

Date: 10 February 2012

USD-ZAR 7.5977/7071
 GBP-USD 1.5736/737
 GOLD \$1 731.26

EUR-ZAR 10.0909/1985
 USD-JPY 77.44/85
 BRENT \$118.25

GBP-ZAR 12.0290/1378
 AUD-USD 1.0658/738
 DJI 12 890.46

EUR-USD 1.3203/306
 R157 6.655%
 3M JIBAR 5.600%

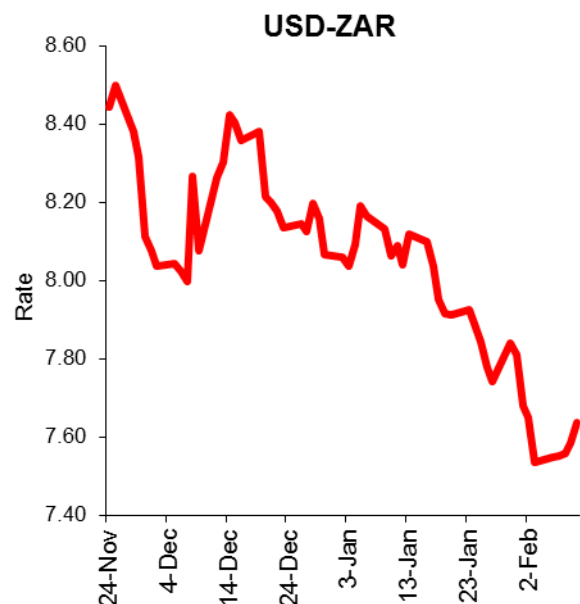
Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	ILB Auction (R600mn)			
07:00	DE	CPI final m/m	Jan	-0.40%	-0.40%
09:00	EZ	IEA publish Monthly Oil Market Report			
09:30	GB	PPI Core y/y	Jan	2.30%	3%
13:30	US	International Trade	Dec	-48.50bn	-47.80bn
14:55	US	Michigan Consumer Sentiment Preliminary	Feb	74.0	75.0
19:00	US	Fed Budget	Jan	-45.08bn	-49.8bn

Today's Talking Point

Manufacturing (Dec): Whilst consensus was for a 2.6% y/y reading, manufacturing surprised to the downside in Dec printing 2.4% y/y from a prior upwardly revised 2.8% y/y reading (previously 2.6% y/y). On a seasonally adjusted basis, manufacturing output contracted 1.3% m/m compared with 2.9% m/m growth in Nov. The uncertain global economic environment has kept manufacturing output subdued. However an improvement in global sentiment coupled with a recovery in the SA economic activity should offer some support for the manufacturing sector in Q1 2012.

