

Today's highlights

- Inflation and interest rates: The glass is half full
- Upcoming dividend dates and corporate actions
- Company calendar – 24 March to 31 March
- Economic calendar – 24 March to 31 March

Talking point: Portugal and the wisdom of Socrates

Lest we forget, the sovereign debt crisis of the peripheral nations of the Eurozone (principally Greece, Ireland and Portugal) has not gone away, even though it no longer commands the limelight now dominated by Japan and Libya. Eurozone members are busy finalising a comprehensive policy package for managing the region out of the crisis. However late yesterday a spanner was thrown into the works when Portuguese Prime Minister Jose Socrates was forced to resign after a range of austerity measures was rejected by parliament.

While the new policy measures have not yet been announced, it is difficult to see any other way forward for the region than a mix of tough austerity measures and the skillful provision of liquidity for the troubled countries. The new government may choose to reject the austerity template used by the EU to help countries reduce their primary deficits, but it can't get away from the fact that the alternative may well be worse – outright default. Using the debating technique made famous by the other Socrates (the philosopher, not the politician), the so-called Socratic method, would quickly focus minds on this stark choice.

Market highlights

Gains in commodity prices lifting Wall Street in late trading last night, as did talk of a likely upward revision in new home sales data.

The JSE finished in the black yesterday as rising commodity prices lifted the mining sector, with both gold and platinum shares posting strong gains.

Bonds continued to strengthen yesterday as the market looked ahead to the interest rate announcement this afternoon, while the rand was marginally weaker as currency markets tracked events in the Eurozone.

Continued conflict in Arab states placed upward pressure on oil prices while gold came close to its all time high yesterday.

Key indicators in a nutshell – Wednesday 23 March 2011

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year date to	1 Year
JSE All Share	31215.55	1.12%	-4.85%	-2.84%	-2.81%	9.36%
S&P 500	1297.54	0.29%	-3.39%	3.24%	3.17%	11.30%
Nikkei	9449.47	-1.65%	-12.97%	-8.67%	-7.62%	-12.70%
Rand/US \$	6.92	-0.19%	3.11%	-2.43%	-4.30%	5.58%
Rand/GB Pound	11.25	0.22%	2.97%	-7.48%	-8.39%	-1.84%
US\$/Euro	1.41	0.46%	-2.99%	-6.96%	-5.09%	-3.80%
Gold \$/oz.	1438.13	0.66%	2.25%	4.21%	1.18%	30.41%

Company results and updates

Clicks expects to report an increase in diluted HEPS for the six months to February of between 20% and 25%. Clicks reports on 14 April.

Eastern Platinum recorded EPS for the year to December of US\$0.02, up from US\$0.01 in the previous year. Platinum group metals sold in the year rose 1% to 131 901oz.

Litha Healthcare grew its diluted HEPS for the year to December to 17.4c, up from a previous 7.1c.

Basil Read expects to report a 30% to 40% decline in HEPS for the year to December. Results are due out around today.

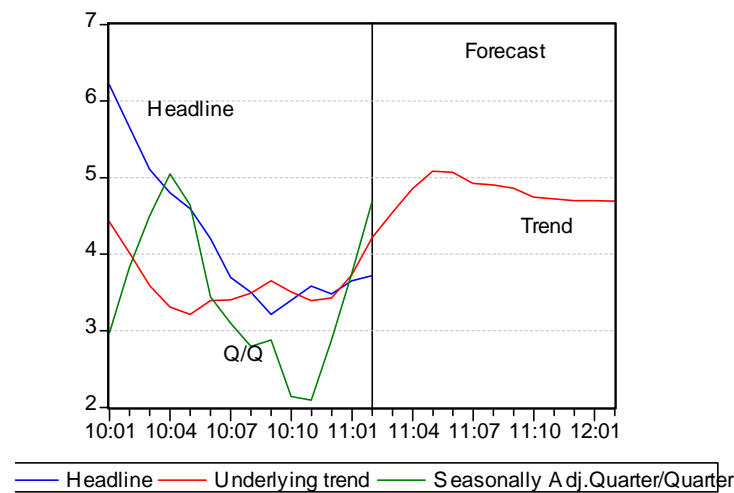
Excellerate reported diluted HEPS for the six months to December of 10.1c, up from a previous 7.3c.

