IQnews DAILY

Bringing you economic intelligence every week day

Date: 29 July 2010

USD-ZAR 7.3017/4102
GBP-USD 1.5558/662
GOLD $1166.60

EUR-ZAR 9.5190/6289
USD-JPY 87.043/473
ALLSHARE 28 367.26

GBP-ZAR 11.4244/5415
AUD-USD 0.8930/9011
DJI 10 497.88

EUR-USD 1.2973/3055
R157 7.575%
3M JIBAR 6.575%

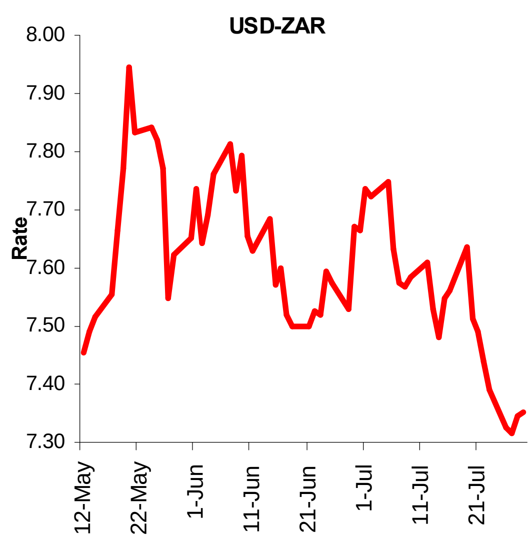
Time (GMT)	Country	Event	Month	Exp	Prior
06:00	SA	Money Supply y/y	Jun	2.41% a	1.40%
06:00	SA	PSCE y/y	Jun	0.92% a	0.80%
09:30	SA	PPI y/y	Jun	7.40%	6.80%
08:00	DE	Unemployment change sa	Jul	-20.0k	-21.0k
08:30	GB	Consumer Credit	Jun	0.3bn	0.33bn
08:30	GB	M4 Money Supply m/m	Jun		0.00%
08:30	GB	Mortgage Applications	Jun	49.0k	49.82k
12:30	US	Jobless claims	w/e	460.0k	464.0k

Today's Talking Point

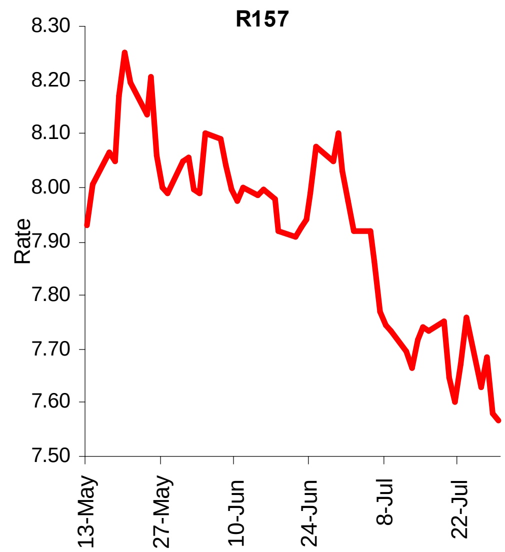
SA Data Watch: Money supply figures for June reflect growth of 2.41% y/y versus 1.40% y/y in May with the rate of expansion occurring at a slightly faster pace than market expectations of 2.30% y/y. Private sector credit extension increased to a rate of 0.92% y/y from 0.80% y/y in May coming in slightly softer than market consensus of 1.05%. Overall, the growth in money supply and credit extension generally continues to hug the zero% mark y/y and even if growth accelerates in the coming months it is likely to remain in single digit territory. This would ensure that underlying inflation pressures from a monetary perspective will remain benign.
Bottom-line: Stagnant money supply and the weak appetite for taking and granting credit should help CPI to fall further in the coming months. Should CPI break through 4.0% whilst the ZAR remains resilient and the excess capacity in the economy remains a feature, the SARB may be prompted to lower the repo rate.

