IQnews DAILY
Bringing you economic intelligence every week day

Date: 28 July 2010

USD-ZAR 7.2857/3942	**EUR-ZAR** 9.4963/6065	**GBP-ZAR** 11.4005/5175	**EUR-USD** 1.2971/3053
GBP-USD 1.5559/663	**USD-JPY** 87.583/8.013	**AUD-USD** 0.8916/97	**R157** 7.680%
GOLD $1161.80	**ALLSHARE** 28 461.48	**DJI** 10 537.69	**3M JIBAR** 6.575%

Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	Eskom Bond Auction (ES23 - R500mn)			
09:30	SA	CPI y/y	Jun	4.50%	4.60%
	DE	CPI preliminary m/m	Jul	0.20%	0.10%
12:30	US	Durable goods	Jun	1.00%	-0.60%
12:30	US	New orders XT	Jun	0.40%	1.60%
18:00	US	Beige Book survey of economic conditions			

Today's Talking Point

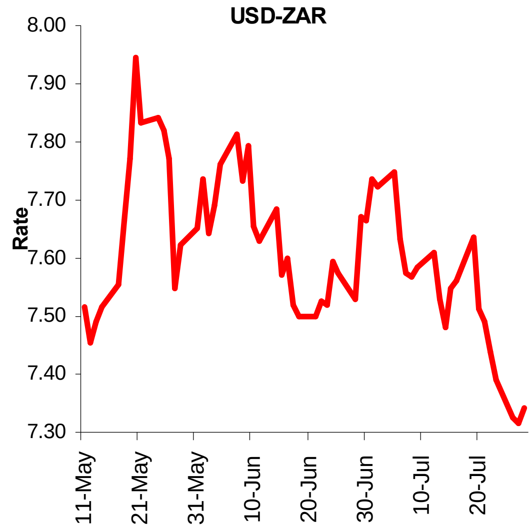
CPI (Jun) Preview: CPI remains comfortably around the mid-point of the official 3-6% inflation target, with y/y growth coming in at 4.6% in May and expected to decrease to 4.5% in Jun. The data continues to show sharp declines in the prices of durable goods, which to some extent reflects the still weak credit demand. Given that it is a measurement month for components such as owner's equivalent rent and domestic wages, however, this is likely to strain the extent to which y/y growth falls in Jun. On the whole, inflationary pressures are benign. There appears to be little scope for significant inflation to take hold in the current climate of a resilient trade weighted ZAR, global disinflation and soft consumer demand.

Yesterday's Recap

According to StatsSA and its Quarterly Labour Force Survey (QLFS), unemployment in SA rose to 25.3% in Q2 from 25.2% in Q1. In nominal terms, 4.312mn people were unemployed vs. 4.31mn in Q1. The QLFS does however show that the size of the labour force decreased by 59k in the quarter, while the number of employed people fell by 61k. The decreasing labour force numbers are owing to an increase in discouraged work-seekers, meaning that employment conditions may well be deteriorating at a faster pace than the official unemployment rate suggests. Fewer and fewer people are being employed in the formal non-agricultural sector. These are some concerning statistics, which supports the need for monetary policy to remain accommodative and for the govt to step up its job creation efforts. Pressure on household financial positions will continue to restrict any form of domestic demand-led recovery in the economy.

