IQnews DAILY

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Date: 01 February 2012

USD-ZAR 7.7489/8986	**EUR-ZAR** 10.1256/2924	**GBP-ZAR** 12.2219/4029	**EUR-USD** 1.2998/3100
GBP-USD 1.5686/791	**USD-JPY** 76.01/44	**AUD-USD** 1.0550/650	**R157** 6.460%
GOLD $1 736.44	**BRENT** $111.35	**DJI** 12 632.91	**3M JIBAR** 5.596%

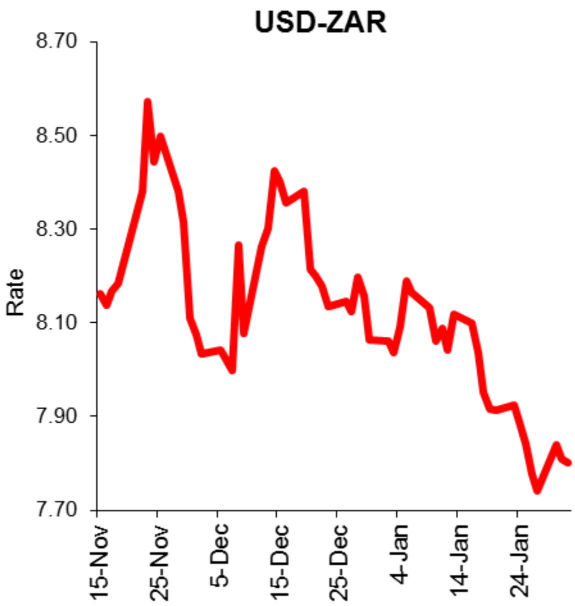
Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	Kagiso PMI	Jan	50.20	49.40
05:00	US	Vehicle Sales	Jan		13.5mln
08:55	DE	Manufacturing PMI	Jan	50.90	50.90
09:00	EZ	Manufacturing PMI	Jan	48.70	48.70
09:30	GB	Manufacturing PMI	Jan		49.60
13:15	US	ADP Employment	Jan	185.0k	325.0k
13:30	US	Fed Member Plosser speaks on Economic Outlook			
15:00	US	Construction Spending m/m	Dec	0.60%	1.20%
15:00	US	ISM Manufacturing PMI	Jan	54.30	53.90

Today's Talking Point

Kagiso PMI (Dec): In Nov the PMI reading reflected a contraction in the manufacturing sector as it slipped just below the 50 mark to 49.2. Consensus however is for a rebound in Dec to around 50.2. Although the manufacturing sector likely expanded in Dec, activity remains rather sluggish and has failed to translate into any meaningful support for domestic GDP growth. Depending on the magnitude of a slowdown in demand from abroad owing to the fragile Eurozone economies, manufacturing production is unlikely to improve substantially in Q1 2012.

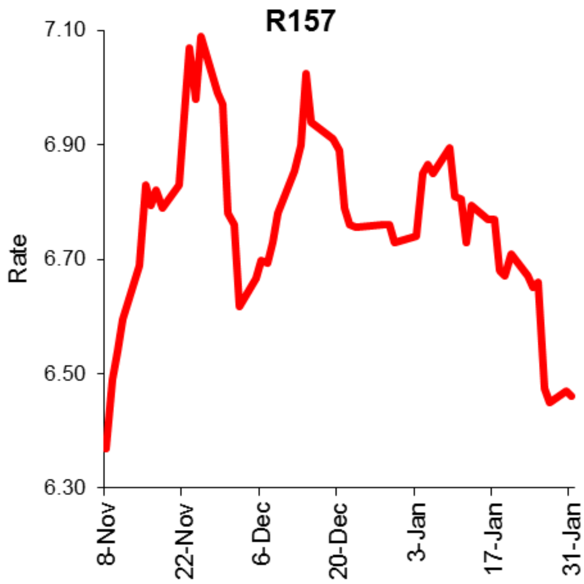
Rand Update

News out of China that the PMI was better than expected will indeed be a boost to China's trading partners and SA would be included in this assessment. Thus far, it would appear that the EUR's sell-off overnight is localised but one should not ignore its potential influence on the ZAR should developments in Greece and Portugal again lift global levels of risk aversion. We would hasten to add that not too much should be read into this overnight correction and that the EUR should be supported by the ECB's recent actions as some stability returns to the region. Longer term, the effects of money printing will prove negative for the EUR, as it will for the GBP as well. The USD still stands to gain until such time as the US Fed embarks on another round of QE and then countervailing forces will ensure that no currency adopts any clearly identifiable directional momentum. What is however a little less bullish for the ZAR is the growth in M3 and PSCE that is accelerating. If there is a structural reason to believe that the ZAR may not make the same magnitude of recovery as was seen in 2009/10 it would be that growth has ticked up and is on the whole matching the kind of growth seen in countries abroad. If sustained, it will over time prevent an outright ZAR recovery. Nevertheless, in the short to medium term, we continue to anticipate ZAR resilience as the effects of the money printing from the major central banks abroad dwarfs any domestic events. As we look for further normalisation of the eurozone interbank and sovereign debt environment, so risk appetite will be supportive of EM currencies and an improvement in the ZAR. Again the point is made that any near term correction is likely to be temporary. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Tuesday, closing at R7.8100 from R7.8395 from on Monday. The ZAR strengthened against the EUR, ending at R10.1657 from R10.2298 on Monday, while finishing weaker against the GBP at R12.2470 from R12.2308 the previous day.



Bond Update

Local bonds initially came under pressure yesterday, but managed to recoup losses early in the session, aided by ZAR resilience, and as a result local yields closed the day largely unchanged from Monday's closing levels. By the close the R157 yield had edged just 1bpt lower to close at 6.460%, whilst the R186 yield moved just 0.5bpts higher to end at 8.195%. Turning then to local data released yesterday, note that both money supply and private sector credit growth surprised market to the topside. Credit extension grew by 6.21% y/y in Dec, virtually the same as the Nov increase at 6.22% y/y. M3 money supply growth accelerated to 8.2% y/y, and is up from 7.2% in Nov. A breakdown of the credit data shows that household demand for credit accelerated sharply in Dec. Overall household credit extension accelerated from 5.9% in Nov to 10.4%, which offset some of the slowdown of corporate credit growth. The bottom line for interest rates and more importantly, rate expectations, is that this continues to confirm the view that market interest rates of will pick up in coming months, however it seems that both SARB rate cuts and rate hikes are off the table for now.



JSE Update

The local bourse opened strongly yesterday, and traded positively for most of the session, but gave up some its earlier gains late in the session, tracking the movement across European markets. However, by the close the ALSI managed to hold onto a significant portion of its gains closing the day up by 0.48% with the major indices closing mixed. Yesterday was the last session of the month, bringing to the end what has been a very good month for local equities. On the month, the ALSI managed to close 5.65% higher, and although the monthly gains were not as good as those seen in October, the monthly closing level was the highest on record. Movement was similar over in Europe where with major bourses within the region closed higher. The EUR, shares and commodities all gained yesterday encouraged by hopes for a Greek bond deal in coming days, after EU leaders backed a pact that is hoped will help tackle the underlying causes of the region's debt crisis. However, weak economic data in the US overshadowed renewed optimism which saw core EZ indices pare gains in the run up to the close of trading. Tepid start expected to February trade.