

Date: 16 January 2012

USD-ZAR 8.1168/2263

GBP-USD 1.5263/365

GOLD \$1 640.21

EUR-ZAR 10.2771/3877

USD-JPY 76.63/7.05

BRENT \$110.73

GBP-ZAR 12.4543/5687

AUD-USD 1.0245/326

DJI 12 422.06

EUR-USD 1.2594/694

R157 6.730 %

3M JIBAR 5.595%

Time (GMT)	Country	Event	Month	Exp	Prior
00:00	JP	Machine Orders m/m	Nov	5.10%	-6.90%
05:00	JP	Consumer Confidence	Dec	38.5	38.1
	US	Market Holiday for Martin Luther King Jr. Day			
02:00	CH	Industrial Production y/y	Dec	12.30%	12.40%
02:00	CH	Real GDP y/y	Q4	8.70%	9.10%
02:00	CH	Retail Sales y/y	Dec	17.30%	17.30%

Today's Talking Point

Energy Update: Brent crude traded lower for the third consecutive session on Friday, closing at \$110.44/bl down 2.32% on the week. Losses came on the back of several downgrades of EU member countries by S&P ratings agency. The downgrades overshadowed concerns regarding prospective supply shocks from Iran. Up ahead today focus will remain on developments in Europe whilst market players will also keep an eye out for Chinese GDP data.

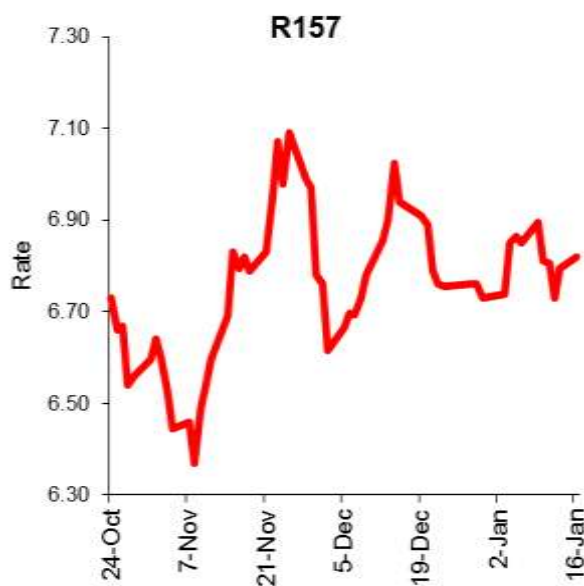
Rand Update

Ratings downgrades dominated proceedings on Friday. Rumours first started to circulate about a mass downgrade in the eurozone, but arguably what came as more of a surprise was news that Fitch had downgraded SA's credit rating outlook to negative from stable. This follows the Moody's announcement of 2011 which did the same and it will only be a matter of time before S&P ultimately chooses to follow its rivals. Fitch drew attention to the inability of the authorities to broaden the tax base and boost overall tax collections to render SA's fiscus more sustainable. There still appears to be a major push within government for wealth redistributive policies which can often culminate in welfare policies that boost the overall overheads of government and generate very little in the way of GDP or tax collection returns in response. Both Moody's and Fitch have effectively highlighted the need for government to become more sensitive to the expenditure line of the fiscus and to find ways to unshackle the SA economy from regulation and growth restrictive policies to generate the employment and growth so desperately needed. One point does however need to be emphasised. Downgrading the outlook to negative amounts to more of a warning than an outright credit rating downgrade. Whilst the warning to SA did contribute to a sell-off in bonds on Friday and will bring into question the strategy of selling USDs for ZAR, one questions whether the effects of all of this will be lasting. Nevertheless the combination of ratings downgrades in the eurozone and the downward revision to SA's credit rating outlook has lifted risk aversion in the short term and whilst the effects of this continue to be digested and priced in, the probability of a strong ZAR recovery in the very near term is limited. According to Reuters data (bid chart), the ZAR finished weaker vs. the USD on Friday, closing at R8.1176 from R8.0408 on Thursday. The ZAR strengthened against the EUR, ending at R10.2874 from R10.3123 on Thursday, whilst finishing weaker against the GBP at R12.4394 from R12.3346 the previous day.



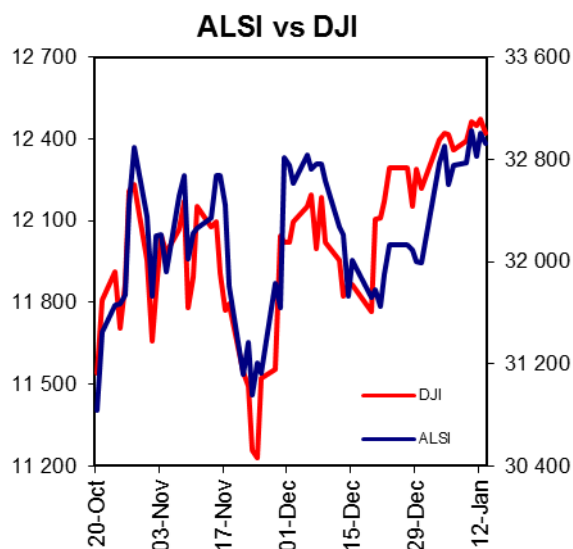
Bond Update

Half an hour ahead of the local close on Friday, rumours began to circulate that S&P was about to downgrade a host of European sovereign ratings. Although the rumours were initially unconfirmed, risk aversion picked up and EM currencies were driven weaker across the board. Fifteen minutes later, as the ZAR weakened to levels of 8.0500 to 8.1500 against the USD with risk aversion gaining momentum, Fitch Ratings announced it was downgrading the outlook of the South African government's long-term local currency Issuer Currency Default rating to "negative" from "stable." As a result, local bonds came under pressure. By the close the R157 yield had added 6.5bpts to close at 6.795%, whilst the R186 yield moved higher from 8.530% to end at 8.565% yesterday. This is a warning by Fitch that the SA rating might be downgraded somewhere in the next two years, should the SA government continue on the present path. The Eurozone governments did not only get a warning, they were actually downgraded, which has brought risk averse trade back to the fore. The week ahead will see local mining production figures released on Tuesday, CPI, Kagiso PMI, and retail sales released on Wednesday, before the SARB rate decision on Thursday.



JSE Update

The local market tracked global equities moving into negative territory on Friday. Although there was further negative news out of the EZ, some market commentators have also noted that profit taking from local investors also placed the market under pressure. By the close the ALSI was down 0.25% as all indices lost ground. It was a mixed week for the ALSI, two days of losses were offset by two days of gains. Overall however, the market ended the week in positive territory for the second consecutive week. However the ALSI continues to struggle to breach last year's highs, and is unlikely to do so within the current environment. It is likely to be a tough session for global equity markets today after S&P downgraded nine EZ nations late on Friday. This has renewed fears that policy makers haven't done enough to contain the debt crisis, and risk off trade has once again come to the fore after a short respite last week. Although US markets are closed for trade, it is likely that core equity markets will add to Friday's losses and the local bourse is no exception. It will be a heavy data week although nothing on the cards today.



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