

# ***Economic and Market Analysis***

## *weekly report*

### WEEKLY REPORT: 17-20 MARCH 2008

**Table 1: Key Market Indicators**

	<b>Week ending 15 March 2008</b>	<b>Movement for the week</b>	<b>Expectations for this coming week</b>
ALSI	30648	-70 (-0.23%)	Volatile
Industrial index	23362	+484(+2.12%)	Volatile
Gold index	2765	-15(-0.54%)	Increase
Financial index	19782	-137(-0.69%)	Volatile
Rand/\$	R7.93	-5(-0.64%)	R7.80/\$-R8.25/\$
Gold price	\$1004	+31(+3.19%)	\$990- \$1025
Dow Jones	11951	+57 (-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

Already nervous global financial markets received further negative news on the ailing US economy last week, showing that the US economy will first become worse before it will return for the better. In addition, the Federal Reserve had to take emergency measures in an attempt to restore liquidity and calm in financial markets. On Sunday, the discount rate was lowered by 0.25 percentage points, while the Fed agreed to make more money for longer periods available to a longer list of firms. In addition, JP Morgan Chase bought the bankrupt Bear Sterns (one of the largest mortgage lenders) for \$2 per share (it was \$150 per share last year) while the Fed guaranteed any possible losses. This is indicative of panic actions attempting to restore calm in financial markets.

Moreover, three negative economic fundamental indicators were released at the end of last week, which also darkened the already gloomy picture. Firstly, US retail sales dwindled further. Jack Crooks reports as follows in this weekend's Gold Seek: *Retail sales, a gauge of consumer health, were mostly pathetic in February — considerably worse than expectations. That's attributable to the huge hole in consumers' wallets from the additional cost of filling up the SUV at the local gas pump.* Secondly, inflation in the US is rising according to the CPI report which was released on Saturday, suggesting that US inflation is heading towards 4.8%. Thirdly, the most recent statistics on consumer sentiment is sitting near 16-year lows and reflect a dismal economic outlook.

In reaction to this dismal picture on the US economy and the dollar, investors continue to turn to commodities. The gold price stormed through the \$1000 level last Thursday and



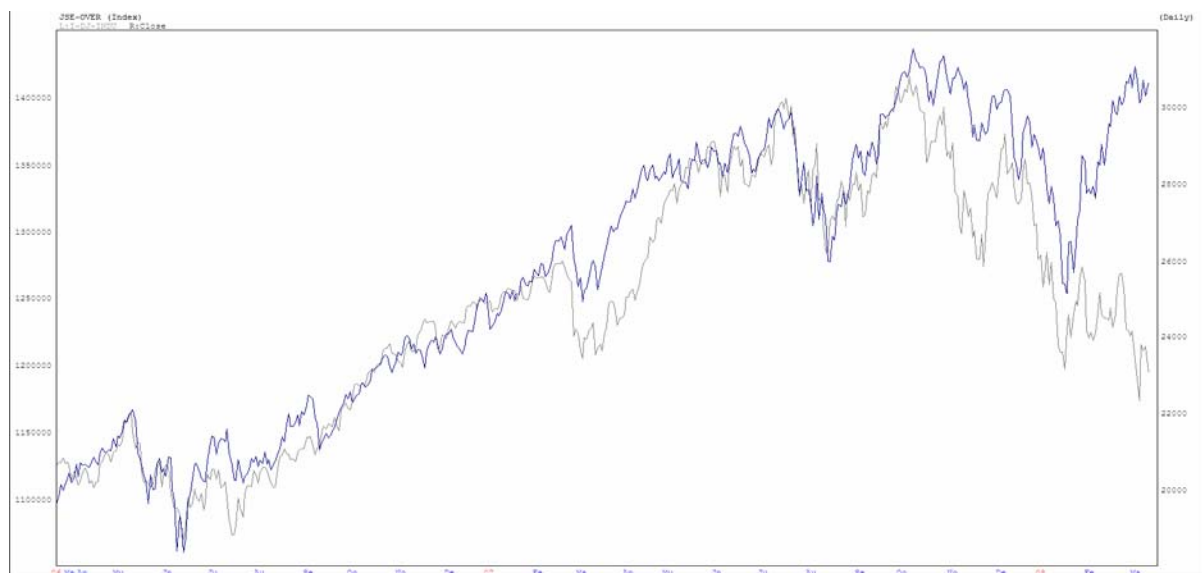
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reached \$1025 per ounce recently. This is of course in tandem with the ever rising oil price that also touched record levels of above \$110 per barrel and is putting further pressure on world inflation and interest rates. In South Africa, the rand dived to R8.25 for a dollar in reaction to the problems in the US. This will put pressure on the petrol price to increase further. The under recovery was more than 55 cents per liter (before the weaker rand and higher oil price). This, together with the increased fuel taxes and road accident levy of 11 cents per liter points towards a price of R9.00 per liter. In reaction, share prices on the JSE continue its interesting pattern. The ALSI broke its correlation with the Dow Jones, as the heavy weighted commodity and rand hedging shares, together with SASOL are pushing the ALSI towards its record level of 31 531.

