

THE BOTTOM LINE COLUMN

Carry trade's influence on rand diminishes

RAND watchers will be noting with interest some seemingly contradictory recent developments. The first is that despite the large decline in portfolio inflows, the rand has generally strengthened.

In April, net portfolio inflows into the bond and equity market came in at R20,8bn.

This is a turnaround from March, when inflows were negative. Year to date, portfolio inflows are a measly R6bn. Inflows were running at more than R10bn a month last year.

Despite the carry trade going off the boil, the rand has modestly strengthened this year, although this vacillates of course.

Clearly, a host of other factors are involved apart from portfolio flows. But it seems the value of the rand is not as much a function of the carry trade now as it has been in the past. In addition, it seems the rand might be able to withstand modest portfolio outflows, all else being equal, in the existing global macro environment.

The other interesting thing is a bit more speculative. The Rand Merchant Bank currency team is suggesting the Reserve Bank bought somewhere between \$100m and \$400m during the month, but also ran down its foreign holdings by more \$100m.

Therefore, the combined intervention by the authorities came out at only a few hundred million dollars, which the team describes as "neither here nor there in the grand scheme of things".

Although cautious, the team suggests that after a period of aggressive intervention, the authorities may be doing less to combat rand strength than they did earlier in the year.



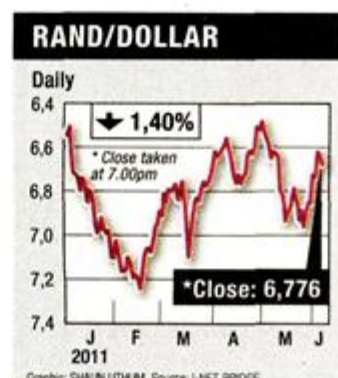
ONE of the most interesting indices is the Spark cash index, issue by Spark ATM systems. The index monitors average cash withdrawals from ATMs around the country, and consequently is a quick and pre-

cise measure of retail activity. It comes out two months before Stats SA's retail sales figures, but the correlation is high, except the December spike comes in lower, presumably because so many Christmas purchases are made on credit cards.

The interesting thing this month is that the average cash withdrawal last month was well down on April.

Spark MD Marc Sternberg comments that there is usually a drop in May, but it was more pronounced this year. The drop, from R423 to R406, was large partly because the April rise was pronounced, caused by the combined effect of the April holidays. The April figure was the third-highest on record.

Overall, however, the May 2011 average withdrawals are up 8,55% on the May 2009 figure, which is somewhat higher than inflation, suggesting the consumer outlook remains generally positive.



THE moratorium on section 45 of the Income Tax Act has caused an uproar. While tax analysts acknowledge the need for changes to stop the abuse of aspects of the income tax laws, they say such amendments should be targeted for specific purposes rather than a one-size-fits-all approach.

Section 45 has allowed for the intergroup transfer of assets in a tax-neutral manner. But Stephan van der Walt, head of corporate finance at private equity group

Bravura, says miners in particular will be affected by the moratorium on section 45, as they will be forced to reconsider their empowerment transactions or face adverse tax consequences.

While the government looks into the abuses of the provision, it is unlikely that much empowerment activity will take place.

Mr van der Walt says: "The amendments contradict the government's policy of trying to grow the economy, and encourage transformation. For example, I know of one transaction which will now be reassessed that would have created 400 jobs."

It is unlikely the Treasury would have intended the legislation to have such dire consequences. SA needs a tax system that is predictable.

One hopes the Treasury will consider stakeholders' comments when the proposed legislation is taken forward.

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