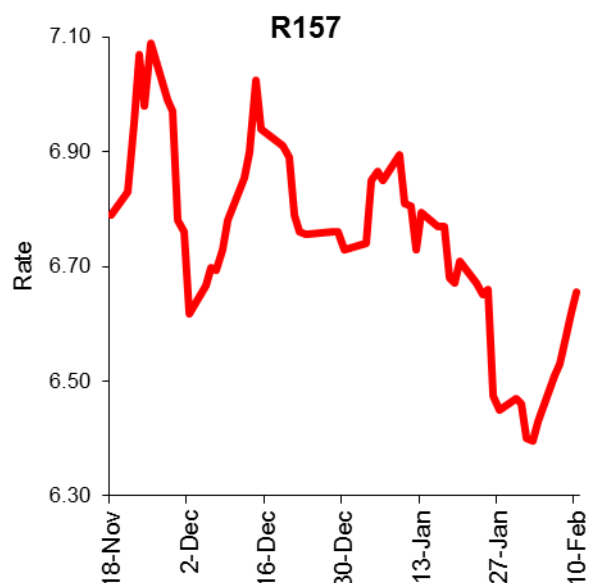
Rand Update

This morning's move on the USD-ZAR will go towards building an expectation for a USD-ZAR correction. With Greece still needing to pass its austerity budget through parliament, the Greek authorities needing to clarify where some of the budget cuts are going to come from and all political leaders needing to commit to the proposed budget in writing, there are still more stumbling blocks to overcome. As anticipated, the State of the Nation address did not offer up any nasty surprises to spook the market and has in general been described as an improvement on previous speeches. More could have been said and done to prioritise entrepreneurship and small business and one does note with some concern the plans to ramp up spending on parastatal infrastructure. Whilst we have no problem at all with the spending on infrastructure if done efficiently, we would like to see how this all fits into a budget which will now be constrained by even weaker growth fundamentals than the Department of Finance had banked on and where the budget deficit metrics remained uncomfortably and unsustainably high. These are however longer term risks which do not need to be given too much attention in the short term. In the very near term, markets had factored in a smoother Greek agreement than has unfolded and equity markets are now showing signs of correcting. Add to that talk of the SARB becoming increasingly active to stem the appreciation of the ZAR and the ZAR has been underperforming its peer group. Given the on-going drama in Greece this could very well keep the ZAR on the defensive for a little while longer. We would not however go so far as to talk about a significant trend reversal. Rather, we would treat this as a USD-ZAR correction higher in the midst of a weaker USD-ZAR trend. According to Reuters data (bid chart), the ZAR finished weaker vs. the USD on Thursday, closing at R7.5845 from R7.5572 on Wednesday. The ZAR weakened against the EUR, ending at R10.0761 from R9.9447 on Wednesday, while similarly finished weaker against the GBP at R11.9956 from R11.8654 the previous day.



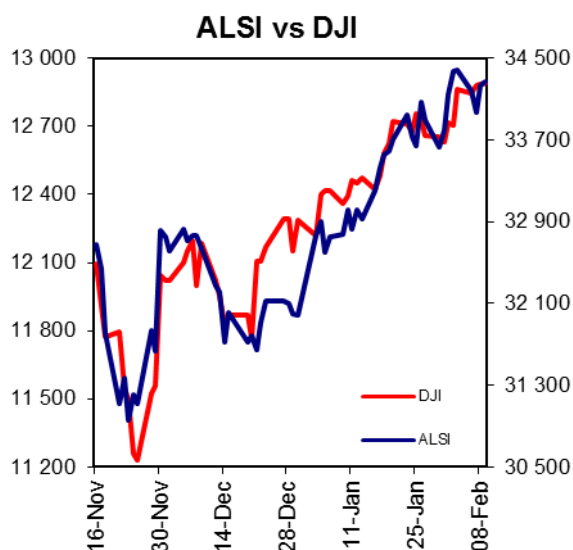
Bond Update

Local bonds continued to be sold off yesterday, with yields across the curve moving higher. By the close the R157 yield had added 3.5bpts to close at 6.655%, whilst the R186 yield moved just over 5bpts upward to end at 8.285%. This morning the market will be digesting President Zuma's State of the Nation address wherein he pledged more spending on infrastructure in an effort to support big business from a logistics perspective. There was very little in the way of supporting private sector business activity in general by reducing red tape and bureaucratic constraints. Much of the spending that President Zuma announced is already baked into the budget cake, so Pravin Gordhan's budget statement on Feb 22 will remain the major focus for bonds. Results of the Reuters Econometer released yesterday shows that the mean of economist's inflation forecasts have been revised higher all the way out to 2014, which supports our view for a continued rise of rate expectations as well. However, in the interim, the bigger driver of markets will be central bank activity, with the BoE and ECB issuing rate decisions yesterday, and although both left rates on hold, the BoE did increase its monetary stimulus package.



JSE Update

The local market dropped at the open, and remained within negative territory for most of the session. However, a relief rally late in the day as investors cheered an agreement between Greek authorities sent the local bourse back into the green. However gains were contained with the ALSI adding just 0.12% by the close. With one trading day left this week, and risk aversion having returned to global markets overnight, the ALSI looks set to close the week in negative territory for the first time this year. This will not come as a surprise to most given the strong rally of late, and most investors will take any negative news as a cue to take profits. In foreign markets, core European stocks rallied yesterday, as the BoE introduced further stimulus, whilst news that Greek leaders had clinched a long-stalled deal encouraged investors to take on some risk. However, news overnight indicates that EU Finance Ministers have attached fresh conditions to the bailout package, and the Greek parliament will now have to pass a package of cuts and reforms on Sunday. This has brought risk off trade back to the fore. Investors will thus favour caution through today's session.



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