

Economic and Market Analysis

weekly report

WEEKLY REPORT: 7-11 JULY 2008

Table 1: Key Market Indicators

	Week ending 4 July 2008	Movement for the week	Expectations for this coming week
ALSI	28172	-2203(-7.25%)	Increase
Industrial index	21444	-1289 (-5.67%)	Volatile
Gold index	2257	-111 (-4.68%)	Increase
Financial index	15736	-721 (-4.38%)	Volatile
Rand/\$	7.74	-18(-2.27%)	R7.65 – R7.85/\$
Gold price	935	+7 (+0.7%)	\$915 - \$940
Dow Jones	11288	-58 (-0.5%)	Increase
Nikkei	13237	-307 (-2.26%)	Volatile
FTSE-100	5413	-116 (-2.09%)	Volatile
Hang Seng	221423	-619(-2.80%)	Volatile
SA Property Index	241	+1 (+0.1%)	Increase
R157	10.60	-4 (-0.37%)	Decrease

Oil prices continue to produce the one shock wave after the other in the international financial markets. Oil reached almost \$147 per barrel last week and ended the week close to \$145 per barrel. Geo-political tension and the weaker dollar are responsible for the surge. In reaction, almost all global bourses moved lower last week. The Dow Jones lost 0.5%, the FTSE 2.09%, the DAX 2.28%, the Nikkei 2.26% and the JSE financial index 4.38%. Despite the upward movement in the gold price to close to \$947 per ounce and platinum testing the \$2080 per barrel again, resource stocks on the JSE also started to feel the pressure of international uncertainty. The resource 20 lost 9.2% during last week, contributing to one of the biggest losses of the ALSI in one week of more than 2200 points or 7.3%.

The diagnosis for the US economy stays the same as Market Watch reports: **‘Incomes went up temporarily and spending perked up a bit, but the headwinds from higher energy prices, the credit crunch, the weak job market and declining wealth will far outweigh any benefits from a few hundred dollars in tax rebates’** economists say. **The headwinds will add up to some \$500 billion in reduced consumer resources this year.’**

The big question for the economy this coming week is whether South African share markets will continue to follow the rest of the world. Therefore, what will happen to commodity prices and especially oil prices, the Dollar/Euro rate and inflation expectations? The trigger on



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commodity prices came from the sharp decrease in the price of coal. This flowed through to the prices of gold and platinum.

Figure 1: The JSE ALSI: will it follow the rest of the world?

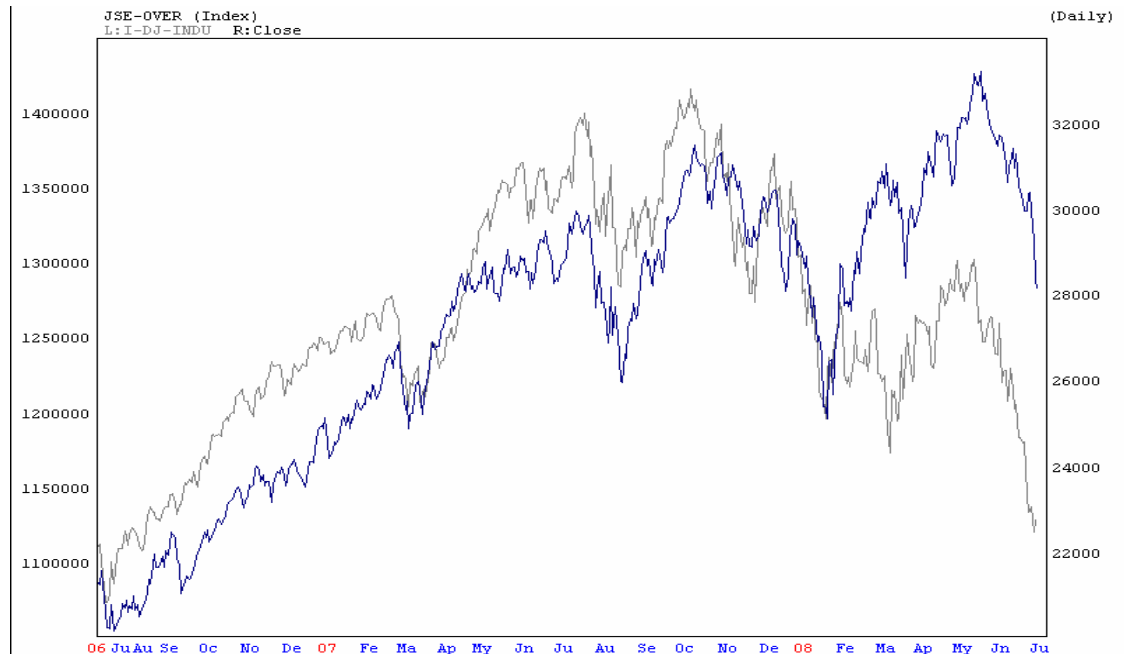


Figure 1 shows the relationship between the ALSI and the Dow Jones industrial index. Especially over the last two months, the JSE started to follow the same trendline as the Dow. The graph also shows that there is a lag of two to four weeks between the two indices. It means that the ALSI follows the Dow one month later. In this sense, the ALSI has already dropped by 15.3% from its peak on 21 May 2008 to the Friday close of 28172. This is already more than the 12.9% drop in the Dow, which started its latest fall on 5 May 2008 and therefore, if the Dow tends to move stronger this week, one can expect that the ALSI will start to recover within the following two to three weeks.

This coming week, the release of the mining production and sales and manufacturing production and sales will be of importance for the share markets. It is expected that total mining production and sales in real terms have shrunk further from 2.0% in April 2008 to 3.5% in May 2008. In the same manner, we expect that the volume of manufacturing production and sales was down from 7.4% in April 2008 to 5.0% in May 2008. Although lower, it will mean that the economy is far from a recession. Data on the US economy



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published this week will be the pending home sales (a sharp decrease expected), wholesale inventories (a lower figure also expected), as well as the trade account deficit (expected higher). If these data are correct, one can expect that the Dow will move negative due to an expected weaker dollar and less chances of an increase in US interest rates.

Table 2: Release schedule for selected economic indicators this week

Date	Country	Statistic	For	Market Expects	Prior
Jul 8	USA	Pending Home Sales	May	-3.0%	6.3%
Jul 8	USA	Wholesale Inventories	May	0.7%	1.3%
Jul 8	USA	Consumer Credit	May	\$7.0B	\$8.9B
Jul 9	USA	Crude Inventories	07/05	N/A	-1982K
Jul 10	RSA	General Household Survey	2007	N/A	N/A
	RSA	Mining production and Sales	May	-3.5%	-2.0%
	RSA	Manufacturing Production and Sales (volume)	May	5.0%	7.4%
Jul 10	USA	Initial Jobless Claims	07/05	N/A	404K
Jul 11	USA	Export Prices ex-ag.	Jun	N/A	0.4%
Jul 11	USA	Import Prices ex-oil	Jun	N/A	0.5%
Jul 11	USA	Trade Balance	May	-\$62.1B	-\$60.9B
Jul 11	USA	Mich Sentiment-Prel.	Jul	56.0	56.4
Jul 11	USA	Treasury Budget	Jun	\$36.5B	\$27.5B

Prof Chris Harmse
7 July 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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