

Date: 12 December 2011

USD-ZAR 8.0500/1986
 GBP-USD 1.5579/680
 GOLD \$1 690.85

EUR-ZAR 10.7570/9327
 USD-JPY 77.44/88
 BRENT \$108.21

GBP-ZAR 12.6087/7879
 AUD-USD 1.0133/219
 DJI 12 184.26

EUR-USD 1.3292/393
 R157 6.760%
 3M JIBAR 5.58%

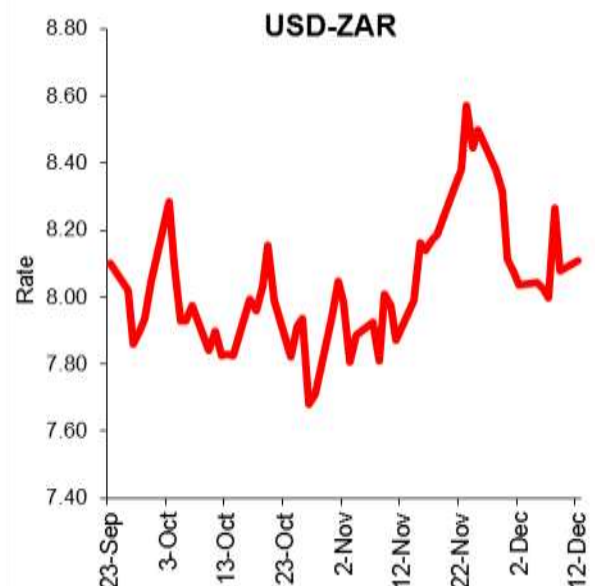
Time (GMT)	Country	Event	Month	Exp	Prior
05:00	JP	Consumer confidence	Nov	38.50	38.60
19:00	US	Fed monthly budget statement	Nov	-140.0bn	-150.4bn

Today's Talking Point

Energy Update: EU leaders have agreed to begin looking at treaty changes that will result in a new fiscal compact being introduced for most EU member countries over the longer term. Oil markets responded positively to the prospect of increased stability in the region, with Brent ending up roughly \$1/bl at \$108.62/bl on Friday. Chinese trade data released over the weekend reflected particularly strong crude imports in combination with better than expected export growth, which offered some support to oil markets. Nonetheless, some participants remain on a cautious footing with volatility yet to significantly retreat across global markets. This week investors will keep an eye on the OPEC meeting in Vienna on Dec 14th for some direction on supply levels from the OPEC member countries. At the time of writing, Brent was trading marginally lower \$108.23/bl.

