

Date: 18 January 2012

USD-ZAR 7.9744/0834  
 GBP-USD 1.5287/389  
 GOLD \$1 654.39

EUR-ZAR 10.1915/2985  
 USD-JPY 76.48/89  
 BRENT \$111.97

GBP-ZAR 12.2587/3678  
 AUD-USD 1.0344/424  
 DJI 12 482.07

EUR-USD 1.2710/811  
 R157 6.730 %  
 3M JIBAR 5.601%

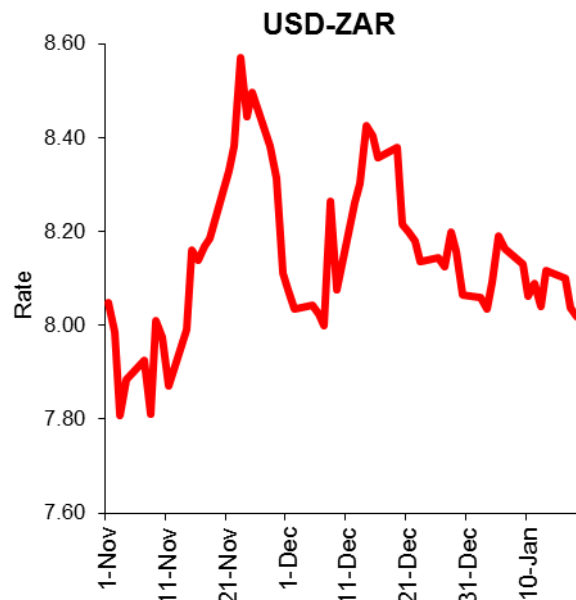
Time (GMT)	Country	Event	Month	Exp	Prior
08:00	SA	CPI (all items) y/y	Dec	6.30%	6.10%
09:00	SA	Kagiso PMI	Dec	51.60	51.60
11:00	SA	Retail Sales Constant y/y	Nov	7.50%	7.40%
	EU	Italian PM Monti speaks at LSE			
13:30	US	PPI y/y	Dec	0.10%	0.30%
14:00	US	Total Net TIC Flows	Nov	50.0bn	-48.8bn
14:15	US	Capacity Utilisation	Dec	78.10%	77.80%
14:15	US	Industrial Production y/y	Dec	0.50%	-0.20%

## Today's Talking Point

**CPI (Dec):** Local inflation slowed through 2011 due to a tight monetary environment through 2010 and H2 2011. However food price inflation and strong energy prices kept CPI more inflated than it could otherwise have been. These strong price effects of food and energy on the basket are likely to remain intact going forward, keeping CPI elevated. Considering the weak Rand through Q4 2011 and the uptick in local monetary growth through H2 2011 we expect a slight rise in the CPI to 6.3% y/y.