Daily ideas

Inflation and interest rates: The glass is half full

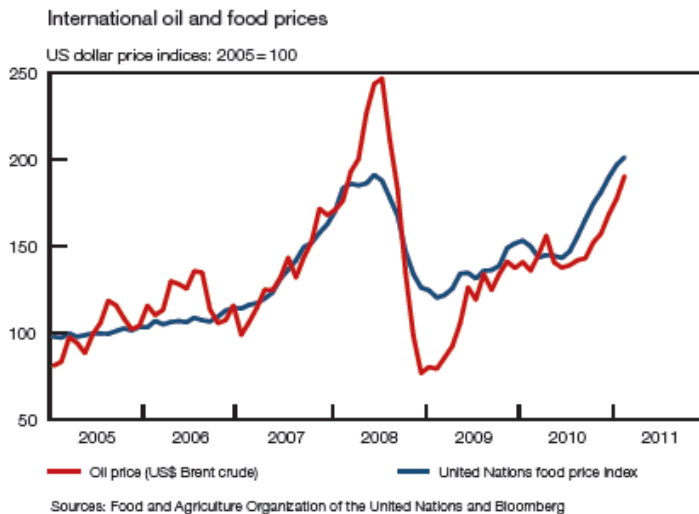
While headline annual consumer inflation was unchanged at 3.7% in February, the underlying trend indicates a somewhat faster rate of inflation of about 4.2%. These trends may be calculated as the monthly move in the seasonally adjusted and smoothed CPI, which is then annualised, or as the quarter to quarter annualised increases in the CPI. Both are running at a similar rate of above 4%. If the current trends are sustained the inflation rate will approach 5% over the next 12 months.

Headline and trend inflation in SA



Source: Stats SA and Investec Wealth and Investment

The forces pushing up prices are in part global in the form of rising dollar prices for food and energy. These, as the Reserve Bank pointed out in its Quarterly Bulletin, have been rising sharply as a result of increased demands and some supply side disruptions or expected disruptions in the supply of oil from the Middle East.



Source: SA Reserve Bank

Breaking down the February data

The counter to such pressures has been the strength of the rand over the past 12 months. This counter pressure has been more effective in the case of food and less so for the petrol price. The food price component of the CPI is up by 3.6% compared to a year ago. Food prices actually fell by 0.1% in February 2011. The petrol price rose by 3.1% in February and higher oil prices, as well as higher excise taxes on petrol, took the year on year increase in petrol prices to 12.1%.

Food and non-alcoholic beverages account for 15.68% of the CPI basket while transport costs have a large weight of 18.8%. However *Purchase of Vehicles* carries by far the largest component of transport costs with a weight in the basket of 11.8% out of the 18.8% allocated to transport generally. Petrol has a weight of 3.93% and Public transport also influenced by the petrol and diesel prices has a 2.73% share of the CPI.

Owing to the downward pressure the strong rand placed on new vehicle prices, the overall transport component only increased by 2.6% over the past 12 months despite the higher petrol price. Including the prices of new vehicles rather than their implicit or explicit leasing or rental rates is surely an anomaly in the calculation of the CPI. It is the opportunity implicit or explicit leasing costs of owning a vehicle rather than the price of a vehicle that matters to households. The price of a new or used car furthermore is hardly something clearly indicated on any price list. It will be affected by financial arrangements and by warranties as well as residual and trade in values, all designed to help make a sale.

This anomaly (rentals or prices) is avoided in the case of another important category that makes up the CPI. That is the item *Owners' Equivalent Rent* that makes up 12.21% of the basket with *Actual rentals for housing* making up a further 3.49% of the basket. Electricity prices, which rose by 18.6% over the past 12 months, have a weight of but 1.87%. Actual rents are estimated to have increased by 5.4% and owners' equivalent rents by 3.9% over the past 12 months. Rentals were unchanged in February, presumably because they were not surveyed last month.

