

Economic and Market Analysis

weekly report

WEEKLY REPORT: 3-7 November 2008

Table 1: Key Market Indicators

	Week ending 31 Oct 2008	Movement for the week	Expectations for this coming week
ALSI	20992	2533(+13.7%)	Increase
Industrial index	20446	2490 (+13.9%)	Increase
Gold index	1689	268 (+18.9%)	Increase
Financial index	15451	1479 (+10.6%)	Increase
Rand/\$	R9.72/\$	R1.27 (+11.56%)	R9.00-9.80/\$
Gold price	R722	R9 (+1.3%)	\$7.20- \$7.70
Dow Jones	9325	946 (+11.3%)	Increase
Nikkei	8576	927 (+12.1%)	Increase
FTSE-100	4377	494 (+12.7%)	Increase
Hang Seng	13968	1350 (+10.7%)	Increase
SA Property Index	271	+21 (+8.40%)	Increase
R157	9.09%	-53 (-0.53%)	Decrease

The recovery of share prices around the world was ignited last week Monday after the insignificant announcement that new home sales in the US has increased by 4000 to 464 000 during September 2008. This was much more than the expected amount of 450 000. This immediately sparked confidence in the US economy. Share prices quickly started to recover across the world. This initial spark was then followed by the announcement by various countries that they will lower their key interest rates. The US followed suit and cut the discount rate last Wednesday by 50 basis points. Together with the news last Friday that the economy recorded a positive growth rate of 0.2% during the third quarter of 2008 against the expected recession rate of -0.5%, share markets continued to rally throughout the week. The main global indices all recorded gains of close to 10.0% or more, with the Dow Jones (+11.3%) and FTSE100 (+12.2%) strongly moving upwards.

Domestically, the recovery of the international financial markets contributed to a return of foreign portfolio investors to the JSE and bond markets. The news of the lower than expected inflation X rate of 13.0% during September (down from the 13.6% in August) also contributed to the sharp recovery on the share (+13.7%), bond (+13.9%) and listed property (+8.4%) markets. With commodity prices like gold and platinum that also started to recover, as well as the sharp appreciation of the rand with more than 11% (to end the week lower than R10.00/\$), prospects for further recovery this coming week is most likely.

The further positive news last week that both the growth in the M3 money supply (down to 15.4% from 15.6%) and especially private credit extension by the banks to 16.4% (down from 18.9%) during September, as well as the sharp drop in production inflation from 19.1%



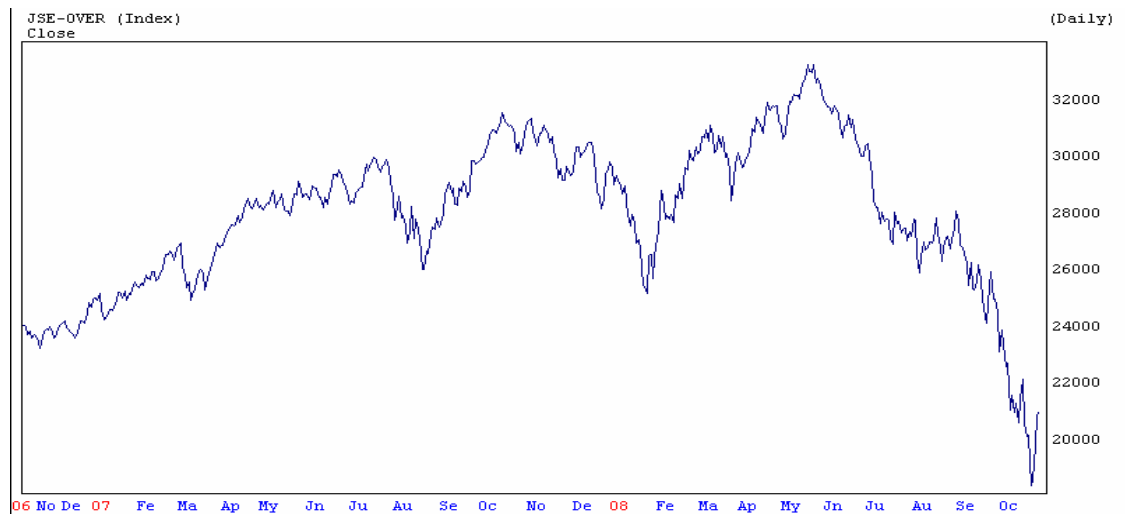
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in August to 16.0% in September lowers the prospects for any further interest rate increases and rather raises expectations that interest rate decreases may occur sooner. The further news of the 45 cents drop in the petrol price this Wednesday, with the possibility of further strong decreases in months to come, changed the economic landscape noticeably last week.

Figure 1: Is this the beginning of the recovery on the JSE?



Due to a lack of new economic data releases for the South African economy, all eyes this coming week will be on the release of the US supply side data, namely initial jobless claims and the non-farm payrolls for October. The unexpected increase in the non-farm payrolls figure from 102 000 in July to a shocking 160 000 in September was one of the reasons why the Dow Jones moved quickly from 10 500 to less than 9500 last month. It is expected that this number rose even further to 172 000 during October. The release of the unemployment rate for October also will be important. The unemployment rate quickly increased to 6.1% in September, the highest over the last 20 years. It is expected that the rate increased even further to 6.4%. The other supply factors that also will be of importance are the factory orders, truck sales and average workweek. If these data show an improvement, it will mean that the production side of the US economy is recovering. On the demand side, consumer credit, auto sales and pending home sales will indicate if US consumer confidence improved. Therefore markets in the US and thus globally will stay nervous during the rest of the week. If investors returned to the developed world markets again this week, commodity prices will increase steadily. In this regard, portfolio movement



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back to South Africa will strengthen the rand even further. Therefore we expect that although volatile, share prices will recover again this coming week.

Table 2: Release schedule for selected economic indicators this week

Date	Country	Indicator	Period	Market expects	Prior
Nov 3	USA	Construction spending	Sep	-0.8%	0.0%
Nov 3	USA	ISM Index	Oct	42.0	43.5
Nov 4	USA	Auto Sales	Oct	4.0M	4.3M
Nov 4	USA	Truck Sales	Oct	5.0M	5.3M
Nov 4	USA	Factory Orders	Sep	-1.5%	-4.0%
Nov 5	USA	ADP Employment	Oct	-80K	-8K
Nov 5	USA	ISM Services	Oct	48.5	50.2
Nov 5	USA	Crude Inventories	11/01	N/A	N/A
Nov 6	USA	Initial Jobless Claims	11/01	N/A	N/A
Nov 6	USA	Productivity-Prel	Q3	1.0%	4.3%
Nov 7	USA	Average Workweek	Oct	N/A	33.6
Nov 7	USA	Hourly Earnings	Oct	N/A	0.2%
Nov 7	USA	Nonfarm Payrolls	Oct	-172K	-159K
Nov 7	USA	Unemployment Rate	Oct	6.4%	6.1%
Nov 7	USA	Pending Home Sales	Sep	-	7.4%
Nov 7	USA	Wholesale Inventories	Sep	N/A	0.8%
Nov 7	USA	Consumer Credit	Sep	N/A	-\$7.9B

Prof Chris Harmse
3 November 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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