JAN A	--	49	--	48.8	--
11:30	UK	Public Finances (PSNCR)	DEC	--	19.0B	--	10.6B	--
11:30	UK	PSNB ex Interventions	DEC	--	14.8B	--	18.1B	--
11:30	UK	Public Sector Net Borrowing	DEC	--	12.0B	--	15.2B	--
12:00	EC	Industrial New Orders NSA (YoY)	NOV	--	-2.7%	--	1.6%	--
17:00	US	Richmond Fed Manufact. Index	JAN	--	6	--	3	--
	JN	BOJ Target Rate	24-Jan	--	0.10%	--	0.10%	--
25-Jan								
01:50	JN	Merchnds Trade Balance Total	DEC	--	-¥154.9B	--	-¥684.7B	--
01:50	JN	Adjusted Merchnds Trade Bal.	DEC	--	-¥376.5B	--	-¥537.9B	--
04:00	US	2012 State of the Union Address		--				
11:30	UK	Bank of England Minutes		--				
11:30	UK	GDP (QoQ)	4Q A	--	-0.1%	--	0.6%	--
11:30	UK	GDP (YoY)	4Q A	--	0.9%	--	0.5%	--
14:00	US	MBA Mortgage Applications	20-Jan	--	--	--	23.1%	--
17:00	US	House Price Index MoM	NOV	--	--	--	-0.2%	--
17:00	US	Pending Home Sales YoY	DEC	--	--	--	6.9%	--
19:30	US	FOMC Rate Decision	25-Jan	--	0.3%	--	0.3%	--
26-Jan								
11:30	SA	PPI (YoY)	DEC	10.2%	9.9%	--	10.1%	--
15:30	US	Chicago Fed Nat Activity Index	DEC	--	--	--	-37.0%	--
15:30	US	Durable Goods Orders	DEC	--	2.0%	--	3.8%	--
15:30	US	Initial Jobless Claims	21-Jan	--	--	--	--	--
15:30	US	Continuing Claims	14-Jan	--	--	--	--	--
16:45	US	Bloomberg Consumer Comfort	22-Jan	--	--	--	-47.4	--
17:00	US	Leading Indicators	DEC	--	0.7%	--	0.5%	--
17:00	US	New Home Sales MoM	DEC	--	1.6%	--	1.6%	--
17:00	US	New Home Sales	DEC	--	320K	--	315K	--
18:00	US	Kansas City Fed Manf. Activity	JAN	--	--	--	-4	--
	UK	Nat'wide House prices nsa(YoY)	JAN	--	--	--	1.0%	--
27-Jan								
01:30	JN	Natl CPI YoY	DEC	--	-0.2%	--	-0.5%	--
01:50	JN	Retail Trade YoY	DEC	--	2.0%	--	-2.3%	--
01:50	JN	Large Retailers' Sales	DEC	--	-0.5%	--	-2.5%	--
11:00	EC	Euro-Zone M3 s.a. (YoY)	DEC	--	2.3%	--	2.0%	--
15:30	US	GDP QoQ (Annualized)	4Q A	--	3.0%	--	1.8%	--
15:30	US	GDP Price Index	4Q A	--	2.0%	--	2.6%	--
16:55	US	U. of Michigan Confidence	JAN F	--	74	--	74	--

Source: Bloomberg

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