The future of rentals and the rate of inflation will be determined by the state of the housing market. Short term interest rates and the availability of mortgage bonds will clearly influence house prices, rents and rental returns and these will take their cue from the rand. However if house prices rise rapidly landlords may well accept a lower rental rate of return and vice versa. When house prices fall rental may prove much stickier leaving the direction of rentals somewhat independent of house price inflation.

Nevertheless home owners are likely to spend more rather than less as their balance sheets improve with higher house prices, which is unlike the case when most other prices rise. Higher (relative) prices generally restrain rather than encourage extra demands.

The right medicine

This brings attention to the most important contributor to the monthly increase of 0.7% in the CPI. Increased costs of insurance, especially medical insurance, rose by 5.2% in the month and contributed 0.4 percentage points of the increase in prices. These insurance costs are also only surveyed annually rather than monthly and revealed a year on year increase of 4.2%. Are not such increases reflective of the increasing real shortages of skilled medical personnel rather than demand side pressures on prices?

Such shortages of skills are exacerbated by the difficulties imposed by our immigration policies. They show up also in the rate of inflation of educational services provided to households. Primary and secondary education became 10.2% more expensive over the past twelve months and tertiary education was up by 7.9% over the same period.

The forces that restrain domestic inflation and the pricing power of local suppliers are the prices paid for imported goods and services and also the employment benefits received by the internationally mobile owners of scarce skills. Thus the value of the rand is the key to the underlying rate of inflation in SA.

Efforts taken to weaken the rand mean more rather than less inflation. They would also mean slower rather than faster growth, particularly in household spending, which responds favourably to lower prices and lower interest rates that follow lower prices. Growth and inflation in SA over the next twelve months will depend mostly on the global forces that determine resource and commodity prices and capital flows to emerging markets, including SA.

The most favourable outcomes for the SA economy – faster growth with low rates of inflation – will be those associated with rising commodity prices and so a strong rand. High prices for metals and minerals and inevitably also the price of oil (and also coal that we export so much of) represents good news for the SA economy. These forces proved most helpful in reviving the economy in 2010. We must hope for further fair winds to blow in from the global economy in 2011 and restraint from the SA Reserve Bank.