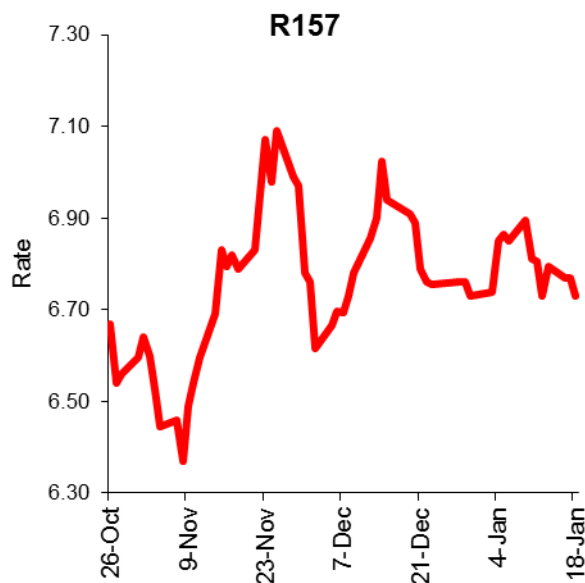
## Rand Update

As we have mentioned on several occasions now, there appears to be some correlation between the state of the eurozone money markets and the performance of the ZAR. Any improvement in how tight the money market position is tends to come accompanied with an improvement in risk appetite which tends to be reflected in the performance of emerging market currencies. As always, the ZAR's inherent volatility means that whilst it can lose more than most when sentiment deteriorates, the opposite is also true. This certainly appears to be the case at present. Money market pressures in the eurozone appear to be easing up slightly as banks are flush with cash after the ECB's efforts in December and the imminent threat of a banking collapse is now being priced back out of the market, at least in part. This coupled with some improved growth sentiment courtesy of some better Chinese and German data which has helped prop up commodity prices and one is becoming increasingly inclined to start talking about a reflation trade unfolding. What is a reflation trade? A trade which would capitalise on the consequences of central bank driven monetary stimulation. At the moment the drive is coming both from the ECB as well as the BoE. Their efforts will paper over the fundamental cracks that exist and hold the potential to mask the deteriorating state of Europe's economy. The ZAR being a commodity currency which also enjoys a fairly conservative central bank and monetary backdrop is well positioned to take advantage of the reflation environment described above. If indeed the actions of the ECB prove to be as significant as we believe they might be, then investors and corporates might do well to position themselves for some ZAR appreciation in the months ahead. According to Reuters data (bid chart), the ZAR finished stronger vs. the USD on Tuesday, closing at R8.0363 from R8.1001 on Monday. The ZAR strengthened against the EUR, ending at R10.2366 from R10.2563 on Monday, while similarly finished stronger against the GBP at R12.3205 from R12.4077 the previous day.



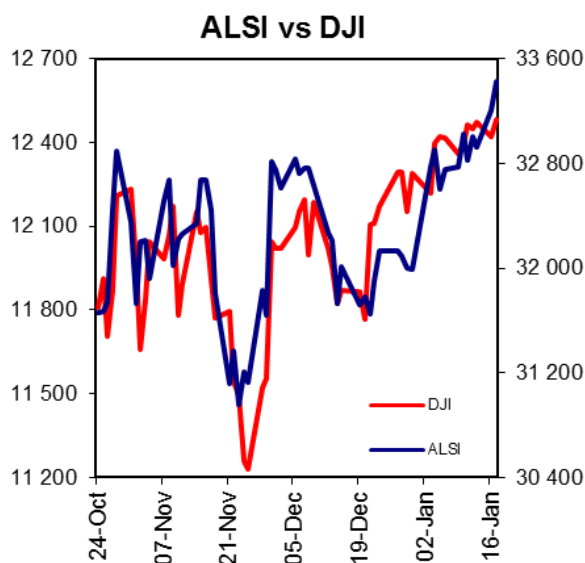
## Bond Update

Local bonds enjoyed support yesterday although by the close yields had come off their intraday lows. As a result by the close the R157 yield was unchanged at 6.770%, whilst the R186 yield only managed a 2bpt decline to end at 8.525% yesterday. Portfolio flow data from the JSE shows that the first two weeks of 2012 has seen a big net outflow of money from SA, from both equity and bond markets. From Jan 3-13, bonds have seen a net outflow of R909mln, while equities have seen a net outflow of R3bln over the period. Despite these outflows, the R157 bond yield was traded down to intraday lows 6.720% yesterday, the level it opened 2012 at. Today will see the issuance of two Eskom bonds of up to a maximum issue size of R250 million. The auction will close at 11h00. Eskom will auction the ES18 bond, a 9.25% 20 April 2018 bond up to a maximum issue size of R100 million. Also up today is the Dec CPI reading released at 8:00 GMT and the Kagiso PMI thereafter at 09:00 GMT. Consensus foresees a reading of 6.2-6.3%, expect a strong PMI reading later in the day as well.



## JSE Update

The local bourse ended yesterday at a record close, sustaining the momentum gained earlier on in the day and lifting on the strong commodities performance. By the close the ALSI had gained 0.66%, aided by a surge in the platinum index which moved a massive 3.70% higher. Yesterday's move allowed the ALSI to finally sustain levels above the 33000 level, and yesterday's close at 33424 is a record for the local index and will give local investors some renewed optimism at the start of the year. The local market predominantly took guidance from abroad. European stock markets rallied on news of upbeat economic data in Asian powerhouse China and surging investor confidence in the eurozone's leading economy Germany. Dealers largely shrugged off Monday's downgrade of the eurozone rescue fund, as major bourses in the region saw healthy gains yesterday. Over the Atlantic, the sentiment was similar, although gains on Wall St. were contained in comparison. With EZ credit downgrades behind us, eyes will turn to Greece which once again faces possibility of default. Given the strong performance in Asia this morning, positive start is very likely JSE, although there sure to be some profit taking given the record close yesterday.



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