

Omigsa Comment – Rian Le Roux, Chief Economist: Economic Research

SARB – Can/should they do more?



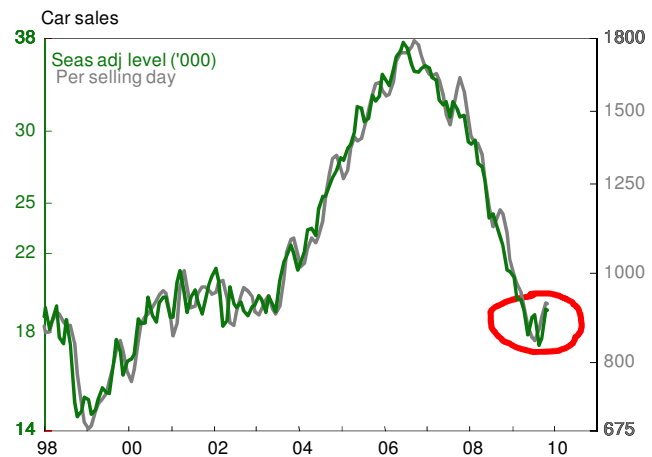
In line with the market's consensus, newly appointed South African Reserve Bank (SARB) governor Gill Marcus kept the repo rate unchanged at 7%, and by extension the commercial bank's prime rate at 10.5% after her first Monetary Policy Committee (MPC) meeting on Tuesday this week. The MPC's decision to keep the repo rate steady was on the back of lingering medium term inflation risks, even though inflation eased to 6.1% in September.

The strong rand, decelerating food inflation and weak consumer demand hold the promise of a further deceleration in inflation in the months to come. However, still-high wage demands, rapid rises in administered prices (especially electricity) and still high inflation expectations hold considerable medium term risks. The rand initially (in September) weakened sharply on the back of concerns over government's huge borrowing requirement over the next few years, as confirmed in the Medium Term Budget Policy Statement, but soon began to firm again on good foreign trade data (R4bn surplus in September) and the continued rise in precious metal prices.

The interest rate outlook remains relatively uncertain. With rates down sharply from their peaks, the economy showing early signs of recovery and still significant medium term inflation risks, the SARB left rates unchanged at their last three meetings. However, downside inflation surprises and/or failure of consumption to recover could still hold open the possibility of further rate cuts in the new year. We side with the former view, namely that we are now at the bottom of the interest rate cycle. However, we do not expect rates to rise anytime soon.

SA data watch

Stabilisation signs – but nothing exciting



Source: IRIS

13 - 19 Nov 2009 in a nutshell

Global: Major global bourses 'zigzagged' this week in search of a clear catalyst for an upward trend and on a flurry of negative economic news from the US. The S&P 500 in the US rose 0.83% while the European market shares gave up 0.59% and emerging market stocks were steady at 0.94%.

South Africa: The local market firmed on a weaker rand and stronger commodity prices, with the FTSE/JSE All Share Index climbing 1.39%. The biggest winners of the week were resources, collecting 1.80%.

Markets and Economics - Highlights

Global

- US President Barack Obama warned that the US economy could head into a "double-dip recession" unless urgent steps were taken to rein in mounting public debt. New residential construction in the US plunged last month, falling for the first time since April and taking the wind out of the housing market's fragile recovery, official data showed.

- The strength of the euro is hitting the profits and sales of companies in the eurozone sharply, in spite of the emerging economic recovery in the region.
- A large bubble is forming in China's property market as a result of Beijing's credit-driven stimulus programme, one of the country's most prominent real estate developers said.

South Africa

- Hopes that retail trade sales would pick up towards the end of the year were dashed by a significant 5.1% drop in September y/y, figures released by Stats SA showed.
- The total value of recorded building plans passed at current prices continued to decline, Stats SA said.
- Food inflation is finally coming off the boil, which is good news for cash-strapped consumers. It fell from a peak of 19.2% in August last year to 4.9% in September this year.
- SA's gold output was 4.8% higher in the third quarter than in the second, but 2.9% down on the previous third quarter's, the Chamber of Mines said.

Key Indicators:				
Market	Index	Movement for the period		Year to Date
		%	Index Value @ 19.11.2009	% Performance Return
United States	S & P 500 (US\$)	0.83%	1,096	21.37%
Europe	Euro Stoxx 50 (Euro)	-0.59%	2,860	16.69%
Emerging Mkts	MSCI Emerg Mkts (US\$)	0.94%	968	70.72%
South Africa	FTSE/JSE All Share (ZAR)	1.39%	27,059	25.80%
Global	MSCI (US\$)	-0.09%	1,152	25.22%
ZAR/Dollar	Rand/US \$ (ZAR)	0.94%	7.52	-21.09%
ZAR/Pound	Rand/£ (ZAR)	1.29%	12.53	-8.67%
ZAR/Euro	Rand/Euro (ZAR)	1.54%	11.23	-14.67%
JSE	Industrials	-0.94%	25,052	16.54%
JSE	Financials	-0.58%	19,096	21.02%
JSE	Resources 20	1.80%	49,701	29.06%
JSE	Small Companies	0.26%	26,618	17.20%
JSE	Listed Property	-0.62%	321	3.55%
JSE	RAFI® ALSI	1.68%	5,681	32.18%
JSE	RAFI® 40	1.74%	5,499	29.02%
JSE	SWIX	0.72%	5,565	22.31%

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