Brian Kantor

Upcoming dividend dates and corporate actions

Share/security	Last day to trade	Ex-dividend	Record date	Pay date	Description	Per share amount/ result
Anglo American	25 March	28 March	1 April	28 April	Cash Dividend and reinvestment plan	R2.8906
Amap	25 March	28 March	1 April	4 April	Capital Reduction	R0.04
Astrapak Prefs	25 March	28 March	1 April	4 April	Cash Dividend	R3.42685
AVI	25 March	28 March	1 April	4 April	Cash Dividend	R0.50
Bidvest	25 March	28 March	1 April	4 April	Cash Dividend	R2.25
Clover	25 March	28 March	1 April	4 April	Cash Dividend	R0.10
Fairvest	25 March	28 March	1 April	4 April	Interest	R0.05
FirstRand	25 March	28 March	1 April	4 April	Cash Dividend	R0.35
MMI	25 March	28 March	1 April	4 April	Cash Dividend	R0.42
MMI	25 March	28 March	1 April	4 April	Special Cash Dividend	R0.21
MTN	25 March	28 March	1 April	4 April	Cash Dividend	R3.49
RMBH	25 March	28 March	1 April	4 April	Cash Dividend	R0.427
RMI	25 March	28 March	1 April	4 April	Cash Dividend	R0.228
Sasfin	25 March	28 March	1 April	4 April	Cash Dividend	R0.49
Standard Bank 6.5% Prefs	25 March	28 March	1 April	4 April	Cash Dividend	R0.0325
Standard Bank non cum Prefs	25 March	28 March	1 April	4 April	Cash Dividend	R3.379
Trencor	25 March	28 March	1 April	4 April	Cash Dividend	R1
Exxaro	1 April	4 April	8 April	11 April	Cash Dividend	R3
Fountainhead NPLs	1 April	4 April	8 April	11 April	Rights take up	1 FPTN converts into 1 FPT on take up at R6 per unit
Glenrand MIB	1 April	4 April	8 April	11 April	Scheme of arrangement	R2
Nedbank	1 April	4 April	8 April	11 April	Cash Dividend	R2.68
Standard Bank	1 April	4 April	8 April	11 April	Cash Dividend	R2.45
Sasol	1 April	4 April	8 April	11 April	Cash Dividend	R3.10
AECI	8 April	11 April	15 April	18 April	Cash Dividend	R1.35
Capital & Counties	8 April	11 April	15 April	19 April	Cash Dividend	GBP0.01
Ceramic	8 April	11 April	15 April	18 April	Cash Dividend	R1.40
Group Five	8 April	11 April	15 April	18 April	Capital Reduction	R0.52
Mondi	8 April	11 April	15 April	12 May	Cash Dividend and reinvestment plan	R1.61324545
Old Mutual	8 April	11 April	15 April	31 May	Cash or scrip dividend	GBP0.029 or shares
Steinhoff Prefs	8 April	11 April	15 April	18 April	Cash Dividend	R3.62
Wilson Bayly Holmes	8 April	11 April	15 April	18 April	Cash Dividend	R1.10
Afrox	14 April	15 April	21 April	26 April	Cash Dividend	R0.08
Brait	14 April	15 April	21 April	26 April	Rights issue	3 rights per 1 BAT
Mvela Resources	28 April	29 April	6 May	9 May	Unbundling and scheme of arrangement	83.5230 NHM and 9.5980 NHM per 100 MVL

Brimstone	6 May	9 May	13 May	16 May	Cash Dividend	R0.15
Country Bird	6 May	9 May	13 May	16 May	Capital reduction	R0.111
Mvela Resources	6 May	9 May	13 May	16 May	Scheme of arrangement	9.5980 NHM per 100 MVL
Afgri	13 May	16 May	20 May	23 May	Cash Dividend	R0.2415
Simmer and Jack	13 May	16 May	20 May	23 May	Unbundling	47.72727 VIL in addition to every 100 SIM
White Water Resources	13 May	16 May	20 May	23 May	Name change	Goliath Gold (GGM)
UCS	13 May	16 May	20 May	23 May	Unbundling	34 BCX per 100 UCS
Spanjaard	20 May	23 May	27 May	30 May	Cash Dividend	R0.16
Capital Shopping	27 May	31 May	3 June	21 June	Cash Dividend	R1.15355

Source: JSE

Company calendar – 24 March to 31 March

Thursday 24 March	Anooraq finals Basil Read finals
Monday 28 March	Anglo Platinum AGM
Wednesday 30 March	Capitec finals Cashbuild interims
Thursday 31 March	Kaydav finals Freeworld Coatings AGM

Source: I-Net, Company updates

Economic calendar – 24 March to 31 March

Date	International	South Africa
Thursday 24 March	Japan – February Trade balance Germany – March PMI flash [10h30] EMU – March PMI flash [11h00] UK – February Retail sales [11h30] US – February Durable goods orders [14h30] US – Initial jobless claims for previous week [14h30]	MPC meeting and rate announcement [15h00]
Friday 25 March	Japan – February CPI Germany – March Gfk consumer confidence survey [09h00] EMU – March M3 money supply [11h00] US – Q4 Real GDP final [14h30] US – March Consumer sentiment final [15h55]	
Monday 28 March	Germany – February Retail sales [09h00] US – February Personal income [14h30] US – February Pending home sales [16h00]	
Tuesday 29 March	Japan – February Unemployment Japan – February Retail sales Germany – March CPI prelim [09h00] UK – Q4 GDP final [11h30] UK – February M4 money supply [11h30] UK – Q4 Balance of payments [11h30] US – January Case Shiller home price index [15h00] US – March Consumer confidence [16h00]	February Trade [14h00]
Wednesday 30 March	Japan – February Industrial production prelim EMU – March Business confidence [12h00]	February PSCE and money supply [08h00] February Exchequer account [14h00]
Thursday 31 March	Japan – March PMI manufacturing Germany – March Unemployment [10h55] UK – February Gfk consumer confidence [14h00] US – Initial jobless claims for previous week [14h30] US – March Chicago PMI [15h45]	February PPI [11h30]

