IQnews DAILY

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Date: 13 January 2012

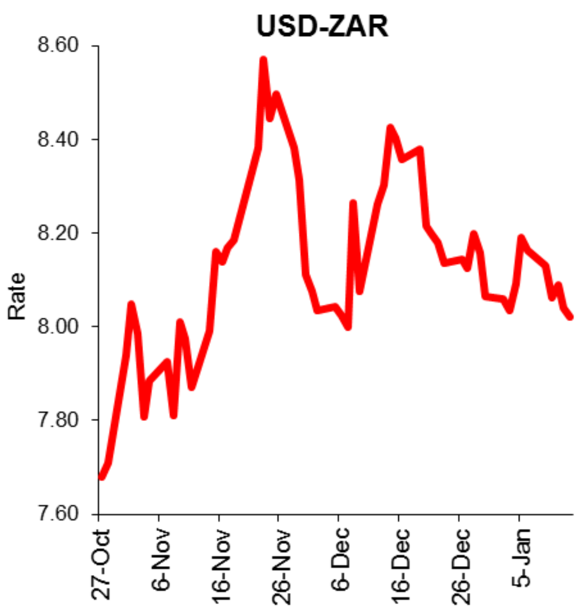
USD-ZAR 7.9794/8.0884 **EUR-ZAR** 10.2771/3872 **GBP-ZAR** 12.2941/4077 **EUR-USD** 1.2812/913
GBP-USD 1.5323/425 **USD-JPY** 76.52/93 **AUD-USD** 1.0300/71 **R157** 6.730 %
GOLD $1 646.39 **BRENT** $ 112.13 **DJI** 12 471.02 **3M JIBAR** 5.595%

Time (GMT)	Country	Event	Month	Exp	Prior
09:00	SA	ILB Auction (R600mn)			
09:30	GB	PPI Output m/m	Dec	0.10%	0.20%
09:30	GB	PPI Core y/y	Dec	3.20%	3.20%
10:00	EZ	EZ Trade Balance	Nov	-2.2bn	1.1bn
13:30	US	Import Prices	Dec	-0.10%	0.70%
13:30	US	International Trade	Nov	-45.0bn	-43.5bn
14:55	US	Michigan Consumer Sentiment	Jan	71.50	69.90

Today's Talking Point

Manufacturing Production (Nov): November manufacturing production ramped higher to 2.6% y/y from a prior upwardly revised 1.2% y/y, much stronger than market expectations for a 1.3% y/y reading. Despite the acceleration in annual growth, output in the manufacturing sector remained fairly subdued. It appears as though the tight economic environment in Europe is starting to filter through to the domestic manufacturing sector as external demand for SA manufactured goods deteriorates. Overall, growth in the manufacturing sector remains rather sluggish however this is unlikely to persuade the SARB to loosen policy as inflation remains above the 6% upper target.