Rand Update

In yesterday's comment, we highlighted the need for the market to take a breather after what had essentially been a very robust appreciation on the part of the trade weighted ZAR. There has been a lot of talk relating to inflows linked to both Didata and Nedbank all of which could translate into inflows in excess of $5.0bn, however as we also mentioned, these inflows are likely to be bought up by the authorities for the purposes of building reserves. This morning, there appear to be more reasons as to why the ZAR might struggle to strengthen further. Aside from the fact that equity markets on Wall St and in Asia were down, there has been some background news on Nedbank that holds the potential to disrupt ZAR sentiment. Nedbank is in the midst of a legal battle with Pinnacle Point investors and this something to keep a close eye on as it could imply a delay in any acquisition related inflows and potentially a revaluation of Nedbank as a company, which in turn could impact the ZAR. According to Reuters data (bid chart), the ZAR weakened against the USD on Wednesday, closing at R7.345 from R7.315 on Tuesday. The ZAR also lost ground vs. the EUR and GBP, ending at R9.5426 vs. the EUR from R9.5044 on Tuesday, while finishing at R11.4501 vs. the GBP from R11.4026 the prior day.

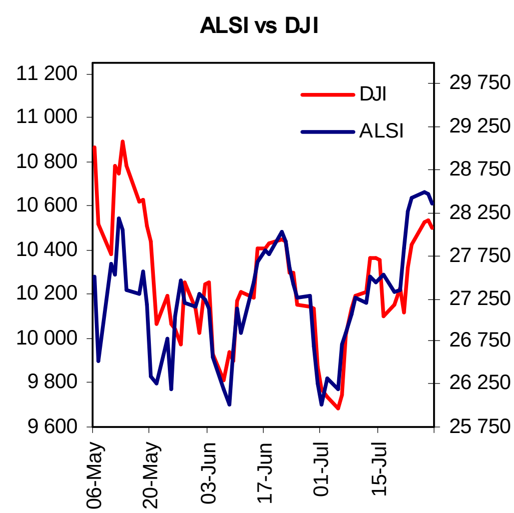


Bond Update



Although many had expected an inflation reading around 4.4%y/y to 4.5% y/y with the potential for a surprise to the downside of around 0.1%y/y, the reading of 4.2% y/y is likely to have come as a surprise to some and has seen rate cut expectations intensify. This boosted sentiment across the curve and it suggests inflation is likely to break below the 4.0% mark in Q3. The breakdown of the data confirmed that fundamental inflationary pressures are benign. Monthly decreases in prices occurred in a number of key categories whilst price increases in other categories are mostly attributable to June being a measurement month for those categories. Yesterday's move was further aided by the soft US durable goods orders. Given the concerns highlighted by the SARB Governor at the most recent MPC surrounding the external growth outlook, any weaker than expected data out of the US and Europe is likely to boost rate cut expectations. At the close the benchmark R157 closed stronger ending the session at 7.580% vs. 7.685% on Tuesday. Similarly, the R186 yield drifted lower to close stronger at 8.540% vs. the previous close of 8.655%.

JSE Update



Local stocks gained in the early hours of trade yesterday but failed to hang onto these gains in the afternoon session. With Wall St and other offshore markets dipping as US data provided some concerns, local equity sentiment deteriorated. At the close of trade the JSE ALSI had fallen 0.3%. Resources were flat as gold stocks gains of 0.9% were offset by platinum stock losses of 2.5%. Banks lost 1.4%, pulling financials down 0.9%, while industrials ended 0.4% lower. US stocks fell for the first time in five days yesterday. The Dow Jones ended 0.4% lower and the S&P lost 0.7%. Data showed durable goods orders declined m/m in Jun when the market had expected a slight increase, while Boeing's earnings disappointed. Furthermore, the Fed's Beige Book of economic conditions showed that the recovery remained sluggish. The Asian markets have followed Wall St lower overnight, with a 3.2% y/y increase in Japanese retail sales failing to impress the markets. At their respective closes, the Nikkei had slipped 0.6% and Aussie stocks declined 0.1%. At the time of writing the Hang Seng was down 0.1%, while the Shanghai composite had risen 0.2%.