

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

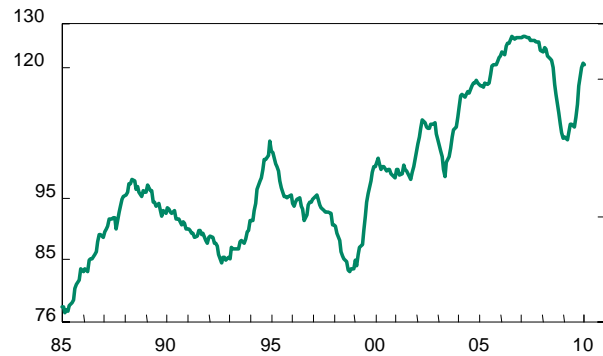
Marcus’ surprise rate cut – a welcome relief for consumers



South African Reserve Bank (SARB) Governor Gill Marcus’ announcement yesterday of a 50 basis point cut of the bank’s repo rate to 6.5% and by extension, the commercial banks’ lending rate to 10%, was quite a surprise and a welcome relief for indebted consumers. A moderately better inflation outlook and the firm rand appear to be the key drivers behind the SARB’s decision.

The cut was contrary to our own and the market consensus forecast of no change in the Reserve Bank’s lending rate. Recent economic data, pointing to a firming local economic recovery, will likely result in rates remaining unchanged from now through the first quarter of 2011.

SARB leading indicator suggests strong improvement in growth.



Source: SARB and OMIGSA

Local economic prospects are indeed brightening with the economic recovery now spreading to consumption, inflation relatively well under control and SA’s fiscal position notably better than many other countries around the world. And then we have the Soccer World Cup as an added bonus.

19 - 25 March 2010 in a nutshell

Global: Major global bourses were a mixed bag this week on the back of lacklustre economic news emanating from the US and Europe. The S&P 500 in the US was flat at 0.00% while its European counterpart rose 1.17% and emerging market shares slid 1.20%.

South Africa: The local market tracked global equities lower, with the FTSE/JSE All Share Index ending the week 0.87% in the red. The winner was Listed Property, climbing 1.77%.

Markets and Economics - Highlights

Global

- Sales of new homes in the US unexpectedly fell in February to a record low as blizzards, unemployment and foreclosures depressed the market. Purchases decreased 2.2% to an annual pace of 308 000, figures from the Commerce Department showed in Washington.
- The euro slumped to a 10-month low after credit rating agency Fitch downgraded Portugal’s debt and euro zone leaders wrangled over how to help Greece overcome its fiscal crisis, a newspaper report said.
- Industrial & Commercial Bank of China Ltd (ICBC) plans to sell stock and as much as 25 billion yuan (\$3.7 billion) of convertible bonds to shore up capital eroded by unprecedented lending. Chinese banks are raising money after a record 9.59 trillion yuan of new loans last year weakened their balance sheets and the regulator raised requirements of financial buffers, said a newspaper report.

South Africa

- The Reserve Bank unexpectedly cut interest rates by half a percentage point yesterday, taking its key lending rate to 6.5%, its lowest for nearly three decades. Lower inflation, subdued economic growth and the negative effect of gains in the rand played a role in the decision of the monetary policy committee (MPC), which took markets by surprise.
- Price increases at factories, farms and mines accelerated last month, but a bit more slowly than expected. The producer price index (PPI) jumped 3.5% compared with the same month last year, after a 2.7% increase in January, data from Stats SA showed.
- The Reserve Bank unveiled a raft of unexpectedly good news on the economy, showing embattled consumers spending again and the broadest measure of trade in goods and services shrinking to a four-and-half-year low.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 25.03.2010	% Performance Return
United States	S & P 500 (US\$)	0.00%	1,166	4.56%
Europe	Euro Stoxx 50 (Euro)	1.17%	2,948	-0.61%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-1.20%	990	0.05%
South Africa	FTSE/JSE All Share (ZAR)	-0.87%	28,556	3.22%
Global	MSCI (US\$)	-0.50%	1,192	2.05%
ZAR/Dollar	Rand/US \$ (ZAR)	2.19%	7.47	1.08%
ZAR/Pound	Rand/£ (ZAR)	-0.45%	11.08	-6.58%
ZAR/Euro	Rand/Euro (ZAR)	-0.10%	9.94	-5.24%
JSE	Industrials	-0.83%	26,364	4.43%
JSE	Financials	-0.29%	21,139	9.38%
JSE	Resources 20	-0.23%	50,470	-1.20%
JSE	Small Companies	0.93%	28,723	3.00%
JSE	Listed Property	1.77%	345	6.81%
JSE	RAFI@ ALSI	-0.87%	6,013	4.54%
JSE	RAFI@ 40	-0.53%	5,830	4.26%
JSE	SWIX	-1.21%	5,978	4.24%

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