21 January 2011

dailyview

Today's highlights

- Monetary policy: Minding the gap
- Woolworths (WHL): Looking good in SA
- Upcoming dividend dates and corporate actions
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- Economic calendar – 21 January to 28 January

Talking point: The rand and rates

The Monetary Policy Committee (MPC) of the Reserve Bank opted to keep the repo rate unchanged at 5.5% yesterday, in a move entirely in line with market expectations. Perhaps of more interest was the MPC's outlook for inflation, which it upped to 4.6% for 2011 (from 4.3%) and 5.3% for 2012 (from 5.8%). We discuss the monetary stance of the MPC elsewhere in Daily View, but there has certainly been more talk in recent weeks of higher inflation later this year, as a weaker rand and rising commodity prices take their toll.

It might be too early to get overly worried about inflation (or at least, inflation caused by a weak currency). The combination of a weak rand and higher commodity prices in the past few weeks is an unusual one, with strong commodity prices having been beneficial to the currencies of primary producing countries and emerging markets alike over the last year or so. Indeed, the rand has also been weak against leading commodity currency the Australian dollar. Should commodities continue to gain, one cannot assume that the rand will remain under pressure. In any event, the rand at current rates is a move in the right direction for many exporters.

For now, despite upward revisions to the inflation outlook, these remain within the Reserve Bank's target band, justifying keeping rates as they are.

Market highlights

US equities were lower overnight but off their worst levels at the close as bellwether counters led a rebound despite concerns about Chinese monetary policy moves.

The JSE fell sharply yesterday as global concerns that China might tighten monetary policy in response to burgeoning growth and inflation, combined with disappointing earnings out of the US, weighed on global bourses.

Bonds closed slightly firmer yesterday as local markets took a neutral view of the decision by the MPC to keep rates on hold. The rand continued to weaken against most currencies.

Commodities sagged last night, reflecting Chinese worries, while oil was also lower in response to rising US crude inventories.

Key indicators in a nutshell – Thursday 20 January 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**31837.14**	-1.63%	-0.71%	5.71%	-0.88%	13.35%
S&P 500	**1280.26**	-0.13%	2.05%	8.21%	1.80%	11.30%
Nikkei	**10437.31**	-1.13%	0.64%	10.72%	2.04%	-3.04%
Rand/US $	**7.06**	-1.08%	-3.32%	-1.94%	-6.29%	4.66%
Rand/GB Pound	**11.23**	-0.80%	-6.15%	-3.29%	-8.25%	7.87%
US$/Euro	**1.35**	-0.13%	-2.79%	3.41%	-0.61%	6.04%
Gold $/oz.	**1346.19**	-1.76%	-2.84%	1.35%	-5.29%	18.24%

Company results and updates

DRDGold expects to report a 6% increase in production for the December quarter over the September quarter, to 69 400oz. The quarterly results are due out on 10 February.

Investec

Lewis grew its merchandise sales in the December quarter by 13%, and its cumulative merchandise sales for the nine months to December by 12%. Results for the year to March are due out on 23 May.

Daily ideas

Monetary policy: Minding the gap

Is there a new mindset at the Reserve Bank?

Governor Gill Marcus made it clear in response to questions that the Reserve Bank sees no early end to the SA output gap: that is the wide difference between potential and expected GDP growth. This expectation would ordinarily justify a reduction in interest rates. By definition a persistent output gap means monetary policy is too tight rather than too loose. However the risk that inflation will rise above the inflation target range has been recognised and the Monetary Policy Committee (MPC) of the Reserve Bank has raised its inflation forecast since its last meeting (4.3% to 4.6%). This forecast however remains well within the inflation target range.

The threat to the inflation targets is thought to come from global forces in the form of rising oil and commodity, especially food prices. If combined with a weaker rand this would mean higher inflation. The presumption implicit in many of the questions asked of the Governor, yet not explicitly denied by her, is that higher inflation whatever its cause would justify higher interest rates.

But would it? Cost push inflation of the kind imagined would surely slow the economy down. So while inflation would go up, aggregate demand would grow more slowly and the persistent output gap would widen and employment decline. The Reserve Bank in the past has pursued inflation targets with higher interest rates, without regard to the causes of inflation. Food and energy prices, including Eskom shocks (especially when combined with exchange rate shocks) lead to higher inflation.