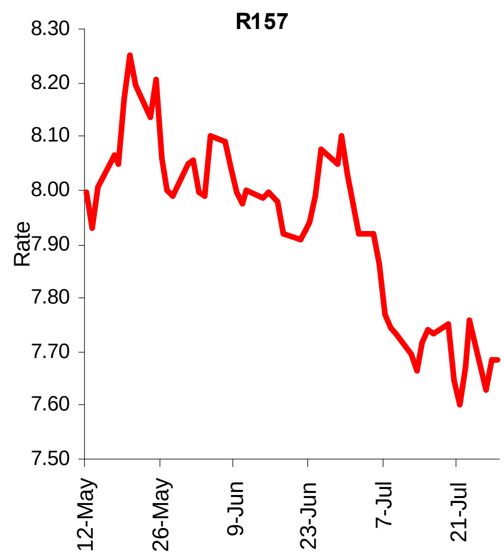
Rand Update

Although there is talk that corporate M&A related flows could flood into the country, the authorities are unlikely to feel comfortable in allowing those flows to reach the market and one might expect either the SARB directly or the Treasury's deposits with the SARB to grow by approximately the same amount as the anticipated corporate inflows. Between Nedbank and Didata, this could amount to inflows in excess of $5.0bn. However, there is a significant cost involved, especially in accumulating foreign debt assets currently trading at very elevated prices. Any indication of resumption in global growth and or inflation and the authorities are likely to experience heavy capital losses. This needs to be taken into consideration when authorities decide whether to step up intervention limits. That the authorities will feel uncomfortable with a ZAR much stronger than it is at present is without question and investors should expect to hear of increased levels of intervention. According to Reuters data (bid chart), the ZAR strengthened against the USD on Tuesday, closing at R7.315 from R7.3274 on Monday. The ZAR also gained on the EUR, ending at R9.5044 from R9.5212 on Monday, while weakening vs. the GBP to finish at R11.4026 from R11.3457 the previous day.



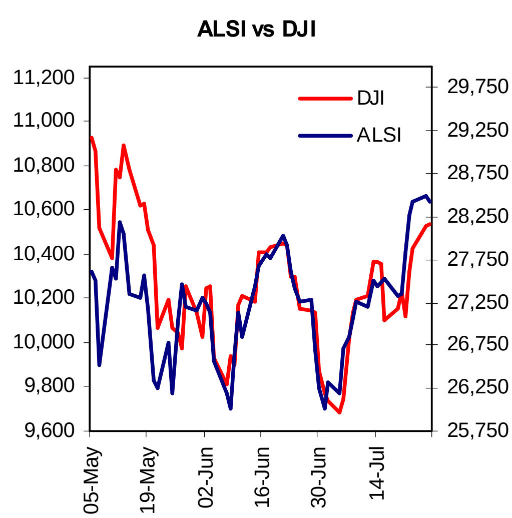
Bond Update

Interesting to note that ahead of the inflation data the bond market has come in for a bout of profit taking. That bond market investors are awaiting the next round of the inflation data in order to gauge whether they have been too optimistic in their expectation that inflation will fall towards or below the 4.0% mark through the course of the next 6-9 months. The way in which foreigners have piled in to SA bonds would suggest that forecasts for inflation and interest rates are being lowered and that the arguments for lower inflation are becoming increasingly convincing, especially if the ZAR continues to power ahead. Attractive sovereign debt metrics of SA, the high yield on offer on the longer end of the curve, the potential chance of another rate cut before year end and softening inflation outlook has seen the longer end of the curve generate some demand vs. the shorter end. Should the growth outlook continue to improve so the longer end is likely to perform better relative to the shorter end of the curve. At the close the benchmark R157 closed weaker ending the session at 7.685% vs. 7.630% on Monday. Conversely, the R186 yield drifted lower to close stronger at 8.655% vs. the previous close of 8.690%.



JSE Update

Trading was delayed for some six hours on the JSE yesterday, with the market closed shortly after the open due to a technical error. The market reopened higher in the afternoon, boosted by positive offshore sentiment. However, this momentum quickly dissipated with some disappointing US data leading stocks lower. At the close of trade, the JSE ALSI had lost 0.1%, with resources and financials down by a similar margin. US stocks also struggled on the day, with the Dow Jones ending 0.1% higher and the S&P losing 0.1% after a volatile day of trading. DuPont, a large chemicals firm, posted better than expected earnings, while data including consumer confidence for July slipped to 50.4 from 54.3 in June due to concerns surrounding the job market. This in turn put pressure on equity sentiment. Meanwhile the markets in the Asia-pacific region are well in the green overnight. The Nikkei is leading the way, closing 2.7% higher on the back of some JPY weakness and upbeat earnings from Canon Inc. Aussie stocks gained 0.7% as Q2 inflation in Australia came in lower than expected, while at the time of writing the Hang Seng was up 0.5% and the Shanghai composite had risen 1.9%, erasing yesterday's losses.



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