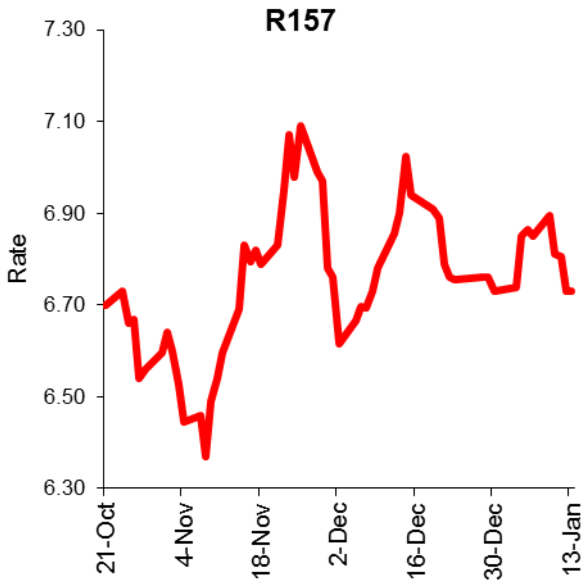
Rand Update



Yesterday we highlighted the possibility that simply too much bad news was being priced into the EUR, that the overhang of EUR short positions created an unsustainable position that would need to unwind even if just temporarily and that many in the market still did not appreciate the magnitude of recent ECB actions. There was very little new to come from the ECB decision and statement broadly in line with expectations, however, signs that the ECB were succeeding in stabilising the eurozone debt markets and that confidence is beginning to return were very visible through a combination of Spanish and Italian bond and t-bill auctions which proceeded far better than expected. To be clear, the ECB's actions have not resolved anything. Debt metrics continue to deteriorate or remain alarmingly wide. However, it is clear that the carry trade that they have engineered through the banks is starting to play out exactly as ECB officials would have hoped and this will by eurozone sovereigns time to implement fiscal reforms. It is a different form of quantitative easing using the commercial banks as the vehicles for bond purchases. The implication for the ZAR is clear. As an EM currency with exposures to commodities and a higher risk profile, the local unit stands to benefit from current developments. Another positive Italian bond auction today will only further entrench the more upbeat sentiment and general rotation away from safe haven assets. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Thursday, closing at R8.0408 from R8.0885 on Wednesday. The ZAR weakened against the EUR, ending at R10.3123 from R10.2764 on Wednesday, while finishing stronger against the GBP at R12.3346 from R12.3940 the previous day.

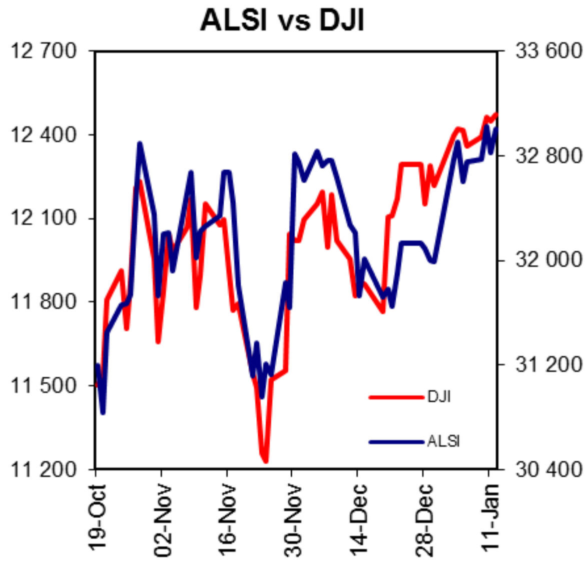
Bond Update

It was a relatively active day within the local bond market yesterday. After coming under pressure early in the session, longer dated bonds managed to recoup losses, and by the close the entire yield curve had moved lower. The R157 moved 7.5bpts lower to end stronger at 6.730%, whilst the R186 yield moved lower from 8.585% to close the day at 8.530%. Local manufacturing expanded by 2.6% y/y in November while consensus was looking for an increase of just 1.3%. After contracting in October, manufacturing output expanded 2.9% m/m in November. As has been noted before, growth of manufacturing output is likely to surprise in its strength despite the Europe crisis, on the back of the acceleration of money and credit growth seen locally since middle 2011. Accelerating money growth will continue to boost first the capital goods sectors, followed by rising price inflation down the road. There is no local data due for release today, but an eye will be kept on the ILB R600mn auction later this morning which will give some indication of local inflation expectations. UK PPI will hold some focus this morning before attention turns to the US Michigan consumer sentiment survey.



JSE Update

Local equity traders had a lot to deal with yesterday. Eyes were fixed on the EZ for most of the session, where sentiment improved allowing the local bourse to move into positive territory. However, the market tapered off around midday as disappointing US retail numbers came through, along with unsatisfactory jobless numbers. Despite this, the ALSI managed to hold onto earlier gains and closed the day 0.55% higher, aided by the gold, platinum and resources indices which all gained on the day. It was a day of mixed feelings amongst EZ equity traders, although well-received debt sales in Spain and Italy boosted banking shares, the retail sector came under heavy selling pressure as major firms in the region announced disappointing festive season sales. Thus although there has been some alleviation regarding the fiscal debt crisis, growth concerns now look to have come to the fore, weighing on sentiment. The sentiment was similar in the US. Stocks sputtered, but managed to close the day slightly higher. Investors grew concerned about the health of the US economy following the release of weak data. With sentiment improving, and risk appetite gaining momentum, we could see the local bourse add to yesterday's gains.



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