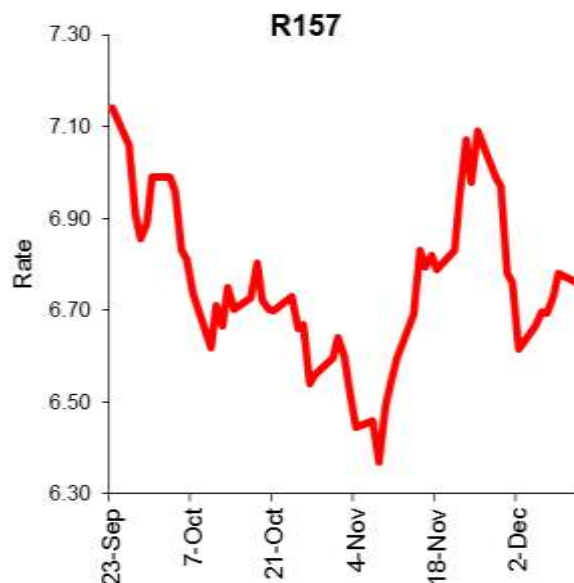
Rand Update

There will be some head scratching this morning as to why investors are so much more optimistic on the outlook for Europe given the news that the ECB, Bundesbank and other EU leaders have confirmed that the ECB will not be asked to intervene. Furthermore, there are many articles suggesting that the move by the EU leaders is simply too little too late and that it may deal with longer term structural issues but not the short term risks. Furthermore, another more broad based bout of austerity threatens to sink the Eurozone economy into an even deeper recession than the one predicted which if anything might only exacerbate the risks to the debt metrics of many of these economies. So why then the optimism? By all accounts the picture painted above is for more volatility, uncertainty and stress in the Eurozone. The answer lies with developments in the Eurozone interbank market. There has been a lot of focus on developments at the EU Summit but comparatively less with the announcements by the ECB on Thursday. In the context of a withdrawal of liquidity by USD funding desks from the Eurozone and in the context of banks that needed to undergo greater de-leveraging and recapitalisation, the steps taken by the ECB has significantly lightened the load on EU commercial banks. Allowing the commercial banks to borrow money for up to three years also allows the banks to plan properly and will inject greater levels of stability to the industry. It therefore follows that the interbank money market liquidity barometers reflect an improvement off the very distressed levels of a week ago. The more the interbank money market in Europe normalises, the greater the probability that the pressure on risk assets subsides and this will help explain much of the movements in the ZAR in the past two trading sessions. Rotation away from safe haven assets is under way and the risk on trade now seems a more palatable scenario. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Friday, closing at R8.0770 from R8.2650 on Thursday. The ZAR strengthened against the EUR, ending at R10.8030 from R11.0272 on Thursday, while similarly finished stronger against the GBP at R12.6478 from R12.9215 the previous day.



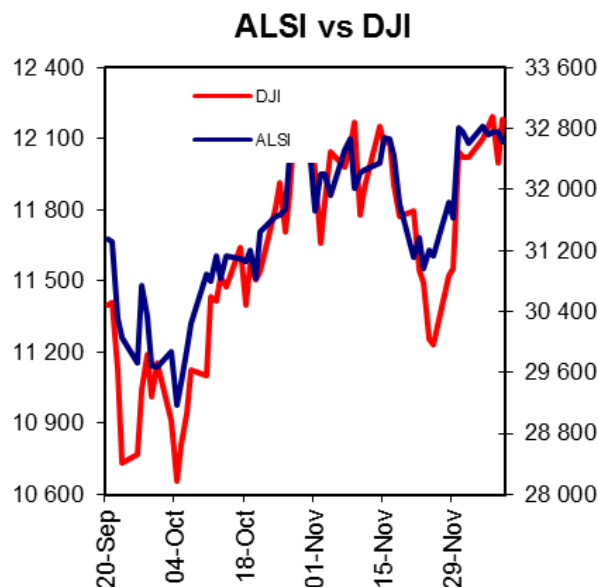
Bond Update

The local bond market closed the week softer, as yields edged higher in a relatively quiet session on Friday. By the close the R157 yield had moved 5bpts higher to close at 6.780%, whilst the R186 yield moved 7bpts to close the day at 8.505%. At the start of this week, the mood is a little more upbeat, with Asian stocks in positive territory, and the ZAR consolidating around 8.1000 against the USD. Risk appetite is being boosted by new base money flowing into especially the Euro-system, following the ECB's 25bps rate cut last week. Furthermore, liquidity constraints have eased, allowing for increased flow toward emerging markets, including South Africa. In the week ahead, local players will be focussed on CPI and PPI data due for release on Wednesday and Thursday respectively. Consensus foresees the CPI increasing by 6.3% y/y in November, which compares with an increase of 6% in October. As the target inflation band (3% -6%) is broken to the topside, there may be an increase in calls for a rate hike. However, with the local growth environment still under pressure, the SARB will be reluctant to increase the pressure through a rate hike cycle.



JSE Update

The local bourse ended weaker but off session lows on Friday after a fairly volatile session. By the close the ALSI was down 0.39%, which went against the trend as most equity markets across the globe ended the week in positive territory. The ALSI has remained range bound throughout December at relatively elevated levels. By the end of last week, the index had added just 21 points since Monday, as local investors struggle to find direction within the current economic environment. Investors cheered a new European fiscal pact aimed at fixing the region's debt crisis and preventing a break-up of the euro currency bloc. Key US and European indices closed Friday on a positive note, however, some market commentators have noted that they remain cautious, and have indicated that some players remain vigilant, quick to point out that there will be no easy fix for the financial challenges facing the world's second-largest economic region. With the EU summit now behind us, and markets interpreting the events positively we are likely to see a normalisation across financial markets in coming days. Next key event will be the US Fed rate decision and policy statement tomorrow. A relatively quiet week with regards to local data.



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