

Economic and Market Analysis

weekly report

WEEKLY REPORT: 3-7 MARCH 2008

Table 1: Key Market Indicators

	Week ending 22 February 2008	Movement for the week	Expectations for this coming week
ALSI	30674	+825 (+2.76%)	Volatile
Industrial index	23544	+622(+4.34%)	Volatile
Gold index	2518	-26(-1.02%)	Increase
Financial index	21117	+622(+3.03%)	Volatile
Rand/\$	R7.74	0	R7.50/\$-R8.00/\$
Gold price	\$971	+29(+3.02%)	\$960- \$990
Dow Jones	12266	-114 (-0.93%)	Volatile
Nikkei	13603	+102 (+0.76%)	Volatile
FTSE-100	5884	-4 (-0.07%)	Volatile
Hang Seng	24331	+1026(+4.40%)	Volatile
SA Property Index	336	+6(+1.86%)	Volatile
R157	8.99%	+21(+2.39%)	Decrease

Global share, property, and bond markets continued to move nervously during last week as the dollar remained near record lows against the euro after the release of generally weak US consumer spending and inflation data for January. Spending rose 0.4% on the month, but the entire rise was due to inflation, leaving consumption unchanged for the second month in a row. Meanwhile, the annual core PCE inflation rate rose to an annual 2.2 pct, well above the Federal Reserve's 1.5-2 pct comfort zone. 'That (inflation) has not yet been a barrier to aggressive interest rate cuts, because the Fed expects inflation to slow as the economy weakens and spare capacity increases,' said Nigel Gault, economist at Global Insight. Indeed, Fed Chairman Ben Bernanke made it clear in his testimony to US lawmakers this week that growth risks still trump worries about inflation, and that another rate cut can be expected in March. In reaction, the Dow Jones lost 114 points (0.93%) over the week. Most over bourses moved volatile and nervously, with the Nikkei in Japan discounting a possible interest rate cut. But the Bank of England is not expected to cut interest rates this coming Thursday after rate-setters recently stressed inflation worries. The biggest worry stays the oil price as it moved well over \$100 p.b by last Friday (\$103 p.b). In reaction, both the prices for gold and platinum continue to move on record levels. The price of gold is now expected to break through the \$1000 per ounce level within the next two weeks.

Despite the negative international sentiment, share prices on the JSE increased yet again over the week. The ALSI gained 2.76%, financials 3.03% and even the industrial sector recorded a strong growth of more than 4.0%.



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Figure 1: The ALSI – Within 900 points from record level



Despite the above bullish recovery in share prices on the JSE, the announcement of the higher than expected inflation X figure of 8.8%, the continuous increase in the M3 Money supply (up from 23.8% to 25.16%) and credit extension to the private sector (up from 21.7% to 23%) and trade deficit (-R10.2 billion) figures increased fears of an ongoing rand depreciation and an increase in the repo rate by the MPC at their next meeting in April. The rand, although stronger during the beginning of the week, ended flat on R7.74/\$, but started to depreciate strongly over the weekend. The property index lost 2.98% over the week on the back of the high inflation figures, while long-bond rates increased by 21 points on the back of an expected higher repo rate and a weaker rand.

Despite the large trade account deficit, as well as the enormous foreign sales of bonds and shares by foreigners (R21.9billion) during January, foreign net reserves still increased by more than R3 billion. This suggests that either from FDI, or unrecorded transactions, a large inflow was recorded. **Dynamic Wealth nevertheless stays worried about the effect of a continuous outflow of foreign capital from the sales of bonds and shares. We are also of the opinion that the inflation rate will first increase to 10% over the next few months, due to the strong increase in the petrol price by 61c/l, and another strong increase expected for April.**



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Given the expected strong increase in electricity prices in April, inflation will continue to rise strongly. Therefore, we expected that share prices may have another downward correction and stay volatile for the next three months.

For a further analysis of the economy, the monthly economic and Market Analysis will be released later this coming week.

Table 2: Release schedule for selected economic indicators this week

Date	Country	Indicator	Period	Expected	Prior
Mar 3	USA	Construction Spending	Jan	-0.8%	-1.1%
Mar 3	USA	ISM Index	Feb	49.0	50.7
Mar 4	RSA	Income and Expenditure of Households	2005/06		
Mar 4	USA	Auto Sales	Feb	5.2M	5.1M
Mar 4	USA	Truck Sales	Feb	6.8M	6.6M
Mar 5	USA	ADP Employment	Feb	-	126K
Mar 5	USA	Productivity-Rev.	Q4	1.8%	1.8%
Mar 5	USA	Factory Orders	Jan	-1.5%	2.3%
Mar 5	USA	ISM Services	Feb	48.5	44.6
Mar 5	USA	Crude Inventories	03/01	NA	3231K
Mar 5	USA	Fed's Beige Book	-	-	-
Mar 6	USA	Initial Jobless Claims	03/01	NA	373K
Mar 6	USA	Pending Home Sales	Jan	-	-1.5%
Mar 7	USA	Nonfarm Payrolls	Feb	40K	-17K
Mar 7	USA	Unemployment Rate	Feb	5.0%	4.9%
Mar 7	USA	Hourly Earnings	Feb	0.3%	0.2%
Mar 7	USA	Average Workweek	Feb	33.7	33.7
Mar 7	USA	Consumer Credit	Jan	\$7.5B	\$4.5B

Prof Chris Harmse
3 March 2008

Note: The above is a fundamental analysis. From time to time the fundamental and technical analysis on the expected movement in share and other market prices may be in conflict, due to the difference in analysis techniques. However, it does not mean that they are not in correlation over the medium to longer term. This report, due to the time constraint is the opinion and sole responsibility of the author.



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