**Figure 1: The ALSI – Breaking its correlation with the Dow? Is this only a smoke screen?**



Despite the above bullish movement in the ALSI, financial and industrial shares suffer. With the inflation numbers of South Africa for February due next Wednesday, as well as the next meeting of the Monetary Policy Committee (MPC) scheduled for the first week in April, negative sentiment for these shares will prevail. It is expected that the inflation numbers will continue to increase steadily over the next three months and that inflation X may even reach the 10% level in April. The ever rising fuel price, increases in the clothing and foot wear component, higher petrol price and the expected shocking increase in tariffs by ESKOM in April will drive the inflation spiral. Therefore, apart from the heavy weights on the JSE, volatile and downward movement for the rest of the shares on the board is expected. The biggest fear of foreign portfolio sell-off, with the accompanying speculation against the rand may create havoc amongst investors. The electricity debacle has already taken its toll



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on the property market due to a possible embargo on new developments. The property index already lost 12.4% since the beginning of the year.

Negative US sentiment, the prices for gold and platinum, foreign portfolio selling of South African shares and bonds and the oil price will once again dominate the movement in share prices on the JSE this coming week. The US will once again release a large amount of economic indicators this week which will affect sentiment. It is expected that industrial production for February was negative on -0.1%, evidence of the US recession. Building permits and housing starts may strengthen those US recession fears. The release of the PPI figures, which expects an ease-off of inflation pressure, as well as the long awaited FOMC policy statement on the other hand, may calm the global share markets. Thus, all in all, expect another bumpy ride this coming week.

For South Africa, the release of the retail sales, wholesale sales and motor trade sales figures for January will draw attention. It is expected that the negative y-o-y retail sales figure of 0.5% recorded in December 2007 will even be worse in January at -1.0%. It is expected that wholesale sales had also shrunk in January to 1.0%, against the 2.0% figure recorded for December 2007, while motor sales is expected to have turned negative in January to -1.5% against the 2.0% figure in December 2007.



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**Table 2: Release schedule for selected economic indicators this week**

Date	Country	Indicator	Period	Expected	Prior
Mar 17	USA	NY Empire State Index	Mar	-5.0	-11.7
Mar 17	USA	Net Foreign Purchases	Jan	N/A	\$56.5B
Mar 17	USA	Industrial Production	Feb	-0.1%	0.1%
Mar 17	USA	Capacity Utilization	Feb	81.3%	81.5%
Mar 18	USA	Building Permits	Feb	N/A	1061K
Mar 18	USA	Housing Starts	Feb	995K	1012K
Mar 18	USA	Building Permits	Feb	1020K	1061K
Mar 18	USA	PPI	Feb	0.3%	1.0%
Mar 18	USA	Core PPI	Feb	0.2%	0.4%
Mar 18	USA	FOMC Policy Statement	-	-	-
Mar 19	RSA	Retail Trade Sales	Jan	-1.0%	-0.5%
Mar 19	USA	Crude Inventories	03/15	N/A	6177K
Mar 20	RSA	Wholesale Trade Sales	Jan	1.0%	2.0%
Mar 20	RSA	Motor Trade Sales	Jan	-1.5%	2.4%
Mar 20	USA	Initial Jobless Claims	03/15	N/A	353K
Mar 20	USA	Leading Indicators	Feb	-0.3%	-0.1%
Mar 20	USA	Philadelphia Fed	Mar	-18.0	-24.0

**Prof Chris Harmse**  
**17 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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