The ability of the Reserve Bank to temporarily inhibit such higher inflation is very limited. It would take a gruesome reduction in domestic demand (a very deep recession) to have any immediate offsetting influence on a CPI rate under pressure from a supply side shock. In such circumstances of supply side rather than demand driven inflation, the wise course would be to avoid crude inflation targeting and highlight the need for lower not higher interest rates, or at worst unchanged interest rate settings.

It is not at all clear that the Governor recognises this, though some of what she has to say does reveal a broader view of the Bank's responsibilities to the economy beyond controlling inflation whatever its provenance. A growth friendly Reserve Bank must make the distinction between supply or demand side driven inflation. The failure to do so will mean a further sacrifice of output, incomes and employment that SA cannot afford.

The role of expectations

The Bank used to argue that while it could not hope to influence inflation of the cost push variety, it was obliged to act with higher interest rates to disabuse the market of inflationary expectations. By this argument more inflation (whatever its cause) means more inflation expected, which inevitably will lead to more inflation. The evidence for this theory of self perpetuating inflation was never very obvious to us.

But over the past year and more inflation has receded sharply to approach 3% while inflationary expectations, as measured in surveys or even in the bond market, have remained at or above the upper end of the inflation target band of 3-6%. Clearly inflation can behave independently of inflation expectations. Inflation has receded partly because the economy has an excess of potential over actual output and, (much more so) because the rand has recovered so strongly. The cutting edge of price competition in SA comes from imported goods as well as prices realised by SA exporters on global markets. A stable rand is necessary for low inflation.

The Reserve Bank should hope with all of us that the rand continues to behave itself and that rand strength continues to moderate the negative impact of higher fuel and food prices on SA inflation (and on the growth outlook, should this threat materialise).

However should it turn out otherwise and the rand weakens and inflation comes to rise and growth recedes the Reserve Bank should let the rand act as the shock absorber and leave interest rates unchanged. The Reserve Bank itself should be making the case for such necessarily flexible responses without in any way having to give up its commitment to achieving low inflation over the long run (exchange rate stability permitting).

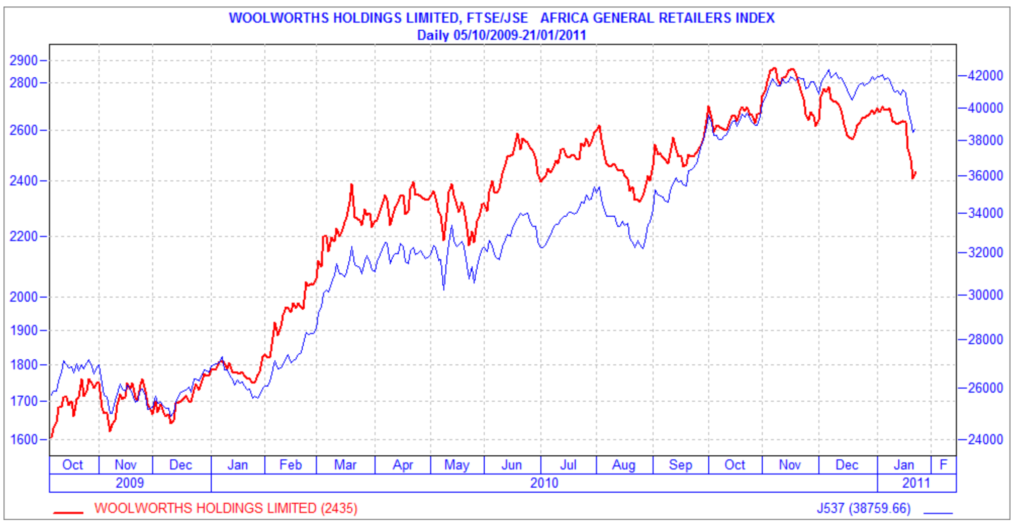
The Governor nevertheless made it clear that given the output gap there is no prospect of higher interest rates for the foreseeable future (perhaps, we would suggest, 12 months or more). This policy stance makes obvious sense. ***Brian Kantor***

Woolworths (WHL): Looking good in SA

Woolworths (2435c; market cap: R20.8bn; forward PE [June 2012, I-Net]: 11.4x; forward DY: 5.95%): Woolworths released a trading statement for the interim period to the end of December 2010 that on the face of it guides towards a good set of interim results, which should reflect improving consumer confidence levels. HEPS and EPS are indicated between 17% and 20% higher than the previous year, to between 99c and 102c. Adjusted HEPS are expected to be between 24% and 27% higher, because of the exclusion of a forex gain in the previous year – this would imply adjusted HEPS of between 99c and 101c.

