

# *Economic and Market Analysis*

*weekly report*

WEEKLY REPORT: 7-11 APRIL 2008

Table 1: Key Market Indicators

|                   | Week ending<br>4 April 2008 | Movement for the<br>week | Expectations for<br>this coming week |
|-------------------|-----------------------------|--------------------------|--------------------------------------|
| ALSI              | 30396                       | +434 (+1.44%)            | Increase                             |
| Industrial index  | 24065                       | +481(+2.03%)             | Volatile                             |
| Gold index        | 2429                        | -128(-5.0%)              | Volatile                             |
| Financial index   | 20563                       | +525(+2.62%)             | Increase                             |
| Rand/\$           | R7.88                       | -24(-3.0%)               | R7.70\$-R8.00/\$                     |
| Gold price        | \$914                       | -18(-1.93%)              | \$910- \$940                         |
| Dow Jones         | 12609                       | +393 (+3.2%)             | Volatile                             |
| Nikkei            | 13293                       | +473 (+3.7%)             | Volatile                             |
| FTSE-100          | 5947                        | +255(+4.5%)              | Volatile                             |
| Hang Seng         | 24264                       | +979(+4.2%)              | Volatile                             |
| SA Property Index | 312                         | +5(+1.6%)                | Increase                             |
| R157              | 8.96%                       | -26(-2.81%)              | Increase                             |

Positive prospects for the US housing dilemma, as well as less recession woes boosted positive sentiment on world share markets last week. Although the US economy lost another 80 000 jobs during March, the number was less than expected (100 000). The Dow Jones picked up 3.2% growth with strong recovery in London (4.5%), Japan (3.7%) and Hong Kong (4.2%). It is therefore expected that Asia and Europe will move higher at the opening this week. Nevertheless, the news from OPEC over the weekend that they will not increase the current world stock of oil and that they are satisfied with an oil price of higher than \$100, led to oil prices held steady near \$107, supported by fears of more dollar weakness and OPEC's reluctance to boost output. Global economists currently feel that they view a stronger economic activity in 2009. This translates into tight metals markets and rising base metal and iron ore prices.

After a strong downward correction in the prices of gold and platinum early last week, the ALSI on the JSE stayed under pressure. Despite this, the more favourable news on the Zimbabwe election and a recovery in commodity prices last Friday contributed to a positive week for most share prices on the JSE. The ALSI index gained 1.4%, while financials were up by more than 500 points (2.62%) and industrials by 481 points (2.03%). Once again we expect that the JSE will open higher this Monday as commodity prices moved higher over the weekend and the rand that dipped under the R7.80/\$ level.



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# Economic and Market Analysis

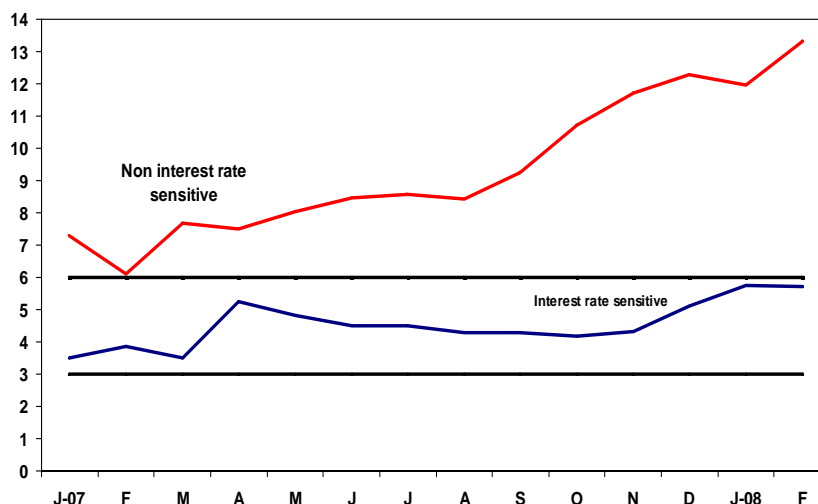
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All eyes will be on the decision by the Monetary Policy Committee (MPC) on the repo rate this week. Both CPIX and PPI increased substantially in January and February. CPIX increased sharply to 8.8% in January and again to 9.4% in February. PPI reached 11.1% in February. However, though high increases were expected, both numbers underwent technical adjustments, causing it to increase sharper than anticipated. Technical adjustments in credit extension to households were also responsible for a sharper than expected increase in this number.

If Mr. Tito Mboweni, governor of the South African Reserve Bank, is to be taken on his word, another increase in interest rates in April seems almost inevitable. The reason being his statement at the end of March that if second-round effects are seen to be pushing the CPIX higher, an increase in interest rates will have to be seriously considered. And the release of February's inflation numbers show that this is indeed happening.

Interest rate sensitive prices (CPIX minus food and administered prices) that depict second-round inflation in the clearest possible way) increased by 5.7% in February, exactly the same as in January. Though this number did not increase, which is encouraging, it also did not decrease. And as petrol prices for March and April (a year-on-year increase of 37.7%) is likely to push non-interest inflation even higher than the current 13.3%, it will most certainly have an impact on interest rate sensitive prices.

**Figure 2: Non-interest rate sensitive and interest rate sensitive inflation**



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Even though the economy will perform worse and consumers will suffer more, the Reserve Bank might be tempted towards more interest rate increases – especially as inflation will increase further and the pressure is on the rand to weaken (which in itself might be inflationary). Another increase in rates will slow demand further, but might attract foreign capital to finance the CAD. This will relieve future pressure on the rand and inflation.

Should this happen, economic growth might struggle to reach 3%. However, the Reserve Bank will be aware of the fact that exogenous and external factors are currently inflation drivers. Under these circumstances, it might be wrong to increase interest rates. However, the Reserve Bank cannot be blamed if it decides to increase rates again, especially to save its credibility.

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

| Date   | Country | Indicator              | Period | Expected | Prior    |
|--------|---------|------------------------|--------|----------|----------|
| Apr 7  | USA     | Consumer Credit        | Feb    | \$6.0B   | \$6.9B   |
| Apr 8  | USA     | Pending Home Sales     | Feb    | -0.5%    | 0.0%     |
| Apr 8  | USA     | FOMC Minutes           | Mar 18 | -        | -        |
| Apr 9  | USA     | Wholesale Inventories  | Feb    | 0.5%     | 1.0%     |
| Apr 9  | USA     | Crude Inventories      | 04/05  | NA       | 7317K    |
| Apr 10 | USA     | Initial Jobless Claims | 04/05  | NA       | 407K     |
| Apr 10 | USA     | Trade Balance          | Feb    | -\$57.4B | -\$58.2B |
| Apr 10 | USA     | Treasury Budget        | Mar    | -\$80.0B | -\$96.3B |
| Apr 11 | USA     | Export Prices ex-ag.   | Mar    | NA       | 0.5%     |
| Apr 11 | USA     | Import Prices ex-oil   | Mar    | NA       | 0.6%     |
| Apr 11 | USA     | Mich Sentiment-Prel.   | Apr    | 69.4     | 69.5     |

**Prof Chris Harmse**  
**7 April 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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