Sources: Bloomberg, StatsSA, SA Reserve Bank

Key market indicators – Wednesday 23 March 2011

Indices	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	31215.55	1.12%	-4.85%	-2.84%	-2.81%	9.36%
JSE Fini 15	7893.43	0.66%	-3.93%	-2.90%	-3.40%	-2.67%
JSE Indi 25	25907.27	1.02%	-3.89%	-3.76%	-3.30%	12.71%
JSE Mining	36464.45	1.66%	-6.85%	-2.40%	-1.96%	9.54%
JSE Resi 20	55795.12	1.43%	-6.17%	-0.92%	-0.90%	11.87%
S&P 500	1297.54	0.29%	-3.39%	3.24%	3.17%	11.30%
DJI	12086.02	0.56%	-2.46%	4.43%	4.39%	12.05%
NASDAQ	2698.30	0.54%	-4.79%	1.23%	1.71%	12.65%
Nikkei	9449.47	-1.65%	-12.97%	-8.67%	-7.62%	-12.70%
Hang Seng	22825.40	-0.14%	-2.81%	-0.34%	-0.91%	9.04%
FTSE 100	5795.88	0.58%	-3.64%	-3.34%	-2.93%	2.68%
CAC 40	3913.73	0.54%	-4.48%	0.06%	2.86%	-0.36%
DAX	6804.45	0.35%	-7.07%	-3.59%	-1.59%	13.64%
ASX-ORD	4746.50	0.19%	-4.90%	-2.90%	-2.07%	-2.08%
JSE All Share (in US\$)	4513.53	0.93%	-1.89%	-5.20%	-6.99%	15.83%
MS EM Index	1123.62	0.31%	0.28%	-0.37%	-2.41%	13.51%
MS World Index	1311.62	0.05%	-3.42%	2.99%	2.46%	9.90%

Currencies	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Rand/US \$	6.92	-0.19%	3.11%	-2.43%	-4.30%	5.58%
Rand/GB Pound	11.25	0.22%	2.97%	-7.48%	-8.39%	-1.84%
Rand/Euro	9.78	-0.01%	-0.08%	-9.34%	-9.58%	1.46%
Rand/Aus \$	7.02	-0.88%	2.63%	-3.54%	-3.73%	-4.30%
Yen/ US \$	80.86	0.22%	2.73%	2.52%	0.31%	11.69%
Swiss Franc/US \$	0.91	-0.44%	4.17%	5.45%	2.91%	16.46%
US \$/Euro	1.41	0.46%	-2.99%	-6.96%	-5.09%	-3.80%
US \$/GB Pound	1.62	0.69%	-0.12%	-4.94%	-3.91%	-7.00%
US \$/Aus \$	1.01	-0.42%	-0.45%	-0.91%	0.96%	-9.32%
Nominal Effective Exchange Rate (2000 = 100)	75.55	-0.01%	-1.38%	6.54%	7.56%	-0.85%

	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
Commodities						
Gold \$/oz.	1438.13	0.66%	2.25%	4.21%	1.18%	30.41%
Platinum/oz.	1757	0.98%	-5.16%	2.21%	-0.73%	9.81%
Brent Crude \$/bbl	115.54	0.57%	10.65%	22.82%	21.94%	45.32%

Fixed income	Closing yield %
SA R157	7.79
US 2 YEAR	0.65
US 10 YEAR	3.32
UK 2 YEAR	0.86
UK 10 YEAR	3.55
EURO 2 YEAR	1.69
EURO 10 YEAR	3.23

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