The SA business looks to be performing well; however the Australian business remains under pressure. Clothing and general merchandise experienced reasonable growth of 8.1%, while food sales continue to do well, with growth of 11.8%. Country Road, the Australian business, saw sales grow 3.1%; this was largely attributable to growth in floor space, since comparable store sales growth fell 9.9%. Across the business, sales increased 9.8%. Bad debts remain under control while impairment charges related to the debtors' book ran at 1.6%.

I-Net consensus expectations are looking for 177c for the full year to June 2011. However it looks as if this number may be beaten and we will probably see upgrades on expected earnings. Most retailers are looking quite full at current levels, however with good numbers coming out, improving consumer confidence levels, and a very attractive dividend yield, Woolies looks attractive. ***Bradley Seaward***



Source: I-Net

Upcoming dividend dates and corporate actions

Share/security	Last day to trade	Ex-dividend	Record date	Pay date	Description	Per share amount/ result
Clicks	21 January	24 January	28 January	31 January	Capital reduction	R0.757
Capitec NPLs	21 January	24 January	28 January	31 January	Rights take up	1 CPIN converts to 1 CPI on take up at R125
Digicore	21 January	24 January	28 January	31 January	Rights issue	13.8237 DGNN per 100 DGC
Freeworld	21 January	24 January	28 January	31 January	Cash Dividend	R0.07
Mvela Resources	21 January	24 January	28 January	31 January	Unbundling	0.10197 GFI per 1 MVL
Nampak 6% cum pref	21 January	24 January	28 January	31 January	Cash Dividend	R0.06
Nampak 6.5% cum pref	21 January	24 January	28 January	31 January	Cash Dividend	R0.065
Reunert 5.5% cum pref	21 January	24 January	28 January	31 January	Cash Dividend	R0.055
Mobile	28 January	31 January	4 February	7 February	Unbundling	8.117 TRE in addition to every 100 MOB
SBR003	28 January	31 January	4 February	7 February	Interest	R1.60
Tradehold	28 January	31 January	4 February	7 February	Consolidation	1 new TDH per 10 old TDH
UCS	4 February	7 February	11 February	14 February	Cash Dividend	R0.05
Digicore NPLs	11 February	14 February	18 February	21 February	Rights take up	1 DGNN converts to 1 DGC at R3 a share
Massmart	11 February	14 February	18 February	21 February	Scheme of Arrangement	Proposed acquisition of 51% of MSM by WalMart
Trematon	11 February	14 February	18 February	21 February	Cash Dividend	R0.015
Winhold	11 February	14 February	18 February	21 February	Cash Dividend	R0.10
RMB Holdings	25 February	28 February	4 March	7 March	Unbundling	1 Rand Merchant Insurance Holdings per RMH
Paracon	4 March	7 March	11 March	14 March	Cash Dividend	R0.10
Simeka Business Group	4 March	7 March	11 March	14 March	Name change	Morvest Business Group (MOR)
SBR002	4 March	7 March	11 March	15 March	Interest	R1.41
JOZI03	11 March	14 March		22 March	Interest	R14.83
Foschini Prefs	17 March	18 March	25 March	28 March	Cash Dividend	R0.065

Source: JSE

Company calendar – 21 January to 28 January

Friday 21 January	Netcare AGM
Tuesday 25 January	Aquarius Platinum quarterlies African Bank AGM
Wednesday 26 January	Country Bird interims Capital Shopping Centres EGM Barloworld AGM
Thursday 27 January	Adcock Ingram AGM Life Healthcare AGM Lonmin AGM and quarterly production
Friday 28 January	Zurich Insurance finals

