

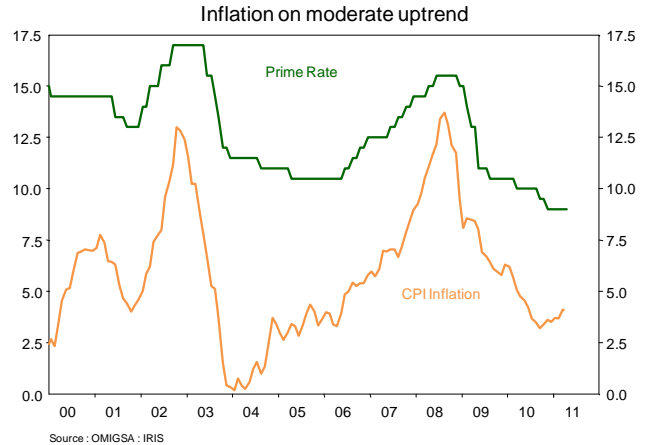
**OMIGSA Comment – Rian Le Roux, Chief Economist**

**Interest rates again on hold .....thanks partly to stable rand**



The SA Reserve Bank yesterday kept the benchmark interest rate steady at 5.5%. This was in line with our forecast and market consensus of interest rates remaining on hold for some time to come. However, we expect the first hike in rates to occur somewhere between the fourth quarter of 2011 and the opening months of 2012.

The behaviour of the rand over the remainder of 2011 is key to inflation prospects. The surge in global food and energy prices has put upward pressure on overall local inflation over the past few months (March CPI rose to 4.1% y/y from 3.7% y/y in February), but this has so far partly been offset by the still broadly stable exchange rate. The main reasons for the rand's strength are: still-high precious metal prices; an almost-balanced foreign trade position in recent months; South Africa's still relatively high interest rates in a global context; and warnings from the SARB that it will act decisively against rising inflation.



In the meantime the local recovery remains on track, although relatively modestly, as there are still a number of weak spots in the economy, most notably investment in the productive capacity of the economy.

**6 - 12 May 2011 in a nutshell**

**Global:** The S&P 500 in the US rose 1.01%, on the back of brighter economic data pointing to growing payrolls, improved consumption power and increased retail sales. Its European counterpart shed 0.32% amid heightened concerns around the European debt crisis, and emerging market stocks slid 1.21%, largely on Chinese inflation and global growth concerns.

**South Africa:** The local bourse improved slightly this week, with the FTSE/JSE All Share Index rising 0.32%. Financial stocks led the gains with an increase of 0.24%, while the biggest losers were SA listed property and industrials, which each fell 0.47%.

**Markets and Economics – Highlights**

**Global**

- US retail sales rose 0.5% in April to a seasonally adjusted US\$389.4 billion, the Commerce Department reported. March sales were revised up to show 0.9% growth from an initial estimate of 0.4%; February sales were revised higher as well. Compared with April 2010, sales are up 7.6%. The upward revision to both February and March data means that first-quarter GDP growth could be revised higher than the initial estimate of a 1.8% annualised rate, analysts said. While mounting fuel and food costs are pinching household budgets, improving job prospects mean consumer spending, which accounts for about 70% of the US economy, can keep growing.
- Ratings agency S&P lowered Greece's long-term credit rating by two notches, to B from BB-. Senior Euro-zone policymakers acknowledged that Athens will need a second bailout package soon to avert a disorderly overhaul of its debt obligations. Officials said the European Union was also looking to lower interest rates on rescue loans to Ireland within weeks, and eyeing easier bailout terms for Greece, as the common currency area floundered deeper into crisis.
- China's National Bureau of Statistics reported this week that consumer price inflation rose 5.3% in April from a year earlier, remaining above government targets. In response, the Bank of China further tightened monetary policy with a 50 basis point rise in the bank reserve requirement ratio. Commodity prices tumbled as a consequence amid concerns of slower global growth. One of the biggest casualties was oil, which fell below US\$100 per bbl.

## South Africa

- According to the South African Reserve Bank (SARB), South Africa's gold and foreign assets increased by US\$1.336 billion to US\$50.602 billion in April, from US\$49.266 billion in March, reaching the key US\$50 billion level for the first time. The SARB continued to accumulate foreign currency by selling rand, yet the rand remained relatively strong, helping provide a buffer for higher inflation.
- The year-on-year growth in residential house prices was constrained in April, according to the Absa House Price Index. The average nominal value of small houses (80m<sup>2</sup>-141m<sup>2</sup>) fell 3.5% y/y in April 2011. At the same time, medium-sized home prices (141m<sup>2</sup>-220m<sup>2</sup>) declined 0.1% y/y, while large houses (221m<sup>2</sup>-400m<sup>2</sup>) showed price growth of 2.0% y/y.
- Growth in manufacturing slowed sharply in March compared with the corresponding month last year, casting a cloud over the outlook for the economy's recovery. Factory output rose 4.6% during the period, well below a downwardly revised increase of 5.7% in February, said Statistics SA. Rising costs generated by higher prices for fuel and electricity are hampering profitability in the sector, as are double-digit wage hikes last year. Annual growth in manufacturing in March was broadly based, with higher output driven mainly by the petroleum and chemical products, motor vehicles, electrical machinery and furniture industries.

### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 12.05.2011	% Performance Return
United States	S & P 500 (US\$)	1.01%	1,349	7.21%
Europe	Euro Stoxx 50 (Euro)	-0.32%	2,917	4.44%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-1.21%	1,148	-0.30%
South Africa	FTSE/JSE All Share (ZAR)	0.32%	31,682	-1.36%
Global	MSCI (US\$)	-0.32%	1,351	5.56%
ZAR/Dollar	Rand/US \$ (ZAR)	2.43%	6.89	4.18%
ZAR/Pound	Rand/£ (ZAR)	1.93%	11.21	8.72%
ZAR/Euro	Rand/Euro (ZAR)	0.39%	9.81	10.93%
JSE	Industrials	-0.47%	27,318	-10.17%
JSE	Financials	0.24%	21,309	-1.56%
JSE	Resources 20	-0.02%	2,752	-3.15%
JSE	Small Companies	0.03%	32,169	-4.60%
JSE	Listed Property	-0.47%	368	-4.78%
JSE	RAFI® 40	0.27%	6,615	-0.61%
JSE	RAFI® ALSI	0.21%	6,382	-1.31%
JSE	SWIX	0.07%	6,609	-2.00%

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