

News and Views

- SARB repo rate decision: unchanged at 6.50%
- Wednesday, July 28th - June CPI forecast: 0.2% m/m, 4.4% y/y (0.2% m/m, 4.6% y/y in May)
- Thursday, July 29th - June PPI forecast: 1.6% m/m, 6.9% y/y (0.2% m/m, 6.8% y/y in May)
- Thursday, July 29th - June PSCE forecast: 0.90% y/y (0.80% y/y in May); June M3 forecast: 1.80% y/y (1.40% y/y in May)
- Friday, July 30th - June trade balance forecast: ZAR -0.5bn (ZAR -0.3bn in May)
- The number of civil summonses issued for debt rose by 15.2% y/y in May
- Kumba announced that its revenues increased by 48.7% y/y in H110 to ZAR 17.8bn
- Vodacom reported that the number of its customers fell by 11.8% q/q in Q210 to 23.2mn



Rand: Upcoming data unlikely to help

The rand extended its gains yesterday after the MPC left its 6.50% policy rate unchanged at the meeting in the aftermath of the total of 550bps in cuts since December 2008, in line with our forecast but contrary to some market participants' bets on another rate cut. Nevertheless, the SARB pointed out in the statement that it was expecting the negative output gap to persist for some time, adding that it was aware of the adverse impact of the stronger rand on the economy.

Therefore, we can still see the Reserve Bank lowering the rate by up to 50bps at the next rate-setting meeting in September, further reducing the ZAR's carry appeal. It is also worth remembering that the coming week is packed with data releases, most of which are unlikely to help the rand. In particular, we are forecasting that trade data due out on Friday will underscore the economy's external vulnerability with the trade deficit widening in June and that the CPI release due out on Wednesday will show annual inflation moderating in June more than the consensus view.

Bonds: Hit by the rate decision

Yields were flat at the short end of the curve yesterday and rose slightly at the long end after the MPC decided to refrain from further monetary easing at the rate-setting meeting. While we can still see the Reserve Bank cutting its policy rate in September so as to revive weak domestic demand, we expect yields to increase in the medium-term as we see the government offloading large amounts of new paper in the local market to finance a gaping fiscal hole over the next few years. This surge in supply is bound to push bond yields higher as risk premia rise to compensate for the deterioration in the underlying fiscal position.

FOCUS: NO SURPRISE FROM MPC

SARB repo rate decision: unchanged at 6.50%

The outlook cast by the MPC's statement fits perfectly with our view. The committee noted that while recent retail sales data have reflected an improvement in household consumption, the private sector remains under considerable pressure. The key issues here are ones we are already very familiar with, namely a sluggish labour market and elevated household debt levels.

In addition, SARB governor Marcus said that cost-push factors represent the main risk to price stability, referring to substantial pay rises by companies following the recent wave of strikes as well as the planned electricity tariff increases by power utility Eskom of 24.8%, 25.8% and 25.9% for the 2010/11, 2011/12 and 2012/13 financial years, respectively. Nevertheless, the governor also noted that the inflation outlook remained favourable and that global inflation pressures did not pose a real threat to the SARB's 3-6% medium-term target. We continue to see annual CPI inflation staying below the upper bound of the Reserve Bank's target corridor throughout this year, which should prevent the SARB from shifting to tightening mode for quite some time.

DATA PREVIEW: WEAK DEMAND TO HELP CPI

Wednesday, July 28th - June CPI forecast: 0.2% m/m, 4.4% y/y (0.2% m/m, 4.6% y/y in May)

The May CPI reading matched the consensus forecast with annual inflation moderating in most major categories, the data fitting well with our medium-term outlook as weak consumer demand and tight lending standards likely limit the potential second-round effects of the 24.8% electricity tariff hike in the 2010/11 financial year. We see annual CPI inflation staying below the upper bound of the SARB's 3-6% target corridor throughout this year, which should prevent the SARB from shifting to tightening mode this year.

DATA PREVIEW: BASE EFFECTS KEY IN PPI

Thursday, July 29th - June PPI forecast: 1.6% m/m, 6.9% y/y (0.2% m/m, 6.8% y/y in May)

While PPI inflation quickened to a 15-month high of 6.8% y/y in May from 5.5% y/y in April, driven, as expected, by base effects, the reading was below our sub-consensus forecast of 7.0% y/y and does not change our view on the inflation outlook. Even though factory gate prices will remain very sensitive to external developments in food and fuel prices, we continue to see very little pressure from domestic demand dynamics, which are still looking weak due to dismal employment prospects and tight credit conditions. But we do expect base effects to play an important role in the coming months, pushing the y/y rate higher.

DATA PREVIEW: GRADUAL REBOUND IN CREDIT

Thursday, July 29th - June PSCE forecast: 0.90% y/y (0.80% y/y in May); June M3 forecast: 1.80% y/y (1.40% y/y in May)

The closely monitored PSCE indicator rose by 0.80% y/y in May after contracting in the previous 7 months, exceeding our and consensus forecasts and helped by the lower base last May with total loans and advances increasing by 1.40% y/y after -0.25% y/y in April. We see the PSCE indicator accelerating in June, helped by favourable base effects as well as higher business demand during the World Cup but expect the recovery to be bumpy, prompting the SARB to refrain from tightening through the rest of 2010.

DATA PREVIEW: TRADE BALANCE DETERIORATION

Friday, July 30th - June trade balance forecast: ZAR -0.5bn (ZAR -0.3bn in May)

Contrary to our and consensus expectations and despite a 3-week strike at state logistics company Transnet, the trade deficit narrowed to ZAR 0.3bn in May from ZAR 1.9bn in April with growth in imports accelerating more than exports (to 20.4% y/y and 13.9% y/y, respectively, from 9.4% y/y and 8.8% y/y in April). While we expect the recent appreciation of the rand to continue hurting exports in the next few months, providing another argument for the SARB to refrain from tightening through the rest of 2010, we see the demand for imports picking up, boosted by inventory rebuilding, leading to deterioration in the trade balance and not helping the rand.

Technical Strategy

USD/ZAR: Market continues to churn

Major Trend: Neutral	Minor Trend: Neutral
R3: 8082**	S1: 74140**
R2: 79480**	S2: 73000**
R1: 78510**	S3: 71970**

(75350) Market continues to churn. Resistance is in 7782/7851 area. Above returns the weight to bulls targeting 7948 next ahead of 8082. Break of 7414 however threatens more sustained setback refocusing 7315/7300 initially.

ZAR 157: Breaking lower through 7.75% support

Major Trend: Neutral	Minor Trend: Downward
R3: 8.280**	S1: 7.500**
R2: 8.000**	S2: 7.350**
R1: 7.750**	S3: 7.000**

(7.600%) The failure to follow through on the break back to the 8.25% resistance level and subsequent failure below 7.95% and also 7.75% is leaving the yield vulnerable to a further downside push. Support at 7.50% through to 7.35%. Watch resistance up to 7.95%/8.00%.

XAU: Back below 1200 and watch 1185/1160 support

Major Trend: Upward	Minor Trend: Neutral
R3: 1272.00*	S1: 1160.00**
R2: 1265.05**	S2: 1125.00**
R1: 1225.00*	S3: 1085.00**

(1185.93) Sharp pull lower from the test up to the 1265 high and traded down to the 1200 level, where there was an attempt to bounce but that didn't develop. Trading back below 1200 and watch support now at 1185 initially, then down to 1160.

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