Source: I-Net, Company updates

Economic calendar – 21 January to 28 January

Date	International	South Africa
Friday 21 January	**UK** – December Retail sales [11h30]	
Monday 24 January	**Germany** – January PMI flash [10h30] **EMU** – January PMI flash [11h00] **EMU** – November Industrial orders [12h00]	
Tuesday 25 January	**Japan** – BoJ MPC meeting and rate decision **UK** – December Public sector finance [11h30] **UK** – Q4 GDP prelim [11h30] **US** – November S&P/Case-Shiller HPI [15h00] **US** – January Consumer confidence [16h00] **US** – FOMC meeting starts	
Wednesday 26 January	**US** – December New home sales [16h00] **US** – FOMC meeting closes	
Thursday 27 January	**Japan** – December Trade balance **Germany** – January CPI prelim [09h00] **EMU** – January Business and consumer confidence [12h00] **US –** Initial jobless claims for previous week [14h30 **US** – December Durable goods sales [14h30] **US** – December Pending home sales [16h00]	December PPI [10h30]
Friday 28 January	**Japan** – December CPI **Japan** – December Unemployment **Japan** – December Retail sales **EMU** – December M3 [16h00] **US** – Q4 Real GDP advance [14h30] **US** – January Consumer sentiment [15h55]	

Sources: Bloomberg, StatsSA, SA Reserve Bank

dailyview

Key market indicators – Thursday 20 January 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**31837.14**	-1.63%	-0.71%	5.71%	-0.88%	13.35%
JSE Fini 15	**8150.42**	-0.99%	0.97%	1.17%	-0.26%	8.89%
JSE Indi 25	**26091.76**	-1.29%	-2.64%	3.34%	-2.62%	22.37%
JSE Mining	**37295.59**	-2.61%	-0.50%	10.13%	0.27%	4.72%
JSE Resi 20	**56731.36**	-2.31%	0.45%	10.48%	0.76%	6.58%
S&P 500	**1280.26**	-0.13%	2.05%	8.21%	1.80%	11.30%
DJI	**11822.80**	-0.02%	2.51%	6.20%	2.12%	10.23%
NASDAQ	**2704.29**	-0.77%	1.38%	9.07%	1.94%	16.54%
Nikkei	**10437.31**	-1.13%	0.64%	10.72%	2.04%	-3.04%
Hang Seng	**24003.70**	-1.70%	4.39%	2.07%	4.20%	10.73%
FTSE 100	**5867.91**	-1.82%	-1.41%	2.20%	-1.73%	6.43%
CAC 40	**3964.84**	-0.30%	0.95%	2.49%	4.21%	-1.12%
DAX	**7024.27**	-0.83%	-0.76%	6.33%	1.59%	17.53%
ASX-ORD	**4892.00**	-1.06%	0.61%	3.65%	0.93%	0.05%
JSE All Share (in US$)	**4507.53**	-2.69%	-4.00%	3.65%	-7.11%	18.63%
MS EM Index	**1143.16**	-1.37%	1.67%	3.44%	-0.71%	12.80%
MS World Index	**1295.09**	-1.60%	1.87%	5.90%	1.17%	7.63%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US $	**7.06**	-1.08%	-3.32%	-1.94%	-6.29%	4.66%
Rand/GB Pound	**11.23**	-0.80%	-6.15%	-3.29%	-8.25%	7.87%
Rand/Euro	**9.52**	-1.37%	-6.20%	1.53%	-7.12%	11.12%
Rand/Aus $	**6.96**	-0.08%	-2.39%	-2.22%	-2.97%	-1.84%
Yen/ US $	**82.92**	-0.94%	1.05%	-1.88%	-2.18%	10.00%
Swiss Franc/US $	**0.97**	-1.15%	-0.94%	1.31%	-3.36%	6.79%
US $/Euro	**1.35**	-0.13%	-2.79%	3.41%	-0.61%	6.04%
US $/GB Pound	**1.59**	0.42%	-2.79%	-1.43%	-1.85%	2.84%
US $/Aus $	**0.99**	1.15%	1.11%	-0.27%	3.78%	-6.37%
Nominal Effective Exchange Rate (2000 = 100)	**76.40**	1.92%	4.58%	-0.03%	6.36%	-6.02%

Commodities	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Gold $/oz.	**1346.19**	-1.76%	-2.84%	1.35%	-5.29%	18.24%
Platinum/oz.	**1811.5**	-1.31%	5.11%	8.02%	2.34%	10.05%
Brent Crude $/bbl	**96.16**	-1.67%	3.63%	17.92%	1.49%	27.94%

Fixed income	Closing yield %
SA R157	**7.63**
US 2 YEAR	**0.63**
US 10 YEAR	**3.45**
UK 2 YEAR	**0.88**
UK 10 YEAR	**3.69**
EURO 2 YEAR	**1.28**
EURO 10 YEAR	**3.16**

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