IQnews DAILY

Bringing you economic intelligence every week day

Date: 26th February 2010

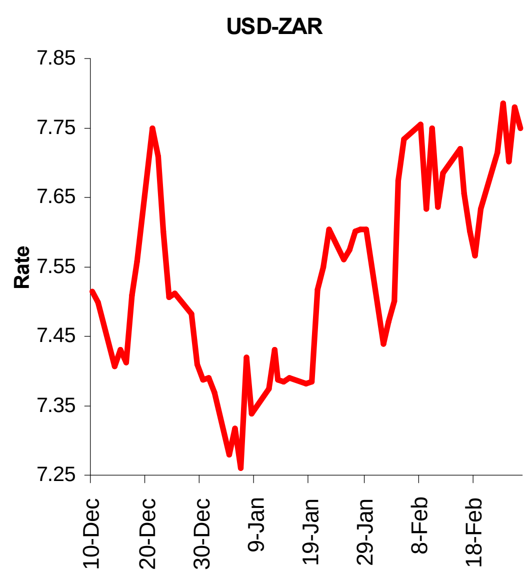
USD-ZAR 7.6916/8007	**EUR-ZAR** 10.4710/5835	**GBP-ZAR** 11.7847/9018	**EUR-USD** 1.3550/632
GBP-USD 1.5236/340	**USD-JPY** 89.142/572	**AUD-USD** 0.8864/946	**R157** 8.210%
GOLD $1109.22	**ALLSHARE** 26 731.85	**DJI** 10 321.03	**3M JIBAR** 7.185%

Time (GMT)	Country	Event	Month	Exp	Prior
06:00	SA	Money supply	Jan	0.57% a	1.60%
06:00	SA	PSCE	Jan	-1.12% a	-0.55%
09:00	SA	ILB Bond Auction (R600mn)			
12:00	SA	Trade Statistics	Jan	-R2.5bn	R3.7bn
09:30	GB	GDP q/q Q4 preliminary	Q4	0.20%	0.10%
13:30	US	GDP q/q Q4 (prelim)	Q4	5.60%	5.70%
14:45	US	Chicago PMI	Feb	60	61.5
14:55	US	Michigan final	Feb	74	74.4
15:00	US	Home sales	Jan	5.5mn	5.45mn
	US	Various Fed Pres speakers at 2010 US Monetary Policy Forum			

Today's Talking Point

Domestic data show ongoing stagnation in M3 and private credit: The Jan M3 and PSCE data have come out soft, especially M3 growth which fell to 0.6% y/y from 1.6% y/y in Dec. Jan credit growth fell to -1.1% from -0.8% y/y in Dec. The underlying credit and money supply conditions remain subdued and when factoring in base factors the growth numbers are going to remain subdued in the months ahead. With overall credit and broad money supply still stagnating the latest data only reinforces the view that inflation is going to beat market expectations to the downside in 2010, especially as we progress toward mid-year.

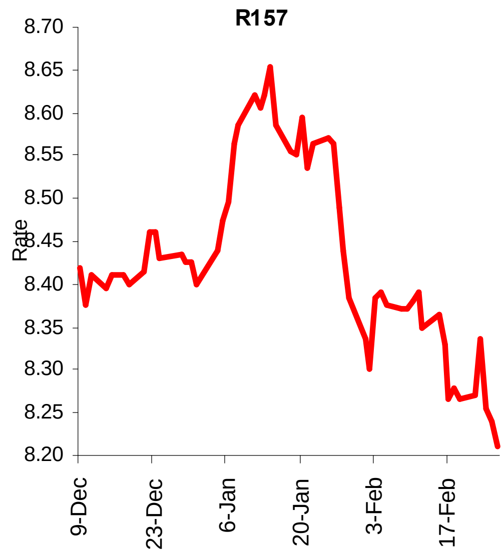
Rand Update



Overnight, a combination of factors was reported to have helped trigger an unwinding of long USD positions established through the course of the week. Speculators have pointed to some much stronger than expected retail sales and industrial production in Japan, whilst Australia's bank lending rose for the third consecutive month. Given that both Japan and Australia are known as export and commodity driven economies, their improvement suggests a strengthening in global demand and this appears to have been the catalyst for the rotation away from the safe haven USD. Looking at the ZAR's performance against the USD one might think that the ZAR has been exceptionally weak, however closer inspection of the trade weighted ZAR incorporating a basket of six currencies which makes up nearly 85% of SA's trading basket reveals that the trade weighted ZAR is in fact only down 0.1% for the year-to-date implying that weakness against the likes of the USD has been made up against gains vs the likes of the EUR, GBP and the CHF. According to Reuters data (bid chart), the ZAR weakened against the USD yesterday, closing at R7.7785 from R7.7005 on Wednesday. The ZAR also weakened against the EUR, closing at R10.5445 on Thursday from R10.4789 on Wednesday, while ending at R11.8533 against the GBP from R11.9296 on Wednesday.

Bond Update

Bonds remained resilient despite ZAR weakness during the course of yesterdayô s session. With equity markets on the defensive and uncertainty present it appears bonds have benefited from a rotation play and safe haven bids. Yesterdayô s PPI data did see the bond market give up some of the gains but overall bonds remain well bid and it comes as no surprise to find a foreign portfolio inflow of R2.0bn into the bond market during this week. Although yesterdayô s PPI data was a touch disappointing, given the volatile nature of the series one should be cautious in reading too much into one data point. As we have been making clear for a long time now, the major theme for 2010 is the extent to which inflation surprises to the downside vs. consensus. Money supply will remain stable in H1/2010. Overall, in light of the above the R157 closed stronger on Thursday with the yield last bid lower at 8.240% vs. the previous close of 8.255%, while the R186 similarly was last bid stronger with the yield lower at 9.085% vs. Wednesdayô s close of 9.10%.



JSE Update

Local stocks ended lower yesterday having opened weaker in the early session of trade. Disappointing US economic data and news of another potential downgrade on Greece's credit rating kept sentiment subdued throughout most of the day. At the close the JSE ALSI was down 0.8%. Resources fell 1.7% as platinum stocks lost 0.2%, while gold stocks in fact climbed 0.3% due to a rebound in the gold price. Financials ended flat despite banks adding 0.3%, while industrials slipped 0.1%. US stocks saw moderate losses yesterday after struggling to recover from a weak opening session. Disappointing jobless claims data and Jan durable goods data added to concerns of a recovery in the US economy. At the close the Dow Jones had fallen 0.5%, while the S&P had lost 0.2%. Asian markets were mostly higher overnight on the back of some encouraging Japanese economic data. Industrial production and retail trade figures for Jan showed a substantial improvement, while deflation was seen to have eased somewhat in Jan. The Nikkei ended 0.2% higher and Aussie stocks gained 1.0%. At the time of writing the Hang Seng had gained 1.2%, while the Shanghai was down just under 0.1%.